CITY OF JEFFERSON, GEORGIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2012

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

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FINANCIAL SECTION

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of City Council
City of Jefferson, Georgia
Jefferson, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Jefferson, Georgia** as of and for the year ended December 31, 2012, and related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards general accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jefferson, 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.

Emphasis of Matter

As discussed in Note 1 and Note 16, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, as well as Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as of January 1, 2012. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-16 and Schedules of Funding Progress on page 56 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 sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Jefferson, Georgia's basic financial statements. The combining and individual fund financial statements and schedules, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of special purpose local option sales tax proceeds is presented for purposes of additional analysis as required by the Official Code of Georgia 48-8-21, and is also not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules as well as the schedule of expenditures of special purpose local option sales tax proceeds (the "supplementary information") are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2013 on our consideration of the City of Jefferson, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Jefferson, Georgia's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Atlanta, Georgia
June 13, 2013

CITY OF JEFFERSON, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

Within this section of the basic financial report for the City of Jefferson, Georgia (the "City"), the City's management is pleased to provide this narrative overview and analysis of the financial activities of the City of Jefferson for the year that ended on December 31, 2012. We encourage readers to consider the information presented here in conjunction with the City's basic financial statements and notes to the financial statements, to enhance their understanding of the activities and financial health of the City of Jefferson.

Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts. It should be read in conjunction with the basic financial statements.

FINANCIAL HIGHLIGHTS

The City of Jefferson, Georgia operates under a Mayor-Council form of government. The accounting, financial reporting, and significant practices of the City are discussed in subsequent sections and the remainder of the Notes are organized to provide explanations and other required disclosures for the City's financial activities.

The City's governmental activities assets exceeded its liabilities by $7,926,268 (total net position) for the calendar year reported.

- Total net position of governmental activities is comprised of the following:

  (1) Net investment in capital assets of $5,637,606, include capital assets, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets (net of unspent bond proceeds).
  (2) Net position of $1,779,159 are restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  (3) Unrestricted net position of $509,503 represent the portion available to maintain the City's continuing obligations to citizens and creditors.

- The City's governmental funds reported total ending fund balance of $8,006,516 this year. This compared to the prior year ending fund balance of $8,229,318 showing a decrease of $222,802 during the current year.

- At the end of the current calendar year, the unassigned fund balance for the General Fund was $3,473,097 or 59.7% of total General Fund expenditures.

The above financial highlights are explained in more detail in the "financial analysis" section of this document.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis document introduces the City's basic financial statements. The basic financial statements include: 1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

Government-wide Financial Statements

The City's annual report includes two government-wide statements. These statements provide both long-term and short-term information about the City's overall financial status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and elimination or reclassification of activities between funds.

The first of these government-wide statements is the *Statement of Net Position*. This is the government-wide statement of net position presenting information that includes all of the City's assets and liabilities, with the difference reported as net position. Over time, increase or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure, in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net position changed during the current calendar year. All current year revenues and expenses are included regardless of when cash is received or paid.

An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities include general government, public safety, public works, culture and recreation, and economic and community development. The business-type activities of the City of Jefferson, Georgia include the Solid Waste Collection and the Water and Sewer Treatment Plants.

The government-wide financial statements are presented on pages 17 & 18 of this report.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for nonmajor funds is provided in the form of combining statements in a later section of this report.

The City reports three kinds of funds:

Governmental funds are reported in the fund financial statements and encompass the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to assist in understanding the differences between these two perspectives.

The City of Jefferson maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund, all of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for its general fund, special revenue funds, and debt service fund. Project length budgets are adopted for the capital projects funds. A budgetary comparison schedule has been provided for the general fund, debt service fund and special revenue funds to demonstrate compliance with the annual appropriated budget.

The basic governmental fund financial statements are presented on pages 19 to 22 of this report.

Individual fund information for nonmajor governmental funds is found in combining statements in a later section of this report.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. The City's proprietary funds are classified as enterprise funds. The enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements.

Proprietary fund statements offer short-term and long-term financial information about the two activities the City operates similar to a private business, the solid waste collection and water and sewer treatment plants.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the solid waste collection and for the water and sewer treatment plant operation, both of which are considered to be major funds of City.

The basic proprietary fund financial statements are presented on pages 23 to 25 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the City.

Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Jefferson's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The agency fund statement of fiduciary assets and liabilities is presented on page 26 of this report.

Notes to the Basic Financial Statements

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

The notes to the financial statements begin on page 27 of this report.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's total net position at calendar year-end is $20,005,402. The following table provides a summary of the City's net position:

Summary of Net Position

	Governmental Activities		Business-type Activities		Total	
	2012	2011 (Restated)	2012	2011 (Restated)	2012	2011 (Restated)
Current and other assets *	$11,101,667	$11,166,931	$ 4,789,339	$2,843,868	$ 15,891,006	$ 14,010,799
Capital assets (net of depreciation)	21,893,092	19,018,356	21,288,975	21,607,439	43,182,067	40,625,795
Total Assets	32,994,759	30,185,287	26,078,314	24,451,307	59,073,073	54,636,594
Current and other liabilities **	3,289,117	3,093,411	985,600	840,284	4,274,717	3,933,695
Long-term liabilities	21,779,374	19,606,263	13,013,580	12,184,450	34,792,954	31,790,713
Total Liabilities	25,068,491	22,699,674	13,999,180	13,024,734	39,067,671	35,724,408
Net Position:						
Net investment in capital assets	5,637,606	5,182,442	10,329,940	10,096,508	15,967,546	15,278,950
Restricted	1,779,159	4,322,615	-	5,000	1,779,159	4,327,615
Unrestricted	509,503	(2,019,444)	1,749,194	1,325,065	2,258,697	(694,379)
Total Net Assets	$7,926,268	$7,485,613	$12,079,134	$11,426,573	$20,005,402	$18,912,186

* Current and other assets include deferred outflows of resources.
**Current and other liabilities include deferred inflows of resources.

The City reported positive balances in net position for both governmental and business-type activities. During 2012, net position increased $440,655 for governmental activities and increased $652,561 for business-type activities. The City's overall financial position increased during calendar year 2012.

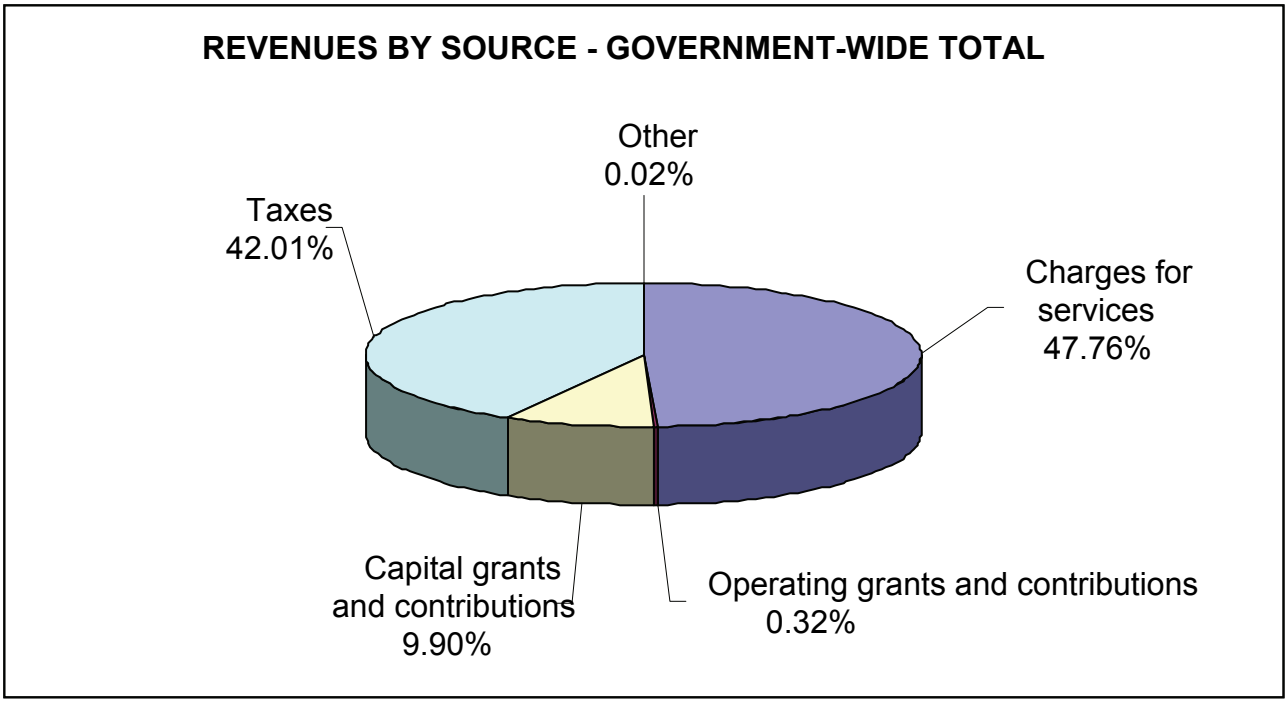
Note that approximately 66% of the governmental activities' total assets are tied up in capital assets (with 78% of the capital asset cost being depreciable). The City uses these capital assets to provide services to

its citizens. Also 82% of the business-type activities assets are tied up in capital assets. Combining governmental activities with business-type activities, the City has invested approximately 73% of its total assets in capital assets, as presented in the Statement of Net Position. Capital assets used in the business-type activities generate revenue for the Water and Sewer Fund.

