

CITY OF CLARKESVILLE
CLARKESVILLE, GEORGIA

FINANCIAL STATEMENTS

For the Year Ended
December 31, 2007

CITY OF CLARKESVILLE, GEORGIA
ANNUAL FINANCIAL REPORT
December 31, 2007

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Jack P. Green, Jr.

CERTIFIED PUBLIC ACCOUNTANT

27 WEST DOYLE STREET
POST OFFICE BOX 342
TOCCOA, GEORGIA 30577
PHONE: 706/886-7143

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
GEORGIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

May 8, 2008

INDEPENDENT AUDITOR'S OPINION

To the Mayor and City Commission
City of Clarkesville
Clarkesville, Georgia

I have audited the accompanying financial statements of the government activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Clarkesville, Georgia, as of and for the year ended December 31, 2007, which collectively comprise the city's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Clarkesville management. My responsibility is to express opinions on these basic financial statements based on the audit.

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

In my opinion, the basic 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 Clarkesville, Georgia as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 8, 2008 on my consideration of the City of Clarkesville internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The management's discussion and analysis, on pages 2 through 8, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The budgetary comparison schedule identified as Exhibit 8 in the Financial Section of the accompanying table of contents is not part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Jack P. Green, Jr.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of Clarkesville, Georgia (City) basic financial report, the City's management provides narrative discussion and analysis of the financial activities of the city for the Year ended December 31, 2007. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the City's primary government. Unless otherwise noted component units, related organization and joint ventures reported separately from the primary government are not included.

The City of Clarkesville (City), 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 assets exceeded its liabilities by \$8,112,942 (net assets) for the Year reported. This compares to the previous year when assets exceeded liabilities by \$5,921,158.

Total net assets are comprised of the following:

- (1) Capital assets, net of related debt, of \$4,084,581 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
- (2) Unrestricted net assets of \$4,028,361 represent the portion available to maintain the City's obligations to citizens and creditors.

The City's governmental funds reported total ending fund balance of \$2,442,986 this year. This compares to the prior year ending fund balance of \$1,744,183 showing an increase of \$698,803 during the current year. Unreserved fund balance of \$2,442,986 for the Year 2007 shows a \$698,803 increase over the prior year.

At the end of the Year, unreserved fund balance for the General Fund was \$2,442,882 or 97.2% of total General Fund expenditures and 76% of total General Fund revenues.

Total liabilities of the City increased by \$110,298 to \$1,177,547 during the Year. This increase is attributable to an increase in the amount of Deferred Revenue which is property taxes due in 2008 that were paid in 2007.

Overview of the Financial Statements

Management's Discussion and Analysis 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 financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

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

The first of these government-wide statements is the *Statement of Net Assets*. This is the City-wide statement of position presenting information that includes all of the Town's assets and liabilities with the difference reported as *net assets*. Over time, increases and decreases in net assets 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 economic health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of the 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 assets changed during the current 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 that are principally supported by taxes and intergovernmental revenues, such as grants, and from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, recreation and public works. Business type activities include water and wastewater enterprises. Fiduciary activities such as employee pension plans are not included in the government-wide statements since these assets are not available to fund City programs.

The City's financial reporting includes the funds of the City (primary government) and organizations for which^{high} the City is accountable (component units). The City had no reportable component units. Other organizations such as related organizations and joint ventures are reported separately and are not included in the City's overall reporting entity.

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 non-major funds is provided in the form of combining statements in a later section of this report.

The City has three kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially 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 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 balances provide reconciliation to the government-wide statements to assist in understanding the difference between these two perspectives.

Budgetary comparison statements are included in the basic financial statements for the general fund. Budgetary comparison schedules for special revenue funds can be found in a later section of this report. These statements and schedules demonstrate compliance with the City's adopted and final revised budgets.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. There are two kinds of proprietary funds, enterprise funds and internal service funds. The City uses one proprietary fund, an enterprise fund to report the activities of its water and wastewater systems. We report these activities in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. The City has no internal service funds.

Fiduciary funds such as employee pension plans are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund City programs. The City's only fiduciary funds are employee pension funds and financial statements are reported appropriately and separate from the City's financial statements.

Notes to the financial statements

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

Other information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information. Other supplementary information includes details by fund for receivables, payables, transfers, and payments within the reporting entity. Supplementary information follows the notes to the financial statements.

Major funds are reported in the basic financial statements as discussed. Combining and individual statements and schedules for non-major funds are presented in a subsequent section of this report.

Financial Analysis of the City as a Whole

The City implemented the new financial reporting model used in this report at the beginning of the year January 1, 2004. Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the City as a whole.

The City's net assets at year-end are \$8,112,942. This is a \$2,191,784 increase over the beginning year's net assets of \$5,921,158. The following table provides a summary of the City's net assets:

Summary of Net Assets
(dollars are in thousands)

	Governmental Activities		Business-Type Activities		Total		Change
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	
Current and other assets	\$ 3,622	\$ 2,811	\$ 1,703	\$ 1,360	\$ 5,325	\$ 4,171	\$ 1,154
Capital assets	<u>1,460</u>	<u>701</u>	<u>3,791</u>	<u>3,120</u>	<u>5,251</u>	<u>3,821</u>	<u>1,430</u>
Total Assets	\$ 5,081	\$ 3,512	\$ 5,494	\$ 4,480	\$ 10,575	\$ 7,992	\$ 2,584
Current and other liabilities	\$ 1,204	\$ 1,093	\$ 508	\$ 152	\$ 1,712	\$ 1,245	\$ 468
Long-term liabilities	<u>-</u>	<u>26</u>	<u>750</u>	<u>800</u>	<u>750</u>	<u>826</u>	<u>(76)</u>
Total Liabilities	\$ 1,204	\$ 1,119	\$ 1,258	\$ 952	\$ 2,462	\$ 2,071	\$ 392
Net Assets:							
Invested in capital assets, net of related debt	\$ 1,433	\$ 649	\$ 2,652	\$ 2,573	\$ 4,085	\$ 3,222	\$ 863
Unrestricted	<u>2,444</u>	<u>1,744</u>	<u>1,584</u>	<u>955</u>	<u>4,028</u>	<u>2,699</u>	<u>1,329</u>
Total Net Assets	\$ 3,877	\$ 2,393	\$ 4,236	\$ 3,528	\$ 8,113	\$ 5,921	\$ 2,192

The City reported positive balances in net assets for governmental and business-type activities. The City's overall position improved during Year 2007.

Comparative data is accumulated and presented to assist in analysis. The following table provides a summary of the City's changes in net assets:

Summary of Changes in Net Assets
(dollars are in thousands)

	Governmental Activities		Business-type Activities		Total		Amount Change	% Change
	2007	2006	2007	2006	2007	2006		
Revenues:								
Program Revenues:								
Charges for services	\$215	\$231	\$1,342	\$1,358	\$1,557	\$1,589	(\$32)	-2.01%
Operating Grants and contributions	0	39	101	71	101	110	(9)	-8.18%
Capital Grants and contributions	450	29	111	0	561	29	532	1834.48%
General Revenues:								
Property Taxes	1,128	1,036	0	0	1,128	1,036	92	8.88%
Intangible and Transfer Taxes	11	16	0	0	11	16	(5)	-31.25%
Franchise Taxes	195	168	0	0	195	168	27	16.07%
Alcoholic Beverage Taxes	138	123	0	0	138	123	15	12.20%
Insurance Premium Taxes	69	65	0	0	69	65	4	6.15%
Interest and Miscellaneous	1,456	78	66	36	1,522	114	1,408	1235.09%
Total Revenues	\$3,862	\$1,785	\$1,620	\$1,465	\$5,282	\$3,250	\$2,032	38.48%
Expenses:								
General Government	\$324	\$231	\$1,362	\$1,392	\$1,686	\$1,623	\$63	3.88%
Police and Courts	376	345	0	0	376	345	31	8.98%
Streets & Roads	422	344	0	0	422	344	78	22.67%
Fire	378	395	0	0	378	395	(17)	-4.3%
Parks and Recreation	85	85	0	0	85	85	0	0.00%
Sanitation	141	122	0	0	141	122	19	15.57%
Interest	3	2	0	0	3	2	1	50.00%
Total Expenses	\$1,729	\$1,524	\$1,362	\$1,392	\$3,091	\$2,916	\$175	6.00%
Transfers	(\$450)	0	450	0	0	0	0	0
Increase (decrease) in net assets	\$1,483	\$261	\$708	\$73	\$2,191	\$334	\$1,857	557.96%
Change in Net Assets	\$1,483	\$261	\$708	\$73	\$2,191	\$334	\$1,857	557.96%
Beginning net assets	2,393	2,132	3,528	3,455	5,921	5,587	334	5.97%
Ending net assets	\$3,876	\$2,393	\$4,236	\$3,528	\$8,112	\$5,921	\$2,191	37.00%