Summary of Changes in Net Position

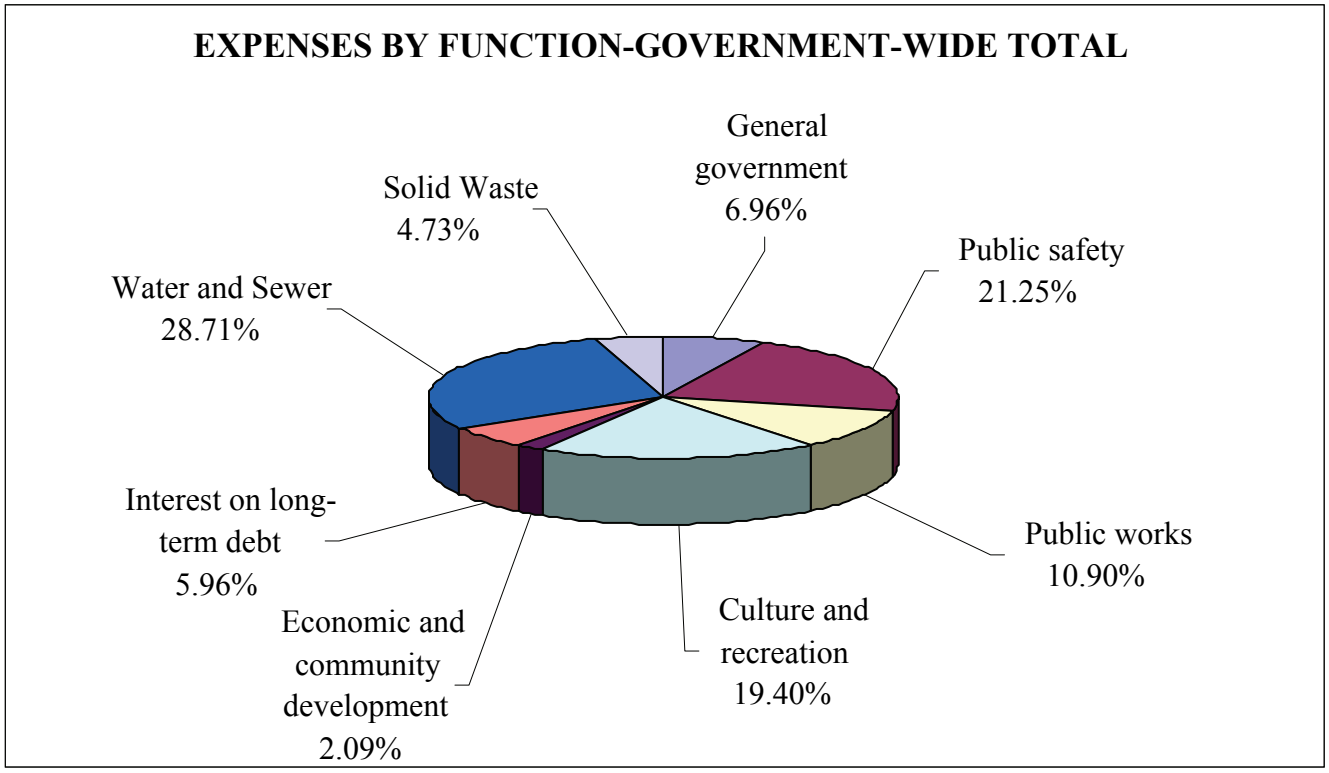
	Governmental Activities		Business-type Activities		Total	
	2012	2011 (Restated)	2012	2011 (Restated)	2012	2011 (Restated)
Revenues:						
Program:						
Charges for services	$1,795,826	$1,744,759	$4,511,341	$4,612,643	$6,307,167	$6,357,402
Operating grants and contribution	41,854	93,042	-	-	41,854	93,042
Capital grants and contributions	1,100,353	1,095,767	206,861	66,219	1,307,214	1,161,986
General:						
Taxes	5,547,409	5,584,572	-	-	5,547,409	5,584,572
Other	210	274	18	19	288	293
Gain on sale of assets	2,500	-	-	-	2,500	-
Total revenues	8,488,152	8,518,414	4,718,220	4,678,881	13,206,372	13,197,295
Program Expenses:						
General government	842,653	886,948	-	-	842,653	886,948
Public safety	2,574,105	3,194,221	-	-	2,574,105	3,194,221
Public works	1,320,923	1,284,859	-	-	1,320,923	1,284,859
Culture and recreation	2,349,459	1,888,086	-	-	2,349,459	1,888,086
Economic and community development	252,916	238,568	-	-	252,916	238,568
Interest on long-term debt	722,402	758,480	-	-	722,402	758,480
Water and Sewer	-	-	3,477,284	3,490,695	3,477,284	3,490,695
Solid Waste	-	-	573,414	516,879	573,414	516,879
Total expenses	8,062,458	8,251,162	4,050,698	4,007,574	12,113,156	12,258,736
Revenues over expenses	425,694	267,252	667,522	671,307	1,093,216	938,559
Transfers	14,961	1,377	(14,961)	(1,377)	-	-
Change in net position	440,655	268,629	652,561	669,930	1,093,216	938,559
Beginning net position, as restated	7,485,613	7,216,984	11,426,573	10,756,643	18,912,186	17,973,627
Ending net position	$7,926,268	$ 7,485,613	$12,079,134	$11,426,573	$20,005,402	$18,912,186

Total government-wide revenues for 2012 were $13,206,372. These revenues consisted of $5,547,409 in taxes, $1,307,214 in capital grants and contributions, $41,854 in operating grants and contributions, $6,307,167 in charges for services, $288 in other revenues, and $2,500 in gain on sale of assets. Of this amount, $8,488,152 was in governmental activities and $4,718,220 in business-type activities. The chart below depicts further detail of government-wide revenues.



Note: Graph may not equal 100% due to rounding.

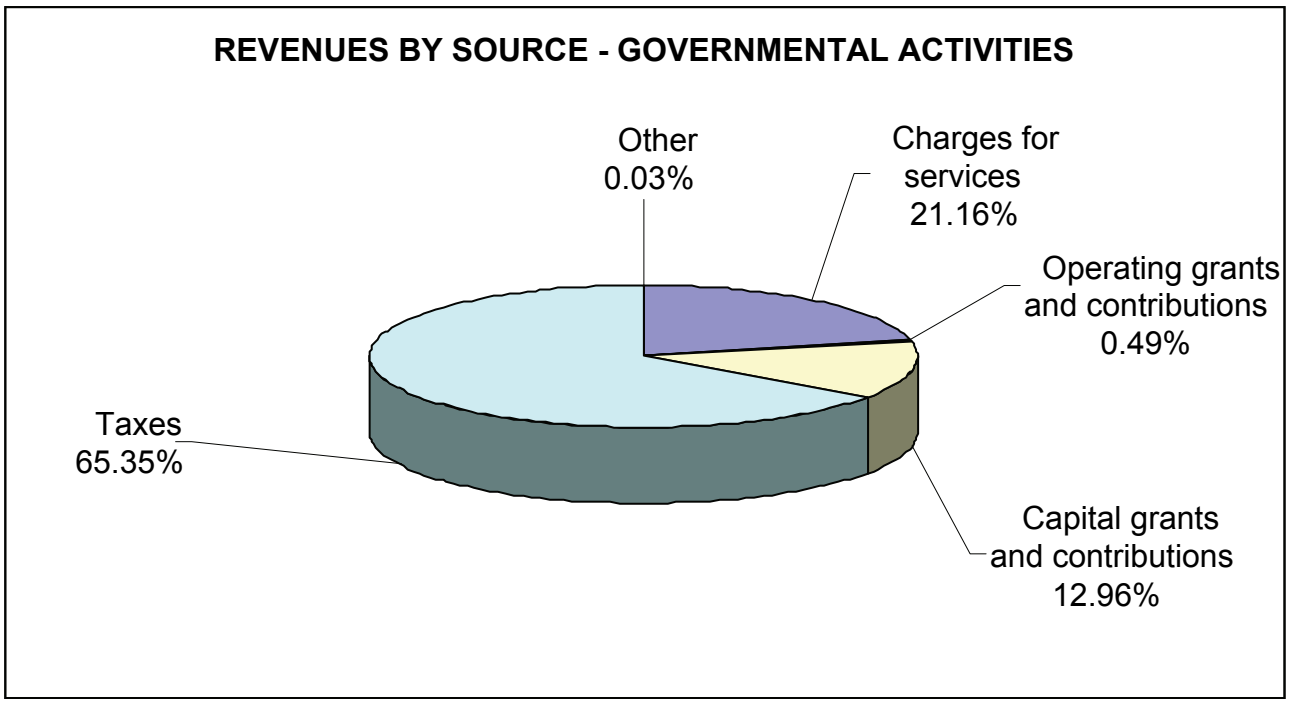
Government-wide expenses for the City were $12,113,156 for 2012, of which $8,062,458 were for governmental activities and $4,050,698 for business-type activities. The chart below depicts further detail of government-wide total expenses.



Note: Graph may not equal 100% due to rounding.

Governmental Activities Revenues

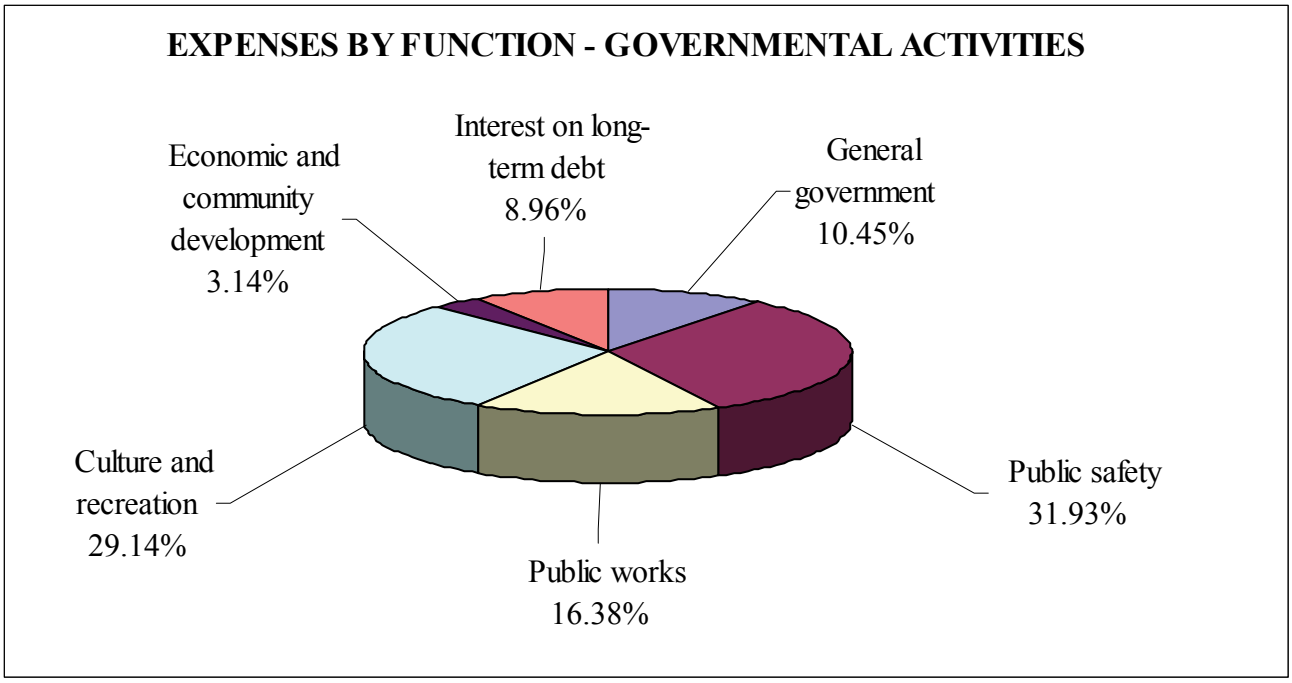
The City's sales and use taxes (which includes the Local Option Sales Tax), one of the General Fund's most significant revenue sources, yielded $91,606 more than in the prior year, due to increase in sales county-wide and state-wide. The total amount of local option sales tax revenue was $1,063,324. The city currently shares 1% taxes on all sales within the county. The Local Option Sales Tax (LOST) is a direct offset to property taxes and is renewed every ten years. The Capital Projects Fund accounts for the other sales tax which is a Special Purpose Local Option Sales Tax (SPLOST) authorized by voter referendum. The SPLOST number four was effective for six years, was approved by the voters on March 15, 2005 with collections starting July 1, 2005 and ended June 30, 2011. The new SPLOST number five, effective for six years, was approved by the voters on November 2, 2010 with collections starting July 1, 2011. The SPLOST tax is for specific capital projects and debt related to capital projects and constitutes a significant portion of the City's ability to fund capital projects in the areas of water and sewerage, road and bridges, recreation, and public safety. A total of $1,064,939 was expended during 2012 for these capital projects and related debt.



Note: Graph may not equal 100% due to rounding.

Governmental Activities Expenses

Expenses in the governmental activities were $8,062,458 down $188,704 from 2011. The following chart depicts further detail of governmental activities expenses.



Note: Graph may not equal 100% due to rounding.

Business-Type Activities

Business-type activities include the enterprise or proprietary funds which are established to be supported by fee revenues.

Water and Sewer Fund – The operating revenues in the Water and Sewer Fund decreased $108,839 from prior year while non-operating revenues (excluding transfers in) increased by $140,641. The increase in non-operating revenue is mainly due to increase water and sewer tap fee collections which are reported as capital contributions. Operating expenses decreased by $130,721 from 2011. The decrease in expenses is attributable various expenses decreasing throughout the fund.

Solid Waste Fund – The operating revenue for Solid Waste Fund were up $7,537 from prior year, while operating expenses increased by $56,535. The revenue in this fund increased due to a slight increase in the number of customers and the expenses increase was mainly due to an increase in the Net OPEB liability.

FUND ANALYSIS

Governmental Funds

Governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of $8,006,516 compared to $8,229,318 at December 31, 2011. The decrease relates to the following funds.

The decrease is due to the Nonmajor Governmental Funds, which decreased by $267,086. During the year, the City worked on various road projects throughout the City. These projects were completed by spending SPLOST money. The General Fund, fund balance increased by $51,433. The increase is due to

an increase in the receipt of Local Option Sales Tax and an increase in License and Permits issued during 2012. Debt Service Fund and Capital Projects Fund changes were nominal.

Of this year-end total, $389,567 is assigned for appropriation of subsequent year's fund balance. There is $50,000 and $45,472 Assigned for Improvement of Old Pendergrass Road and Construction of a future new library, respectively. There is $3,473,097 that is unassigned indicating availability for continuing City service delivery requirements. Legally restricted fund balances include $679,453 set aside for debt service, $2,254,343 is bond proceeds set aside for approved road projects, $21,526 is restricted for tourism, $115,548 is restricted for public safety and $977,510 is for use as stated in the SPLOST referendum.

Major Governmental Funds

General Fund – The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The General Fund's fund balance increased by $51,433 or 1.3%. The ending unassigned fund balance represents the equivalent of 59.7% of annual expenditures. The increase was due to efforts to control operating costs. Also, the City had an increase in some revenue sources that are driven by population. Jefferson had a 146.6% growth in population per the 2010 Census.

Debt Service – The Debt Service Fund is used to show principal and interest payments made to payoff existing debt. Fund balance increased by $88 from the prior year.

Capital Projects – The Capital Project Fund is used to show payments made toward approved projects for the 2007 Road Bonds. Fund balance in this fund decreased $7,237 because of payments made on approved projects.

Proprietary Funds

Proprietary fund statements share the same focus as the government-wide financial statements, reporting both short-term and long-term information about financial status. The business-type activities analysis discusses the City's two enterprise funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund's revenue budget was amended downwards in 2012 by $125,943 or 1.9%.

Fines and forfeitures increased by $3,150 due to the collections for citation increasing. Charges for services were decreased by $175,000 due to a decrease in impact fees received during 2012. Other revenues increased by $5,022 due to new rental revenue on property purchased during 2012.

Property taxes came in over budget by $186,740. This was due to City being conservative when budgeting for property tax collection. Due to the declining economy, public officials feared that property tax collection might also see a decrease.

Sales taxes came in over budget by $143,324 due to budget projections being based on the decline in the economy. This number is dependent on sales in area stores.

Business taxes came in $266,434 over budget. This was the result of receiving additional business tax revenue that were not budgeted or anticipated.

Franchise fees came in $25,733 over budget. This was the result of receiving additional franchise fees that were not budgeted.

The licenses and permits came in over budget, $60,958, due to the increase in planning and permit fees collected. This number is driven by the issuance of building permits for new homes and new industry developments.

Fines and forfeitures came in slightly over budget by $4,409 due to an increase in traffic violations and other fines collected being dismissed by the Municipal Court Judge.

In total, the City recognized 111.4% of the final revenue budget. The General Fund's expenditure budget was increased $3,181 or 0.05%. In total, the City under spent the final expenditure budget by $372,810 or 6.0%.

Differences between the original budget, the final budget and actual results are shown on page 22.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS: The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of December 31, 2012, were $21,893,092 and $21,288,975; respectively. The change in this net investment was an approximate increase for governmental activities and a decrease for business-type activities. See Note 6 for additional information about changes in capital assets during the calendar year and Note 8 for outstanding debt at the end of the year.

Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Non-depreciable assets:						
Land	$ 1,613,427	$ 1,489,775	$ 839,450	$ 839,450	$ 2,452,877	$ 2,329,225
Construction in progress	3,269,868	258,090	990,783	795,138	4,260,651	1,053,228
Total non-depreciable	4,883,295	1,747,865	1,830,233	1,634,588	6,713,528	3,382,453
Depreciable assets:						
Buildings	10,186,107	10,136,107	-	-	10,186,107	10,136,107
Water Distribution	-	-	11,544,808	11,397,326	11,544,808	11,397,326
Sewer Distribution	-	-	16,684,163	16,684,163	16,684,163	16,684,163
Improvements	399,568	399,568	22,432	22,432	422,000	422,000
Machinery and Equipment	3,024,930	2,979,933	444,870	423,806	3,469,800	3,403,739
Infrastructure	8,884,212	8,338,163	-	-	8,884,212	8,338,163
Total depreciable assets	22,494,817	21,853,771	28,696,273	28,527,727	51,191,090	50,381,498
Less accumulated depreciation	5,485,020	4,583,280	9,237,531	8,554,876	14,722,551	13,138,156
Book value – depreciable assets	17,009,797	17,270,491	19,458,742	19,972,851	36,468,539	37,243,342
Percentage depreciated	24%	21%	32%	30%	29%	26%
Total book value	$21,893,092	$19,018,356	$21,288,975	$21,607,439	$43,182,067	$40,625,795

Major capital asset activities in governmental activities in 2012 were:

- Land increased by $123,652 due to the purchase of a piece of property next to the City Park.

- Construction in progress increased by $3,011,778 due to the Jefferson Station project (new police department and library). Other projects under construction are the renovation of 55 College St and MLK Drive Extension.

- Buildings increase by $50,000 due to the renovation of an additional room at the Civic Center.

- Machinery and equipment increased by $44,997 due to the addition of a new police car $25,964, the purchase of a sound system for municipal court for the police department costing $9,174, purchase of an additional weather siren for the fire department costing $15,130, and the purchase of a new clock for downtown costing $13,512 for the Main Street Jefferson. There was also $18,783 worth of assets removed from the books during the year.

- Infrastructure increased by $546,049 due to paving and major repairs of City streets.

At December 31, 2012, the depreciable capital assets for governmental activities were 24% depreciated, slightly above the 2011 percentage of 21%. This comparison indicates that the City is replacing its assets at about the same rate as they are depreciating which is a positive indicator.

Major capital asset activities in business type activities in 2012 were:

- Additions to construction in progress in the amount of $195,645. The projects include Parks Creeks Reservoir and High Rate Water Filter Replacement.

- Additions to Water Distribution in the amount of $147,482. The projects included were the Ivey Street upgrade to an 8 inch line and the refurbishment of the backwash tank.

- Machinery and equipment increased by $21,064 due to the purchase of a new vehicle.

Long-term Debt

The City's long-term debt increased by approximately $3,002,000 during 2012.

Long-term Debt

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenue bonds and Intergovernmental contracts payable	$ 15,658,812	$ 16,300,082	$ 12,215,389	$ 5,254,780	$ 27,874,201	$ 21,554,862
Notes payable	209,236	217,335	-	6,346,122	209,236	6,563,457
Capital leases	2,656,659	266,800	-	-	2,656,659	266,800
Net pension obligation	31,660	29,383	-	-	31,660	29,383
Net OPEB obligation	3,055,340	2,642,602	751,314	537,391	3,806,654	3,179,993
Compensated absences	167,667	150,061	46,877	46,157	214,544	196,218
Total	$ 21,779,374	$ 19,606,263	$13,013,580	$12,184,450	$ 34,792,954	$ 31,790,713

During the year, the City entered into a new lease (Jefferson Station and land lease) in the amount of $2,510,000 which matures on October 26, 2027. In addition, on May 16, 2012, the City issued revenue bonds in relation to the Water and Sewer Facilities Project in the amount of $7,560,000 for the purpose of paying off $6,346,122 in outstanding loans to the Georgia Environmental Facilities Authority and $1,213,878 to fund capital improvements for the Jefferson Station project. Additional information on the City's debt is contained in Note 8 beginning on page 42.

ECONOMIC FACTORS

The economies of Jackson County and the City of Jefferson continue to experience moderate growth as the Atlanta market expands northeast up the I-85 corridor. Starting in the 80's, The City of Jefferson has worked hard to develop infrastructure to support commercial and industrial growth. The Mayor and Council work closely with the Jackson County Chamber of Commerce and state-wide developers to bring new commercial and industrial growth to the area. Currently multiple new commercial and residential projects are under construction.

Large Acreage Industrial Parks in Jefferson and the surrounding area include:

1) Walnut Fork Industrial Park
2) McClure Industrial Park
3) Jefferson Mill Business Park
4) Jackson 85 Distribution Park

The Central Jackson Industrial Park serves the needs of smaller acreage businesses and two commercial corridors along the 129 Bypass and Concord Road service the needs of our growing commercial and retail businesses.

Osaka, Japan-based Kubota Corp. has expanded its Georgia manufacturing operations in Jefferson and in Jackson County with construction of a new $73 million manufacturing facility, a move that created 200 new jobs. The new 500,000-square-foot Kubota manufacturing plant is located on the same 88-acre site as the existing Kubota Industrial Equipment (KIE) corporation facility in Jefferson. The plant features a production capacity of 22,000 compact tractors per year.

Top 15 employers in Jackson County in 2012 are listed below:

• Wayne Farms	1112
• GRUMA Corp	455
• Kubota Industrial Equipment	425
• Baker & Taylor	400
• Systemax Inc.	400
• Northridge Medical Center	315
• TD Automotive Compressor	300
• TenCate Nicolon	300
• Roper Pump Company	250
• Mayfield Dairy	235
• Kroger	180
• Signature Foods	155
• Southeast Toyota Distributors	150
• Buhler Quality Yarns	125
• Americold	125

The nationwide recession has affected our City as it has the rest of the nation. However, Jefferson continues to be successful at attracting new businesses and industries. Housing stock is at a record low for the past 10 years and new residential construction is beginning in existing approved subdivisions. All of this, along with a strong city school system, results in a robust city with growth on the horizon.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Jefferson's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City's Finance Director at 147 Athens Street, Jefferson, GA 30549.

BASIC FINANCIAL STATEMENTS

CITY OF JEFFERSON, GEORGIA

STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Primary Government		
ASSETS	**Governmental Activities**	**Business-type Activities**	**Total**
Cash and cash equivalents	$ 5,764,209	$ 2,713,462	$ 8,477,671
Receivables, net of allowance for uncollectibles	1,802,314	586,097	2,388,411
Intergovernmental receivable	496,527	27,406	523,933
Inventory	-	202,024	202,024
Restricted cash and cash equivalents	3,038,617	1,190,092	4,228,709
Capital assets, non-depreciable	4,883,295	1,830,233	6,713,528
Capital assets, depreciable, net of accumulated depreciation	17,009,797	19,458,742	36,468,539
Total assets	32,994,759	26,008,056	59,002,815
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	-	70,258	70,258
Total deferred outflows of resources	-	70,258	70,258
LIABILITIES			
Accounts payable	393,118	231,031	624,149
Accrued liabilities	257,092	160,259	417,351
Retainage payable	-	3,996	3,996
Customer deposits payable	-	240,314	240,314
Compensated absences, due within one year	121,860	34,070	155,930
Compensated absences, due in more than one year	45,807	12,807	58,614
Net pension obligation, due in more than one year	31,660	-	31,660
Net OPEB obligation, due in more than one year	3,055,340	751,314	3,806,654
Intergovernmental contracts payable, due within one year	345,000	-	345,000
Intergovernmental contracts payable, due in more than one year	6,680,000	-	6,680,000
Bonds payable, due within one year	330,000	895,000	1,225,000
Bonds payable, due in more than one year	8,303,812	11,320,389	19,624,201
Capital lease payable, due within one year	231,534	-	231,534
Capital lease payable, due in more than one year	2,425,125	-	2,425,125
Notes payable, due within one year	8,345	-	8,345
Notes payable, due in more than one year	200,891	-	200,891
Total liabilities	22,429,584	13,649,180	36,078,764
DEFERRED INFLOWS OF RESOURCES			
Unearned revenues - property taxes	2,638,907	-	2,638,907
Unearned revenues - other	-	350,000	350,000
Total deferred inflows of resources	2,638,907	350,000	2,988,907
NET POSITION			
Net investment in capital assets	5,637,606	10,329,940	15,967,546
Restricted for:			
Debt service	679,453	-	679,453
Capital projects	962,632	-	962,632
Public safety	115,548	-	115,548
Tourism	21,526	-	21,526
Unrestricted (deficit)	509,503	1,749,194	2,258,697
Total net position	$ 7,926,268	$ 12,079,134	$ 20,005,402