GOVERNMENTAL ACTIVITIES

Property taxes provide 31 percent and other taxes provide 11 percent of the City's revenues from governmental activities. Program revenues including capital grants covered 38 percent of governmental activities operating expenses. The City's other general revenues provide 40 percent of the government activities revenues. The City has a diverse income base which allows the City to cover all of its costs.

BUSINESS-TYPE ACTIVITIES

Revenues of the City's business-type activities, water and wastewater services, increased by 10.6 percent and expenses decreased by 2.2 percent. Although revenues from customer payments decreased by 1.2 percent the City was able to obtain grant funds during the year to assist with maintenance and operations needs.

Financial Analysis of the Town's Funds

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflows and outflows of spendable resource 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 \$2,443,986. Of this year-end total, all is unreserved indicating availability for continuing City service requirements.

The total ending fund balances of governmental funds show an increase of \$699,803 over the prior year. This increase is primarily the result of events and programs described with the analysis of the City's governmental activities.

Major Governmental Funds

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The fund balance of the General Fund increased by \$699,798. The largest factor contributing to the increase was the sale of the City's landfill property. Other contributing factors included a 9.5 percent increase in property tax revenues.

Proprietary Funds

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status. The City has one proprietary fund, a Water and Wastewater enterprise fund. The enterprise fund reported ending net assets of \$4,236,012 which was a \$707,818 increase over the prior year.

Revenues from water and wastewater decreased \$15,834 from the prior year. This was mainly due to the water conservation efforts of the customers of the City due to the severe drought issues facing this region.

General Fund Budgetary Highlights

The General Fund Budget as amended for the year 2007 was \$2,615,596 an increase of \$886,235 over the previous year amended budget. The Council made several budget adjustments during the year which increased their original appropriations by \$989,640. These amendments were mainly due to a contract to purchase property for a new City Hall. The purchase of the property has subsequently taken place and was funded by the sale of the City landfill property.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets net of accumulated depreciation for governmental activities as of December 31, 2007 was \$197,206. (See Note 3) There were no major capital asset additions during the year.

Long-term debt

At the end of the Year the City had total debt outstanding of \$826,415. Of this amount, \$30,226 was for capital leases and \$796,189 was for debt related to the renovation of the wastewater treatment plan. See Notes 8 and 11.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have any questions about this report or would like to request additional information, contact the Assistant City Manager at P. O. Box 21, Clarkesville, Georgia 30523.