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

CITY OF JEFFERSON, 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 (Expenses) Revenues and Changes in Net Position: Primary Government: Governmental Activities	Net (Expenses) Revenues and Changes in Net Position: Primary Government: Business-type Activities	Net (Expenses) Revenues and Changes in Net Position: Primary Government: Total
Primary government:							
Governmental activities:							
General government	$ 842,653	$ 236,667	$ 18,393	$ -	$ (587,593)	$ -	$ (587,593)
Public safety	2,574,105	687,620	-	20,091	(1,866,394)	-	(1,866,394)
Public works	1,320,923	-	-	708,171	(612,752)	-	(612,752)
Culture and recreation	2,349,459	719,455	-	368,910	(1,261,094)	-	(1,261,094)
Economic and community development	252,916	152,084	23,461	3,181	(74,190)	-	(74,190)
Interest on long-term debt	722,402	-	-	-	(722,402)	-	(722,402)
Total governmental activities	8,062,458	1,795,826	41,854	1,100,353	(5,124,425)	-	(5,124,425)
Business-type activities:							
Water and Sewer	3,477,284	3,957,767	-	206,861	-	687,344	687,344
Solid waste	573,414	553,574	-	-	-	(19,840)	(19,840)
Total business-type activities	4,050,698	4,511,341	-	206,861	-	667,504	667,504
Total primary government	$ 12,113,156	$ 6,307,167	$ 41,854	$ 1,307,214	$ (5,124,425)	$ 667,504	$ (4,456,921)
General revenues:							
Property taxes					2,888,894	-	2,888,894
Sales taxes					1,063,324	-	1,063,324
Franchise taxes					1,075,733	-	1,075,733
Hotel/Motel occupancy tax					27,024	-	27,024
Business taxes					492,434	-	492,434
Unrestricted investment earnings					210	18	228
Gain on sale of assets					2,500	-	2,500
Transfers					14,961	(14,961)	-
Total general revenues and transfers					5,565,080	(14,943)	5,550,137
Change in net position					440,655	652,561	1,093,216
Net position, beginning of year, as restated					7,485,613	11,426,573	18,912,186
Net position, end of year					$ 7,926,268	$ 12,079,134	$ 20,005,402

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

CITY OF JEFFERSON, GEORGIA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	Major Governmental Funds			Nonmajor Governmental Funds	Totals Governmental Funds
ASSETS	**General**	**Debt Service**	**Capital Projects**		
Cash and cash equivalents	$ 4,681,431	$ -	$ -	$ 1,082,778	$ 5,764,209
Taxes receivable, net	659,379	-	-	4,553	663,932
Accounts receivable	1,138,382	-	-	-	1,138,382
Intergovernmental receivable	104,746	-	-	391,781	496,527
Due from other funds	153,252	-	-	4,140	157,392
Restricted cash and cash equivalents	-	679,453	2,319,221	39,943	3,038,617
Total assets	$ 6,737,190	$ 679,453	$ 2,319,221	$ 1,523,195	$ 11,259,059
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 77,021	$ -	$ 41,674	$ 274,423	$ 393,118
Accrued salaries	42,180	-	-	-	42,180
Due to other funds	-	-	23,204	134,188	157,392
Total liabilities	119,201	-	64,878	408,611	592,690
DEFERRED INFLOWS OF RESOURCES					
Unearned revenue - property taxes	2,638,907				2,638,907
Unavailable revenue - property taxes	20,946	-	-	-	20,946
Total deferred inflows or resources	2,659,853	-	-	-	2,659,853
FUND BALANCES					
Restricted for:					
Debt service	-	679,453	-	-	679,453
Tourism	-	-	-	21,526	21,526
Public safety	-	-	-	115,548	115,548
Capital projects	-	-	2,254,343	977,510	3,231,853
Assigned for:					
Appropriation of subsequent year's fund balance	389,567	-	-	-	389,567
Improvement of Old Pendergrass Road	50,000	-	-	-	50,000
Future construction of new library	45,472	-	-	-	45,472
Unassigned	3,473,097	-	-	-	3,473,097
Total fund balances	3,958,136	679,453	2,254,343	1,114,584	8,006,516
Total liabilities and fund balances	$ 6,737,190	$ 679,453	$ 2,319,221	$ 1,523,195	

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.	21,893,092
Some receivables are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.	20,946
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(21,994,286)
Net position of governmental activities	$ 7,926,268

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

CITY OF JEFFERSON, 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	Totals Governmental Funds
	General	Debt Service	Capital Projects		
Revenues					
Taxes:					
Property taxes	$ 2,915,740	$ -	$ -	$ -	$ 2,915,740
Sales taxes	1,063,324	-	-	-	1,063,324
Hotel/Motel occupancy taxes	-	-	-	27,024	27,024
Franchise taxes	1,075,733	-	-	-	1,075,733
Business taxes	492,434	-	-	-	492,434
Licenses and permits	282,343	-	-	-	282,343
Intergovernmental	32,899	-	-	1,046,904	1,079,803
Fines and forfeitures	540,059	-	-	37,034	577,093
Charges for services	719,156	-	-	-	719,156
Investment earnings	35	88	283	612	1,018
Contributions and donations	8,955	-	50,000	-	58,955
Other revenues	217,234	-	-	-	217,234
Total revenues	7,347,912	88	50,283	1,111,574	8,509,857
Expenditures					
Current:					
General government	638,705	-	-	-	638,705
Public safety	2,318,215	-	-	41,850	2,360,065
Public works	787,559	-	-	353,046	1,140,605
Culture and recreation	1,862,659	-	-	3,181	1,865,840
Economic and community development	214,031	-	-	10,000	224,031
Capital outlay	-	-	2,921,050	629,234	3,550,284
Debt service:					
Principal	-	773,240	-	-	773,240
Interest	-	707,350	-	-	707,350
Total expenditures	5,821,169	1,480,590	2,921,050	1,037,311	11,260,120
Excess (deficiency) of revenues over (under) expenditures	1,526,743	(1,480,502)	(2,870,767)	74,263	(2,750,263)
Other financing sources (uses):					
Proceeds from sale of capital assets	2,500	-	-	-	2,500
Capital leases	-	-	2,510,000	-	2,510,000
Transfers in	196,214	1,480,590	353,530	114,710	2,145,044
Transfers out	(1,674,024)	-	-	(456,059)	(2,130,083)
Total other financing sources (uses)	(1,475,310)	1,480,590	2,863,530	(341,349)	2,527,461
Net change in fund balances	51,433	88	(7,237)	(267,086)	(222,802)
Fund balances, beginning of year	3,906,703	679,365	2,261,580	1,381,670	8,229,318
Fund balances, end of year	$ 3,958,136	$ 679,453	$ 2,254,343	$ 1,114,584	$ 8,006,516

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

CITY OF JEFFERSON, 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

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	$	(222,802)
Governmental 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 capital outlays exceeded depreciation in the current period.		2,872,095
The net effect of various miscellaneous transactions involving capital assets (i.e. sale of capital assets and donated capital assets) is to increase net position.		2,641
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(26,846)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(1,736,760)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(447,673)
Change in net position - governmental activities	$	440,655

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

CITY OF JEFFERSON, GEORGIA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Property taxes	$ 2,729,000	$ 2,729,000	$ 2,915,740	$ 186,740
Sales taxes	920,000	920,000	1,063,324	143,324
Franchise taxes	1,050,000	1,050,000	1,075,733	25,733
Business taxes	226,000	226,000	492,434	266,434
Licenses and permits	180,500	221,385	282,343	60,958
Intergovernmental	61,843	61,843	32,899	(28,944)
Fines and forfeitures	532,500	535,650	540,059	4,409
Charges for services	901,500	726,500	719,156	(7,344)
Investment earnings	-	-	35	35
Contributions and donations	-	-	8,955	8,955
Other revenues	123,500	128,522	217,234	88,712
Total revenues	6,724,843	6,598,900	7,347,912	749,012
Expenditures:				
Current:				
General government	681,429	681,429	638,705	42,724
Public safety:				
Police	1,928,923	1,935,402	1,826,997	108,405
Fire	499,189	499,189	491,218	7,971
Total public safety	2,428,112	2,434,591	2,318,215	116,376
Public works	888,981	888,981	787,559	101,422
Culture and recreation:				
Recreation	321,770	321,770	294,696	27,074
Parks	1,358,532	1,347,934	1,311,301	36,633
Libraries	247,385	257,885	251,946	5,939
Payments to other agencies	5,349	5,349	4,716	633
Total culture and recreation	1,933,036	1,932,938	1,862,659	70,279
Economic and Community Development	259,240	256,040	214,031	42,009
Total expenditures	6,190,798	6,193,979	5,821,169	372,810
Excess of revenues over expenditures	534,045	404,921	1,526,743	1,121,822
Other financing sources (uses):				
Proceeds from sale of capital assets	7,500	7,500	2,500	(5,000)
Transfers in	18,200	193,200	196,214	3,014
Transfers out	(1,250,604)	(1,802,296)	(1,674,024)	128,272
Total other financing sources (uses)	(1,224,904)	(1,601,596)	(1,475,310)	126,286
Net change in fund balances	(690,859)	(1,196,675)	51,433	1,248,108
Fund balances, beginning of year	3,906,703	3,906,703	3,906,703	-
Fund balances, end of year	$ 3,215,844	$ 2,710,028	$ 3,958,136	$ 1,248,108

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

CITY OF JEFFERSON, GEORGIA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds		
ASSETS	**Water and Sewer Fund**	**Solid Waste Fund**	**Totals**
CURRENT ASSETS			
Cash and cash equivalents	$ 2,545,479	$ 167,983	$ 2,713,462
Accounts receivable, net	493,858	92,239	586,097
Intergovernmental receivable	27,406	-	27,406
Inventory	202,024	-	202,024
Restricted cash	1,190,092	-	1,190,092
Total current assets	4,458,859	260,222	4,719,081
NONCURRENT ASSETS			
Capital assets:			
Nondepreciable	1,830,233	-	1,830,233
Depreciable assets, net of accumulated depreciation	19,458,742	-	19,458,742
Total noncurrent assets	21,288,975	-	21,288,975
Total assets	25,747,834	260,222	26,008,056
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	70,258	-	70,258
Total deferred outflows of resources	70,258	-	70,258
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	191,825	39,206	231,031
Accrued salaries	9,303	592	9,895
Accrued interest	150,364	-	150,364
Retainage payable	3,996	-	3,996
Unearned revenue		-	350,000
Compensated absences payable, current	33,241	829	34,070
Customer deposits payable	240,314	-	240,314
Bonds payable, current	895,000	-	895,000
Total current liabilities	1,524,043	40,627	1,564,670
NONCURRENT LIABILITIES			
Compensated absences payable	12,495	312	12,807
Net OPEB obligation	701,226	50,088	751,314
Bonds payable	11,320,389	-	11,320,389
Total noncurrent liabilities	12,034,110	50,400	12,084,510
Total liabilities	13,558,153	91,027	13,649,180
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue	350,000	-	350,000
Total deferred inflows of resources	350,000	-	350,000
NET POSITION			
Net investment in capital assets	10,329,940	-	10,329,940
Unrestricted	1,579,999	169,195	1,749,194
Total net position	$ 11,909,939	$ 169,195	$ 12,079,134

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

CITY OF JEFFERSON, 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		
OPERATING REVENUES	**Water and Sewer Fund**	**Solid Waste Fund**	**Totals**
Charges for services:			
Water charges	$ 2,581,810	$ -	$ 2,581,810
Sewer charges	1,302,610	-	1,302,610
Refuse collection charges	-	546,677	546,677
Miscellaneous revenue	73,347	6,897	80,244
Total operating revenues	3,957,767	553,574	4,511,341
OPERATING EXPENSES			
Personal services and benefits	966,338	96,233	1,062,571
Purchased and contracted services	730,485	476,743	1,207,228
Supplies	586,037	438	586,475
Depreciation and amortization	691,077	-	691,077
Total operating expenses	2,973,937	573,414	3,547,351
Operating income (loss)	983,830	(19,840)	963,990
NON-OPERATING REVENUES (EXPENSES)			
Intergovernmental	26,492	-	26,492
Investment earnings	18	-	18
Interest expense and fiscal agent fees	(503,347)	-	(503,347)
Total non-operating revenues (expenses)	(476,837)	-	(476,837)
Income before contributions and transfers	506,993	(19,840)	487,153
Capital contributions - tap fees	180,369	-	180,369
Transfers in	165,039	-	165,039
Transfers out	(175,000)	(5,000)	(180,000)
	170,408	(5,000)	165,408
Change in net position	677,401	(24,840)	652,561
NET POSITION, beginning of year, as restated	11,232,538	194,035	11,426,573
NET POSITION, end of year	$ 11,909,939	$ 169,195	$ 12,079,134

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

CITY OF JEFFERSON, GEORGIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	$ 3,911,780	$ 548,503	$ 4,460,283
Payments to vendors	(1,264,636)	(477,719)	(1,742,355)
Payments to or on behalf of employees	(798,692)	(46,035)	(844,727)
Net cash provided by operating activities	1,848,452	24,749	1,873,201
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(175,000)	(5,000)	(180,000)
Net cash used in non-capital financing activities	(175,000)	(5,000)	(180,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments on notes and bonds payable	(6,956,122)	-	(6,956,122)
Proceeds from long-term borrowings	7,560,000	-	7,560,000
Premium on long-term borrowings	21,902	-	21,902
Capital contributions from other funds	165,039	-	165,039
Capital contributions from tap fees	180,369	-	180,369
Capital contributions from other governments	26,492	-	26,492
Interest paid	(294,595)	-	(294,595)
Cost of long-term debt issuance costs	(148,772)	-	(148,772)
Purchases of capital assets	(364,193)	-	(364,193)
Net cash provided by capital and related financing activities	190,120	-	190,120
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	18	-	18
Net cash provided by investing activities	18	-	18
Net increase in cash and cash equivalents	1,863,590	19,749	1,883,339
Cash and cash equivalents, beginning of year	1,871,981	148,234	2,020,215
Cash and cash equivalents, end of year	$ 3,735,571	$ 167,983	$ 3,903,554
Reconciliation to the statement of net position			
Cash and cash equivalents	$ 2,545,479	$ 167,983	$ 2,713,462
Restricted cash	1,190,092	-	1,190,092
Total	$ 3,735,571	$ 167,983	$ 3,903,554
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$ 983,830	$ (19,840)	$ 963,990
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	691,077	-	691,077
Change in assets and liabilities:			
Increase in accounts and intergovernmental receivables	(45,987)	(5,071)	(51,058)
Increase in inventory	(30,787)	-	(30,787)
Increase (decrease) in accounts payable	56,102	(538)	55,564
Increase in accrued salaries	3,006	195	3,201
Increase in retainage payable	3,996	-	3,996
Increase (decrease) in compensated absences	805	(85)	720
Increase in Net OPEB obligation	163,835	50,088	213,923
Increase in customer deposits payable	22,575	-	22,575
Net cash provided by operating activities	$ 1,848,452	$ 24,749	$ 1,873,201

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

CITY OF JEFFERSON, GEORGIA

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
DECEMBER 31, 2012

	Agency Fund
ASSETS	
Cash	$ 17,495
Total assets	$ 17,495
LIABILITIES	
Due to other agencies	$ 17,495
Total liabilities	$ 17,495

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

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Jefferson (the "City") was incorporated in 1806 under a Mayor-Council form of government. The City provides such services as police protection, fire and rescue services, parks and recreation amenities, planning and zoning, 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 unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended component units, although also legally separate entities, are in substance, part of the City's operations, and data from these units are combined with the data of the City of Jefferson.

The Public Building Authority of the City of Jefferson was established as a legally separate entity on April 16, 1999. The five (5) members of the Public Building Authority are appointed by the Mayor and City Council and they may also be removed by the Mayor and City Council. Although it is legally separate from the City, the Public Building Authority is reported as if it were a part of the primary government because its sole purpose is to provide a means to issue revenue bonds for buildings owned by the City.

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. (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, proprietary funds, and the fiduciary fund, even though the latter are excluded from the government-wide financial statements. 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 ***Debt Service Fund*** accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest associated with general government functions.

The ***Capital Projects Fund*** accounts for the acquisition and construction of capital expenditures, other than those accounted for in specific funds, which are not financed by the proprietary funds.

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

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The City reports the following major enterprise funds:

The ***Water and Sewer Fund*** accounts for the operation of the water and sewerage system including all revenues from sources applicable to the system's operations and all expenses of the operation.

The ***Solid Waste Fund*** accounts for the activities associated with the collection of residential and commercial garbage. Activity is rendered on a user charge basis.

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

The ***Agency Fund*** is used to account for assets held by the City's Municipal Court until they can be disbursed to other parties.

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 proprietary and fiduciary 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 (60) days of the end of the current period, however grant revenues are considered to be available if they are collected within 180 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences are recorded only when payment is due.

Note 1. Summary of Significant Accounting Policies (Continued)

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

Property taxes, sales taxes, franchise taxes, hotel/motel occupancy taxes, business taxes, licenses, intergovernmental revenue, and interest associated with the current year are all considered to be susceptible to accrual and so have been recognized as revenues of 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.

In accounting and reporting for its proprietary operations, the City applies all Governmental Accounting Standards Board (GASB) pronouncements. For the year ended December 31, 2012, the City implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Statement No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements.

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 City's enterprise funds are charges to customers for goods and services. Operating expenses of the enterprise funds include the cost 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.

Note 1. Summary of Significant Accounting Policies (Continued)

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

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 less than 90 days are considered to be cash equivalents.

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

F. 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."

G. Inventory

Inventories are valued at lower of cost or market using the first-in, first-out method. The cost of governmental fund type inventory is recorded as an expenditure when consumed rather than when purchased.

Note 1. Summary of Significant Accounting Policies (Continued)

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2012, are recorded as prepaid items in both government-wide and fund financial statements.

I. Restricted Assets

Proceeds of the Series 2007B Road Bond Issue are classified as restricted assets on the balance sheet because they are maintained in a separate bank account and their use is limited by applicable bond covenants. In addition, monies held in the Confiscated Assets Fund as federal confiscations are restricted until released to the appropriate authority.

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 City as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Exceptions, include software which has a capitalization threshold of $20,000 and infrastructure which varies from $25,000-$100,000, depending on the nature of the infrastructure: roads, bridges/culverts and parking lots- $100,000; storm drains, sidewalks, bike paths/greenway trails- $50,000; traffic signals- $60,000; water/sewer lines- $25,000. 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. As allowed under GASB Statement No. 34, the City did not capitalize any infrastructure purchased or donated prior to the implementation of GASB Statement No. 34.

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.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Asset	Years
Buildings and building improvements	10-60
Machinery, equipment, and vehicles	5-20
Water and sewer treatment facilities	60
Infrastructure	15-50

Estimated useful lives are adjusted by category according to asset longevity to ensure classes of asset are not fully depreciated and still in use.

Note 1. Summary of Significant Accounting Policies (Continued)

K. Deferred Outflows/Inflows of resources

The City implemented GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*, as of January 1, 2012. These new standards establish accounting and financial reporting for deferred outflows / inflows of resources and the concept of net position as the residual of all other elements presented in a statement of net position.

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or the refunding debt.

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only three (3) types of items, which arise only under a modified accrual basis of accounting that qualifies for reporting in this category. Unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and other sources as these amounts are deferred and will be recognized as an inflow of resources in the period that the amounts become available. Additionally, the governmental funds balance sheet and the government-wide statement of net position will report unearned property tax revenues as a deferred inflow of resources as the amount represents property taxes which have been received or are receivable as of the balance sheet date but which are meant to fund expenditures for the upcoming year and thus will be recognized as revenue in the period for which they were levied.

L. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused paid time off benefits. 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. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. The maximum vacation accrual is limited to 30 days. 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.

Note 1. Summary of Significant Accounting Policies (Continued)

M. Long-term Obligations

In the government-wide financial statements and the proprietary funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

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

N. Net Position

Net position represents the difference between assets and liabilities in reporting which utilizes the economic resources measurement focus. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the City has spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted using the same definition as used for restricted fund balance as described in the Fund Equity section (Footnote 1.O). All other net position is reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

For purposes of calculating net position net investment in capital assets, for the Governmental Activities, the amount of $5,637,606 as shown in the financial statements was determined by taking capital assets ($21,893,092) less total outstanding debt of $18,524,707 (which includes capital leases payable, notes payable, and bonds payable) plus unspent bond proceeds of $2,269,221 reported as part of the restricted cash reported in the Capital Projects Fund.

Note 1. Summary of Significant Accounting Policies (Continued)

O. Fund Equity

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

Fund Balance – Generally, fund balance represents the difference between the assets and liabilities under the current financial resources measurement focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

Fund balances are classified as follows:

Nonspendable – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

Restricted – Fund balances are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Committed – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by a formal vote of the City Council (passage of a resolution). The same formal action is required to subsequently remove or modify a commitment of fund balance.

Assigned – Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not nonspenable, restricted or committed. The City Council has expressly delegated to the City's City Manager and Finance Director the authority to assign funds for particular purposes.

Unassigned – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the General Fund. In addition, any remaining deficits in the City's governmental funds which remain after all other fund balances have been exhausted are classified as unassigned.

Flow Assumptions – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order: (1) Committed, (2) Assigned, and (3) Unassigned.

Note 1. Summary of Significant Accounting Policies (Continued)

P. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures/expenses during the period. Actual results could differ from those estimates.

Note 2. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "long-term liabilities are not due and payable in the current period and therefore are not reported in the funds." The details of this $21,994,286 difference are as follows:

Intergovernmental contract payable	$ (7,025,000)
Revenue bonds payable	(8,665,000)
Less: Unamortized discount (to be amortized as interest expense)	31,188
Capital lease payable	(2,656,659)
Notes payable	(209,236)
Accrued interest payable	(214,912)
Compensated absences	(167,667)
Net pension obligation	(31,660)
Net OPEB obligation	(3,055,340)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net position - governmental activities*	$ (21,994,286)

Note 2. Reconciliation of Government-wide and Fund Financial Statements (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *change in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental 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." The details of this $2,872,095 difference are as follows:

Capital outlay	$	3,792,618
Depreciation expense		(920,523)
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *change in net position of governmental activities*	$	2,872,095

Another element of that reconciliation states that "The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $1,736,760 difference are as follows:

Principal repayments:		
Intergovernmental contract payable	$	330,000
Revenue bonds		315,000
Capital leases		120,141
Notes payable		8,099
Issuance of capital lease		(2,510,000)
Net adjustment to decrease *net changes in fund balances - total governmental funds to arrive at change in net position of governmental activities*	$	(1,736,760)

Note 2. Reconciliation of Government-wide and Fund Financial Statements (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities (Continued)

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this $447,673 difference are as follows:

Compensated absences	$	(17,606)
Amortization of discount		(3,730)
Accrued interest		(11,322)
Net pension obligation		(2,277)
Net OPEB obligation		(412,738)
Net adjustment to decrease *net changes in fund balances - total governmental funds to arrive at change in net position of governmental activities*	$	(447,673)

Note 3. Stewardship, Compliance, and Accountability

Budgetary Information

The appropriated budget is prepared by fund, department, and function. Public hearings are conducted to obtain taxpayer comments. Prior to December 31, each year the budget is legally enacted by passage of an ordinance. The City's department heads may make transfers of appropriations within departmental accounts of a specific fund. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level, within the fund.

Note 4. Deposits

Custodial risk, that is the risk associated with uninsured deposits, uninsured securities, or securities not registered in the City's name, is managed in accordance with the City's policy through a safekeeping agreement with an external party. State Statutes and City policy require all deposits and investments (other than Federal or State instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. All deposits as of December 31, 2012 were properly collateralized.

Note 5. Receivables

The City receives property tax assessments from Jackson 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 as of October 4. The due date for these taxes was December 20th, and after that date, both penalty and interest are accrued until the taxes are collected. The taxes are subject to lien after March 20th. Property taxes are recorded as receivables and unearned revenues when assessed. Taxes levied in one year are for the subsequent year. Accordingly, property taxes levied during 2012 are for the year 2013. Amount recorded as a receivable as well as amounts collected as of December 31, 2012 related to these taxes are recorded as deferred inflows of resources – unearned property taxes in the fund financial statements and the government wide statement of net position.

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 and Sewer	Solid Waste	Nonmajor Funds
Receivables:				
Taxes	$ 680,237	$ -	$ -	$ 4,553
Accounts	1,174,251	648,856	120,686	-
Intergovernmental	104,746	27,406	-	391,781
Less allowance for uncollectibles	(56,727)	(154,998)	(28,447)	-
Net total receivables	$ 1,902,507	$ 521,264	$ 92,239	$ 396,334

Note 6. 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	$ 1,489,775	$ 123,652	$ -	$ 1,613,427
Construction in progress	258,090	3,011,778	-	3,269,868
Total assets, not being depreciated	1,747,865	3,135,430	-	4,883,295
Capital assets, being depreciated:				
Buildings	10,136,107	50,000	-	10,186,107
Improvements	399,568	-	-	399,568
Machinery and equipment	2,979,933	63,780	(18,783)	3,024,930
Infrastructure	8,338,163	546,049	-	8,884,212
Total assets, being depreciated	21,853,771	659,829	(18,783)	22,494,817
Less accumulated depreciation for:				
Buildings	(2,213,821)	(342,253)	-	(2,556,074)
Improvements	(111,225)	(20,957)	-	(132,182)
Machinery and equipment	(1,750,663)	(273,597)	18,783	(2,005,477)
Infrastructure	(507,571)	(283,716)	-	(791,287)
Total accumulated depreciation	(4,583,280)	(920,523)	18,783	(5,485,020)
Total assets, being depreciated, net	17,270,491	(260,694)	-	17,009,797
Governmental activities capital assets, net	$ 19,018,356	$ 2,874,736	$ -	$ 21,893,092
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 839,450	$ -	$ -	$ 839,450
Construction in progress	795,138	195,645	-	990,783
Total assets, not being depreciated	1,634,588	195,645	-	1,830,233
Capital assets, being depreciated:				
Water distribution	11,397,326	147,482	-	11,544,808
Sewer distribution	16,684,163	-	-	16,684,163
Improvements	22,432	-	-	22,432
Machinery and equipment	423,806	21,064	-	444,870
Total assets, being depreciated	28,527,727	168,546	-	28,696,273
Less accumulated depreciation for:				
Water distribution	(3,805,917)	(248,774)	-	(4,054,691)
Sewer distribution	(4,400,222)	(404,031)	-	(4,804,253)
Improvements	(5,173)	(747)	-	(5,920)
Machinery and equipment	(343,564)	(29,103)	-	(372,667)
Total accumulated depreciation	(8,554,876)	(682,655)	-	(9,237,531)
Total assets, being depreciated, net	19,972,851	(514,109)	-	19,458,742
Business-type activities capital assets, net	$ 21,607,439	$ (318,464)	$ -	$ 21,288,975

Note 6. Capital Assets (Continued)

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

Governmental activities:		
General government	$	51,271
Police		135,041
Fire		129,418
Public works		279,522
Recreation		320,270
Economic and community development		5,001
Total depreciation expense - governmental activities	$	920,523
Business-type activities:		
Water and sewer	$	682,655
Total depreciation expense - business-type activities	$	682,655

Construction Commitments

In addition to the liabilities enumerated in the balance sheet at December 31, 2012, the City has contractual commitments on uncompleted construction contracts of approximately $7,341,920 for various projects including MLK extension, improvements to a wastewater transfer facility, and improvements to Jefferson Station.

Note 7. Inter-fund Receivables, Payables, and Transfers

The composition of inter-fund balances as of December 31, 2012, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General fund	Nonmajor governmental funds	$ 130,048
General fund	Capital projects fund	23,204
Nonmajor governmental funds	Nonmajor governmental funds	4,140
Total		$ 157,392

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system, inter-fund goods and services are provided or reimbursable expenditures occur, and payments between funds are made.

Note 7. Inter-fund Receivables, Payables, and Transfers (Continued)

Inter-fund transfers for the year ended December 31, 2012:

	Transfers Out				
Transfers in	General Fund	Water & Sewer Fund	Solid Waste Fund	Nonmajor governmental funds	Total
General Fund	$ -	$ 175,000	$ 5,000	$ 16,214	$ 196,214
Debt Service Fund	1,209,924	-	-	270,666	1,480,590
Capital Projects Fund	353,530	-	-	-	353,530
Water & Sewer Fund	-	-	-	165,039	165,039
Nonmajor governmental funds	110,570	-	-	4,140	114,710
Total	$ 1,674,024	$ 175,000	$ 5,000	$ 456,059	$ 2,310,083

Transfers are used to 1) move revenues from the fund with collection authorization to the Debt Service Fund as debt service principal and interest payments become due, 2) move unrestricted General Fund revenues to finance various programs that the City must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

Note 8. 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:					
Intergovernmental contract payable	$ 7,355,000	$ -	$ (330,000)	$ 7,025,000	$ 345,000
Bonds payable:					
Revenue bonds	8,980,000	-	(315,000)	8,665,000	330,000
Less issuance discount	(34,918)	-	3,730	(31,188)	-
Net bonds payable	8,945,082	-	(311,270)	8,633,812	330,000
Notes payable	217,335	-	(8,099)	209,236	8,345
Capital lease	266,800	2,510,000	(120,141)	2,656,659	231,534
Net pension obligation	29,383	158,108	(155,831)	31,660	-
Net OPEB obligation	2,642,602	442,655	(29,917)	3,055,340	-
Compensated absences	150,061	127,286	(109,680)	167,667	121,860
Governmental activities Long-term liabilities	$ 19,606,263	$ 3,238,049	$ (1,064,938)	$ 21,779,374	$ 1,036,739

Note 8. Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Revenue bonds	$ 5,205,000	$ 7,560,000	$ (610,000)	$ 12,155,000	$ 895,000
Plus premium	49,780	21,902	(11,293)	60,389	-
Net bonds payable	5,254,780	7,581,902	(621,293)	12,215,389	895,000
Notes payable	6,346,122	-	(6,346,122)	-	-
Net OPEB obligation	537,391	221,278	(7,355)	751,314	-
Compensated absences	46,157	48,192	(47,472)	46,877	34,070
Business-type activity Long-term liabilities	$ 12,184,450	$ 7,851,372	$ (7,022,242)	$ 13,013,580	$ 929,070

For governmental activities, compensated absences and the Net pension and Net OPEB obligations are predominately liquidated by the General Fund. For business-type activities, compensated absences are liquidated by the Water and Sewer Fund and the Solid Waste Fund and the Net OPEB obligation is liquidated by the Water and Sewer Fund. As of December 31, 2012 and December 31, 2011, the City reported $70,258 and $89,971, respectively, as deferred gain on defeasance for its business-type activities. These amounts are not reflected in the above long-term debt schedule. As of year-end, the deferred charge (gain) on refunding of $70,258 is reported as a deferred outflow of resources in the government-wide and proprietary funds statement of net position.

Intergovernmental Contracts Payable

Governmental Activities

The City of Jefferson entered into an intergovernmental contract, dated August 1, 2007, with Jackson County in which the County agreed to provide funds to the City for road projects in the City limits and the City agreed to repay to the County the principal amount of $7,985,000 and interest with rates ranging from 3.75% to 4.75%. The amount of the intergovernmental contracts payable outstanding as of December 31, 2012 is $7,025,000.

Note 8. Long-term Debt (Continued)

Governmental Activities (Continued)

Revenue Bonds

On April 1, 2007, the City of Jefferson Public Building Authority issued 2007A and 2007B refunding revenue bonds in the amount of $8,620,000 and $660,000, respectively, to refund a portion of the City of Jefferson Public Building Authority 2002 and 2005 notes and the 2004 general obligation Park and Recreation Facilities bond series and the City of Jefferson Public Building Authority Fire Station Project Series 1999.

The net proceeds of the refunding revenue bond issuance were irrevocably deposited in escrow with Regions Bank, as escrow agent. The escrow obligations will bear interest and will be scheduled to mature at times sufficient to pay the principal and interest on the refunding Fire Station project bonds until January 2019, the earliest date of redemption. At December 31, 2012, the amount of the defeased bonds outstanding is $1,115,000 and neither the escrow account nor the defeased bonds are recorded on the City's Statement of Net Position.

The refunding bonds, maturing in April 2030, have interest rates that range from 3.6% to 5.0%. The amount of refunding revenue bonds outstanding at December 31, 2012 is $8,435,000 and $230,000, respectively.

Business-type Activities

On May 14, 2009, the City issued Refunding Revenue Bonds (Water and Sewer Facilities Project) in the amount of $6,375,000 for the purpose of refunding $3,935,000 of the Series 1998 Water and Sewer Revenue Bonds outstanding and $2,751,473 in outstanding loans to the Georgia Environmental Finance Authority. The outstanding balance of these revenue bonds at December 31, 2012 is $4,595,000.

On May 16, 2012, the City issued Revenue Bonds (Water and Sewer Facilities Project) in the amount of $7,560,000 for the purpose of paying off $6,346,122 in outstanding loans to the Georgia Environmental Finance Authority and $1,213,878 to fund capital improvements for the Jefferson Station project. These bonds carry interest rates ranging from 1.45% to 3.25% which are payable on January 15 and July 15 of each year and matures on January 15, 2032. The outstanding balance of these revenue bonds at December 31, 2012 is $7,560,000.

Note 8. Long-term Debt (Continued)

Annual debt service requirements to maturity for intergovernmental contracts payable are as follows:

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2013	$ 345,000	$ 305,914
2014	360,000	292,114
2015	375,000	276,814
2016	390,000	262,283
2017	405,000	246,683
2018-2022	2,295,000	965,768
2023-2027	2,855,000	405,425
Total	$ 7,025,000	$ 2,755,001

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	$ 330,000	$ 363,015	$ 895,000	$ 316,933
2014	340,000	348,465	1,055,000	292,208
2015	360,000	333,010	1,085,000	261,695
2016	370,000	317,385	1,120,000	230,845
2017	400,000	300,355	1,145,000	201,370
2018-2022	2,215,000	1,224,030	3,585,000	659,448
2023-2027	2,720,000	714,378	2,475,000	291,975
2028-2032	1,930,000	127,066	795,000	40,975
Total	$ 8,665,000	$ 3,727,704	$ 12,155,000	$ 2,295,449

Notes Payable

Governmental Activities

On July 21, 2009, the GEFA Board awarded the City of Jefferson a $545,000 loan with 60% principal forgiveness. The proceeds of the loan were used for the Civic Center Parking Lot (Green) project. The outstanding balance of these notes payable at December 31, 2012 is $209,236.

Note 8. Long-term Debt (Continued)

The debt service requirements to maturity on the City's notes payable are as follows:

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2013	$ 8,345	$ 6,163
2014	8,599	5,909
2015	8,861	5,647
2016	9,130	5,378
2017	9,408	5,100
2018-2022	51,510	21,030
2023-2027	59,835	12,705
2028-2031	53,548	3,275
Total	$ 209,236	$ 65,207

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of recreation equipment, Jefferson Station building and land, police vehicles, and a fire truck, which are used in governmental activities. The lease agreements qualify as capital leases for accounting purposes (titles transfer at the end of the lease terms) and, therefore, have been recorded at the present values of the future minimum lease payments as of the date of their inceptions. The vehicle lease has an original amount of $34,245, matures May 1, 2013, bears an interest rate of 3.81% and requires quarterly payments of principal and interest in the amount of $3,017. The fire truck lease has an original amount of $250,886, matures March 15, 2014, bears an interest rate of 3.27%, and requires quarterly principal and interest payments of $13,576. A second vehicle lease has an original amount of $32,693, matures November 3, 2013, bears an interest rate of 3.33% and requires quarterly payments of principal and interest in the amount of $2,859. A third vehicle lease has an original amount of $65,203, matures April 24, 2014, bears an interest rate of 2.96% and requires quarterly payments of principal and interest in the amount of $5,671.

The recreation equipment lease has an original amount of $60,205, matures January 24, 2014, bears an interest rate of 1.5% and requires annual payments of principal and interest in the amount of $15,620. The Jefferson Station building and land lease has an original amount of $2,510,000, matures October 26, 2027, bears an interest rate of 4.08% and requires annual payments of principal and interest in the amount of $227,017. At December 31, 2012, the outstanding balances on these leases are $5,949; $66,248; $30,103; $11,200; $33,159; and $2,510,000, respectively, and the cost and accumulated depreciation of the assets acquired under capital lease are $2,953,232 and $81,340, respectively.

Note 8. Long-term Debt (Continued)

The debt service requirements to maturity on the City's capital leases are as follows:

Year Ending December 31,		
2013	$	337,092
2014		267,554
2015		227,017
2016		227,017
2017		227,017
2018-2022		1,135,084
2023-2027		1,135,084
		3,555,865
Less: interest		(899,206)
Total	$	2,656,659

Conduit Debt

On August 1, 2007, the City of Jefferson Public Building Authority (the "Authority") issued $48,580,000 in Series 2007A and Series 2007B Revenue Bonds on behalf of Jackson County (the "County") to provide funds for the construction of major road projects in the County and within the City. The Series 2007 Bonds are special limited obligations of the Authority and thus the City is not obligated directly for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. Total amount of these bonds outstanding as of December 31, 2012 is $27,075,000.

Note 9. Pension Plan

Plan Description

The City, as authorized by the City Council, has established a non-contributory defined benefit pension plan (The City of Jefferson 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. Contributions made by the City are commingled with contributions made by other members of GMEBS for investment purposes. 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 provided by State law, benefit provisions for participants in GMEBS are established by the respective employers. As authorized by City Council, employees working a minimum of thirty hours per week are eligible for participation after one year of continuous service. Employees are vested after five years of credited service. Elected officials are vested immediately.

At July 1, 2012, the date of the most recent actuarial valuation, there were 111 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	22
Terminated vested participants not yet receiving benefits	24
Active vested employees	44
Active nonvested employees	21
Total	111

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 2012, the actuarially determined contribution rate was 6.87% of covered payroll.

Note 9. Pension Plan (Continued)

Annual Pension Cost

For 2012, the City's recommended contribution was $155,831 and actual contribution totaled $155,831. The recommended contribution was determined as part of the July 1, 2011 actuarial valuations 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% (3.0% due to inflation and .5% due to merit or seniority increases). 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 short-term volatility in the market value of investments over a ten year period.

The City's actuarially required contribution, pension cost, and increase in net pension obligation for the year ended December 31, 2012, were computed as follows:

Actuarially required contribution	$ 155,831
Interest	2,277
Annual pension cost	158,108
Actual contributions made	(155,831)
Increase in net pension obligation	2,277
Net pension obligation, December 31, 2011	29,383
Net pension obligation, December 31, 2012	$ 31,660

The information presented below is based on the annual actuarial valuation as of July 1, 2012. Additional funding progress history is presented in the required supplementary section.

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	$ 2,594,115	$ 2,761,454	$ 167,339	93.94 %	$ 2,327,992	7.19 %

Note 9. Pension Plan (Continued)

Annual Pension Cost (Continued)

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.

The assumptions used in the July 1, 2012 actuarial valuation are as follows:

Actuarial Assumptions:	
Actuarial Cost Method	Projected Unit Credit
Actuarial Asset Valuation Method	Sum of actuarial value at the beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at the end of the year. The actuarial value is adjusted, if necessary, to be within 50% of market value for 2009, 44% of market value for 2010, 38% of market value for 2011, 32% of market value for 2012, 26% of market value for 2013, and 20% of market value for 2014 and later years.
Assumed Rate of Return on Investments	7.75%
Projected Salary Increases	3.5% plus age and service based merit increases
Cost-of-living Adjustment	0.0%
Amortization Method	Closed level dollar for remaining unfunded liability.
Remaining Amortization Period	Remaining amortization period varies for the bases, with a net effective amortization period of 10 years.

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	$ 158,108	$ 155,831	98.6 %	$ 31,660
2011	156,764	154,651	98.7	29,383
2010	179,502	172,720	96.2	27,270

Note 10. Other Post-employment Benefits

Plan Description

The City of Jefferson Post-Retirement Health Plan (the "OPEB Plan") is a single-employer defined benefit post-retirement health care and dental plan, or other post employment benefit (OPEB) Plan. The City has not elected to advance fund the Plan, but rather maintains the Plan on a "pay as you go" basis, in that claims are paid as they arise, rather than establishing an irrevocable trust to accumulate restricted funds. As a result, the OPEB plan does not issue a stand-alone financial report.

Benefits

Eligible retirees and former employees are offered the same health, prescription drug, and dental coverage as active employees. The City pays 100% of the retiree premium for the PPO or POS health insurance plan and 100% of the premium for the dental plan. Retirees cannot add spouses or dependents to the City's insurance plan. There is a maximum out-of-pocket cost to the employee of $1,000 per year for the PPO plan and $1,000 for the POS plan. There is an unlimited lifetime maximum for the PPO plan and POS plan.

Eligibility

Employees are eligible for Other Post-Employment Benefits provided that the employee retires from active employment and satisfies one of the following:

1. Attainment of age 62 and the completion of 15 years of service; or
2. Completion of 30 years of continuous service

City Contributions

The annual required contribution for the current year was determined as part of the January 1, 2012, actuarial valuation. The actuarial assumptions included:

Actuarial Cost Method	Projected Unit Credit
Actuarial Asset Valuation Method	Not applicable
Assumed Rate of Return on Investments	4.0%
Healthcare Cost Trend Rate – PPO and POS Plans	8.0%
Healthcare Cost Trend Rate – Dental Plan	5.0%
Ultimate Healthcare Cost Trend Rate – PPO and POS Plans	5.0%
Ultimate Healthcare Cost Trend Rate – Dental Plan	4.0%
Year of Ultimate Trend Rate	2021
Amortization Method	Level dollar, closed
Remaining Amortization Period	30 years

Note 10. Other Post-employment Benefits (Continued)

City Contributions (Continued)

The following is a schedule of funding progress using the projected unit credit cost method. As of the most recent valuation date, January 1, 2012, the funded status of the Plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2012	$ -	$ 3,662,682	$ 3,662,682	- %	N/A	N/A %

N/A – Not available

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 January 1, 2012.

Annual OPEB Cost

The City's actuarially determined contribution, OPEB cost and increase in net OPEB obligation for the year ended December 31, 2012, is as follows:

Annual required contribution	$ 663,933
Adjustments to annual required contribution	-
Annual OPEB cost	663,933
Contributions made	(37,272)
Increase in net OPEB obligation	626,661
Net OPEB obligation, beginning of year	3,179,993
Net OPEB obligation, end of year	$ 3,806,654

Note 10. Other Post-employment Benefits (Continued)

Annual OPEB Cost (Continued)

The recommended contribution was determined as part of the January 1, 2012 actuarial valuation. The chart below shows the annual pension cost for the current year, along with the percentage actually contributed by the City.

Schedule of Employer Costs and Contributions

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of ARC Contributed	Net OPEB Obligation
December 31, 2010	$ 1,086,493	$ 28,690	2.64 %	$ 2,140,353
December 31, 2011	1,065,570	25,930	2.43	3,179,993
December 31, 2012	663,933	37,272	5.61	3,806,654

Note 11. Joint Venture

Under Georgia law, the City, in conjunction with other cities and counties in the twelve county northeast Georgia area, is a member of the Northeast Georgia Regional Commission (RC) and is required to pay annual dues thereto. During the current year ended December 31, 2012, the City paid $9,432 in such dues. Membership in a RC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34, which provides for the organization structure of a RC. RC 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 RC. Separate financial statements may be obtained from the Northeast Georgia Regional Commission, 305 Research Drive, Athens, Georgia 30605.

Note 12. Related Organizations

The Jefferson Housing Authority (the “Authority”) is an independent non-profit corporation. The City’s Council is responsible for appointing the board members of the Jefferson Housing Authority. However, the City has no further accountability for the Authority. The Authority issues its own financial statements and the separate statements may be obtained from the Jefferson Housing Authority, 29 Jefferson Terrace, Jefferson, Georgia 30549.

Note 13. 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, public entity risk pools currently operating as common risk management and insurance programs for member local governments.

Note 13. Risk Management (Continued)

A 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 14. 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 15. Hotel/Motel Occupancy Tax

The City imposes a hotel/motel tax on lodging facilities within the City. The tax is assessed at 5%. Revenues were $27,024 for the year ended December 31, 2012. Of this amount 60%, or $16,214, was transferred to the General Fund in accordance with O.C.G.A. 48-13-51. The remaining 40%, or $10,810, was, or will be, used to promote tourism.

Note 16. Change in Accounting Principle

In conjunction with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the City is required to change its accounting treatment of debt issuance costs. The new standard requires that debt issuance costs be recognized as an expense in the period incurred rather than deferred and recognized as an expense (amortized) in a systematic and rational manner over the duration of the related debt as was the required treatment in prior reporting periods.

Therefore, in conjunction with the implementation of Statement No. 65, the following restatements were required to the beginning net position of the Governmental Activities, Business-type Activities, and the Water and Sewer Fund to properly recognize debt issuance costs as expenses in the periods in which they were incurred:

	Governmental Activities	Business-type Activities	Water and Sewer Fund
Net Position, as previously reported	$ 7,716,815	$ 11,549,037	$ 11,355,002
Recognition of bond issuance costs incurred in prior periods	(231,202)	(122,464)	(122,464)
Net Position, as restated	$ 7,485,613	$ 11,426,573	$ 11,232,538

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF JEFFERSON, GEORGIA

REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT PLAN AND OPEB
SCHEDULES OF FUNDING PROGRESS
FOR THE YEAR ENDED DECEMBER 31, 2012

Schedule of Funding Progress - Retirement Plan (Pension)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
7/1/2012	$ 2,594,115	$ 2,761,454	$ 167,339	93.94 %	$ 2,327,992	7.19 %
7/1/2011	2,489,288	2,718,675	229,387	91.56	2,129,981	10.77
7/1/2010	2,332,687	2,551,938	219,251	91.41	2,202,288	9.96

Note: See assumptions used for the Schedule of Funding Progress in Note 9 to the financial statements.

Schedule of Funding Progress - Other Post-employment Benefits (OPEB)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2009	$ -	$ 5,868,938	$ 5,868,938	- %	$ N/A	N/A %
1/1/2012	-	3,662,682	3,662,682	-	N/A	N/A

Note: See assumptions used for the Schedule of Funding Progress in Note 10 to the financial statements.

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specific purposes other than debt services or capital projects.

Hotel/Motel Fund – This fund is used to account for the occupancy tax collected by the City from area hotels and motels, and distributed based upon State statute. Funds are restricted by State laws.

Confiscated Assets Fund – This fund accounts for the use of confiscated drug money by the City's Police Department. These monies must be used for police related expenditures and are restricted by Federal law.

Mulit-Grant Fund – This fund is used to account for the funds received from external sources as they relate to grants awarded to the City. Matching funds, which are the City's responsibility, are also recorded within this fund. These funds are restricted by Federal and State law.

Capital Projects Fund

Capital Projects Funds are used to account for the acquisition and construction of major items, such as buildings, infrastructure, parks, streets, and other major capital facilities.

SPLOST Fund – This fund accounts for the acquisition and construction of capital expenditures provided by a one-cent special local option sales tax approved by voters.

CITY OF JEFFERSON, GEORGIA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012

ASSETS	Special Revenue Funds			Capital Projects Fund	Total Nonmajor Governmental Funds
	Hotel/ Motel	Confiscated Assets	Multi-Grant	SPLOST	
Cash and cash equivalents	$ 19,705	$ 112,555	$ 200	$ 950,318	$ 1,082,778
Taxes receivable	4,553	-	-	-	4,553
Due from other funds	-	4,140	-	-	4,140
Intergovernmental receivable	-	-	246,616	145,165	391,781
Restricted cash	-	39,943	-	-	39,943
Total assets	$ 24,258	$ 156,638	$ 246,816	$ 1,095,483	$ 1,523,195
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ -	$ 41,090	$ 115,360	$ 117,973	$ 274,423
Due to other funds	2,732	-	131,456	-	134,188
Total liabilities	2,732	41,090	246,816	117,973	408,611
FUND BALANCES					
Restricted for:					
Capital projects	-	-	-	977,510	977,510
Tourism	21,526	-	-	-	21,526
Public safety	-	115,548	-	-	115,548
Total fund balances	21,526	115,548	-	977,510	1,114,584
Total liabilities and fund balances	$ 24,258	$ 156,638	$ 246,816	$ 1,095,483	$ 1,523,195

CITY OF JEFFERSON, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2012

	Special Revenue Funds			Capital Projects Fund	Total Nonmajor Governmental Funds
	Hotel/ Motel	Confiscated Assets	Multi-Grant	SPLOST	
Revenues:					
Hotel/Motel occupancy taxes	$ 27,024	$ -	$ -	$ -	$ 27,024
Fines and forfeitures	-	37,034	-	-	37,034
Intergovernmental	-	-	249,797	797,107	1,046,904
Investment earnings	-	87	-	525	612
Total revenues	27,024	37,121	249,797	797,632	1,111,574
Expenditures:					
Current:					
Public safety	-	33,570	8,280	-	41,850
Public works	-	-	353,046	-	353,046
Culture and recreation	-	-	3,181	-	3,181
Economic and community development	10,000	-	-	-	10,000
Capital outlay	-	-	-	629,234	629,234
Total expenditures	10,000	33,570	364,507	629,234	1,037,311
Excess (deficiency) of revenues over (under) expenditures	17,024	3,551	(114,710)	168,398	74,263
Other financing sources (uses):					
Transfers in	-	-	114,710	-	114,710
Transfers out	(16,214)	(4,140)	-	(435,705)	(456,059)
Total other financing sources (uses)	(16,214)	(4,140)	114,710	(435,705)	(341,349)
Net change in fund balances	810	(589)	-	(267,307)	(267,086)
Fund balances, beginning of year	20,716	116,137	-	1,244,817	1,381,670
Fund balances, end of year	$ 21,526	$ 115,548	$ -	$ 977,510	$ 1,114,584

CITY OF JEFFERSON, GEORGIA
HOTEL/MOTEL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2012

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Hotel/Motel occupancy taxes	$ 22,000	$ 27,024	$ 27,024	$ -
Total revenues	22,000	27,024	27,024	-
Expenditures:				
Current:				
Economic and community development	8,800	10,809	10,000	809
Total expenditures	8,800	10,809	10,000	809
Excess of revenues over expenditures	13,200	16,215	17,024	809
Other financing uses:				
Transfers out	(13,200)	(16,215)	(16,214)	1
Total other financing uses	(13,200)	(16,215)	(16,214)	1
Net changes in fund balances	-	-	810	810
Fund balances, beginning of year	20,716	20,716	20,716	-
Fund balances, end of year	$ 20,716	$ 20,716	$ 21,526	$ 810

CITY OF JEFFERSON, GEORGIA
CONFISCATED ASSETS FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2012

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Fines and forfeitures	$ 35,000	$ 39,140	$ 37,034	$ (2,106)
Investment earnings	-	-	87	87
Total revenues	35,000	39,140	37,121	(2,019)
Expenditures:				
Current:				
Public safety	35,000	35,000	33,570	1,430
Total expenditures	35,000	35,000	33,570	1,430
Excess (deficiency) of revenues over (under) expenditures	-	4,140	3,551	(589)
Other financing sources:				
Transfers in	-	(4,140)	(4,140)	-
Total other financing sources	-	(4,140)	(4,140)	-
Net changes in fund balances	-	-	(589)	(589)
Fund balances, beginning of year	116,137	116,137	116,137	-
Fund balances, end of year	$ 116,137	$ 116,137	$ 115,548	$ (589)

CITY OF JEFFERSON, GEORGIA
MULTI-GRANT FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2012

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Intergovernmental	$ -	$ 1,441,337	$ 249,797	$ (1,191,540)
Total revenues	-	1,441,337	249,797	(1,191,540)
Expenditures:				
Current:				
Public safety	-	8,280	8,280	-
Public works	-	1,852,182	353,046	1,499,136
Culture and recreation	-	-	3,181	(3,181)
Total expenditures	-	1,860,462	364,507	1,495,955
Excess (deficiency) of revenues over (under) expenditures	-	(419,125)	(114,710)	304,415
Other financing sources:				
Transfers in	-	419,125	114,710	(304,415)
Total other financing sources	-	419,125	114,710	(304,415)
Net changes in fund balances	-	-	-	-
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	$ -	$ -	$ -	$ -

CITY OF JEFFERSON, GEORGIA
DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2012

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Investment earnings	$ -	$ -	$ 88	$ 88
Total revenues	-	-	88	88
Expenditures:				
Debt service:				
Principal	780,039	773,468	773,240	228
Interest	708,232	707,144	707,350	(206)
Total expenditures	1,488,271	1,480,612	1,480,590	22
Excess (deficiency) of revenues over (under) expenditures	(1,488,271)	(1,480,612)	(1,480,502)	110
Other financing sources:				
Transfers in	1,488,271	1,480,612	1,480,590	(22)
Total other financing sources	1,488,271	1,480,612	1,480,590	(22)
Net change in fund balances	-	-	88	88
Fund balances, beginning of year	679,365	679,365	679,365	-
Fund balances, end of year	$ 679,365	$ 679,365	$ 679,453	$ 88

CITY OF JEFFERSON, GEORGIA

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

SPLOST IV:	Original Estimated Cost	Current Estimated Cost	Prior Years Cumulative Expenditures	Current Year Expenditures	Total Cumulative Expenditures
Roads, streets, bridges, and storm water management facilities	$ 1,426,221	$ 1,426,221	$ 897,450	$ 526,353	$ 1,423,803
Cultural, historical and recreation facilities	740,894	776,979	776,979	-	776,979
Public safety facilities	55,567	56,930	44,570	12,360	56,930
Water and sewer facilities	1,481,788	1,559,884	1,329,153	230,732	1,559,885
SPLOST IV Total	$ 3,704,470	$ 3,820,014	$ 3,048,152	$ 769,445	$ 3,817,597
SPLOST V:					
Roads, streets, bridges, and storm water management facilities	$ 1,179,588	$ 1,179,588	$ -	$ -	$ -
Cultural, historical and recreation facilities	1,626,853	1,626,853	96,679	270,667	367,346
Public safety facilities	81,651	81,651	-	-	-
Water and sewer facilities	1,179,588	1,179,588	-	24,827	24,827
SPLOST V Total	$ 4,067,680	$ 4,067,680	$ 96,679	295,494	$ 392,173
Total SPLOST Expenditures				$ 1,064,939	

Reconciliation of the Schedule of Expenditures of Special Purpose Local Option Sales Tax Proceeds to the Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds:

Capital Outlay	$ 629,234
Transfer Out (see note below)	435,705
Total	$ 1,064,939

Note: The transfer out from the SPLOST Fund to the Debt Service Fund was made to pay part of the debt service payments on the Park and Recreation Facilities Bonds (which were refunded by the 2007 A&B Refunding Revenue Bonds). The transfer out from the SPLOST Fund to the Water and Sewer Fund was made to pay part of the Wastewater Transfer/Collection Project and Parks Creek Reservoir Project.

AGENCY FUND

Agency funds are used to account for assets held by the City as an agent for individuals or other agencies.

Municipal Court Fund – To account for the collection and disbursement of funds by the Municipal Court.

CITY OF JEFFERSON, GEORGIA

MUNICIPAL COURT AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	December 31, 2011	Additions	Deductions	December 31, 2012
ASSETS				
Cash	$ 9,753	$ 155,647	$ 147,905	$ 17,495
Total assets	$ 9,753	$ 155,647	$ 147,905	$ 17,495
LIABILITIES				
Due to other agencies	$ 9,753	$ 155,647	$ 147,905	$ 17,495
Total liabilities	$ 9,753	$ 155,647	$ 147,905	$ 17,495

COMPLIANCE SECTION

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

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

Honorable Mayor and Members
of City Council
City of Jefferson, Georgia
Jefferson, Georgia

We have audited 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Jefferson, 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 issued our report thereon dated June 13, 2013. Our report includes a reference to the changes in accounting principle resulting from the implementation of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses, as item 2012-1, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

City of Jefferson, Georgia's Response to Finding

The City of Jefferson, Georgia's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City of Jefferson, Georgia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City'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.

Mauldin & Jenkins, LLC

Atlanta, Georgia
June 13, 2013

CITY OF JEFFERSON, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2012

SECTION I
SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	__X__ yes ____ no
Significant deficiencies identified?	____ yes __X__ no
Noncompliance material to financial statements noted?	____ yes __X__ no

Federal Awards

There was not an audit of major federal award programs required as of December 31, 2012 due to the total amount expended being less than $500,000.

CITY OF JEFFERSON, GEORGIA

SCHEDULE OF FINDINGS AND REPONSES
FOR THE YEAR ENDED DECEMBER 31, 2012

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2012-1 Segregation of Duties - Repeat

Criteria: Internal controls should be in place, which provide reasonable assurance that an individual cannot misappropriate funds without such actions being detected during the normal course of business.

Condition: The size of the City's accounting and administrative staff precluded internal controls that would be preferred if the office staff were large enough, to provide optimum segregation of duties. Appropriate segregation of duties was not noted within the following areas of the City: cash receipting, recording and reconciliation process; revenue and receivable recording; accounts payable and expense/expenditure recording; personnel and payroll recording; grant recording; inventory and capital asset maintenance; and debt and debt service expenditures.

Context/Cause: Although the small size of the City's staff limits the segregation of duties, it is important that incompatible duties be assigned to different individuals and/or compensating controls implemented. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction.

Effects: Failure to properly segregate duties or implement compensating controls can lead to misappropriation of funds or abuse of the system that is not detected in a timely manner by employees in the normal course of performing their assigned functions.

Recommendation: We recommend the City segregate duties and/or implement compensating controls in the key areas noted above.

Auditee's Response: We will review our operations to determine the most efficient and effective solution to properly segregate duties.

SECTION III
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Not applicable.

CITY OF JEFFERSON, GEORGIA

SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2012

SECTION IV
PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None reported.