BASIC FINANCIAL STATEMENTS

CITY OF CLARKESVILLE
STATEMENT OF NET ASSETS
DECEMBER 31, 2007

EXHIBIT 1

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash	\$ 2,460,383	\$ 1,599,389	\$ 4,059,772
Restricted Cash	-	65,720	65,720
Accounts Receivable - Net	1,080,599	118,549	1,199,148
Internal Balances	80,551	(80,551)	-
Capital Assets			
Construction in Progress	948,938	736,567	1,685,505
Land	313,572	24,000	337,572
Depreciable, Net	197,206	3,030,543	3,227,749
Total Assets	\$ 5,081,249	\$ 5,494,217	\$ 10,575,466
<u>LIABILITIES</u>			
Accounts Payable	\$ 10,000	\$ -	\$ 10,000
Customer Deposits	-	118,732	118,732
Construction Loan	-	339,830	339,830
Long-Term Debt			
Due Within One Year	26,772	49,238	76,010
Due Beyond One Year	-	750,405	750,405
Deferred Income	1,167,547	-	1,167,547
Total Liabilities	\$ 1,204,319	\$ 1,258,205	\$ 2,462,524
<u>NET ASSETS</u>			
Invested in Capital Assets			
Net of Related Debt	\$ 1,432,944	\$ 2,651,637	\$ 4,084,581
Unrestricted Net Assets	2,443,986	1,584,375	4,028,361
Total Net Assets	\$ 3,876,930	\$ 4,236,012	\$ 8,112,942

The accompanying notes are an integral part of this statement

EXHIBIT 2

CITY OF CLARKESVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Government Activities	Business-Type Activities	Total	
PRIMARY GOVERNMENT								
Government Activities								
General Government	\$ 324,345	\$ 48,290	\$ -	\$ 350,000	\$ 73,945	\$ -	\$ 73,945	
Police and Courts	375,831	40,790	-	-	(335,041)	-	(335,041)	
Streets and Roads	421,509	-	-	-	(421,509)	-	(421,509)	
Fire	378,316	48,774	-	100,000	(229,542)	-	(229,542)	
Parks and Recreation	84,972	8,484	-	-	(76,488)	-	(76,488)	
Sanitation	141,007	68,296	-	-	(72,711)	-	(72,711)	
Interest	2,768	-	-	-	(2,768)	-	(2,768)	
Total Government Activities	\$ 1,728,748	\$ 214,634	\$ -	\$ 450,000	\$ (1,064,114)	\$ -	\$ (1,064,114)	
Business-Type Activities								
Water and Wastewater	1,362,112	1,342,520	100,936	110,557	-	191,901	191,901	
Total Primary Government	\$ 3,090,860	\$ 1,557,154	\$ 100,936	\$ 560,557	\$ (1,064,114)	\$ 191,901	\$ (872,213)	
General Revenues								
Taxes:								
Property					\$ 1,128,224	\$ -	\$ 1,128,224	
Intangible and transfer					11,125	-	11,125	
Franchise					195,049	-	195,049	
Beer and Wine					138,387	-	138,387	
Insurance Premium					69,477	-	69,477	
Unrestricted investment earnings					126,980	57,917	184,897	
Miscellaneous					1,328,838	8,000	1,336,838	
Total General Revenues					\$ 2,998,080	\$ 65,917	\$ 3,063,997	
Transfers					\$ (450,000)	\$ 450,000	\$ -	
Change in Assets					\$ 1,483,966	\$ 707,818	\$ 2,191,784	
Net Assets-Beginning					\$ 2,392,964	\$ 3,528,194	\$ 5,921,158	
Net Assets-End					\$ 3,876,930	\$ 4,236,012	\$ 8,112,942	

The accompanying notes are an integral part of this statement

CITY OF CLARKESVILLE
BALANCE SHEET
GOVERNMENT FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

EXHIBIT 3

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 2,459,279	\$ 1,104	\$ 2,460,383
Accounts Receivable - Net	1,080,599	-	1,080,599
Due from Other Funds	80,551	-	80,551
TOTAL ASSETS	\$ 3,620,429	\$ 1,104	\$ 3,621,533
LIABILITIES			
Accounts Payable	\$ 10,000	\$ -	\$ 10,000
Deferred Revenue	1,167,547	-	1,167,547
TOTAL LIABILITIES	\$ 1,177,547	\$ -	\$ 1,177,547
FUND BALANCES			
Unreserved - General Fund	\$ 2,442,882	\$ -	\$ 2,442,882
Unreserved - Special Revenue	-	1,104	1,104
TOTAL FUND BALANCES	\$ 2,442,882	\$ 1,104	\$ 2,443,986
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,620,429	\$ 1,104	\$ 3,621,533
Adjustments to the Statement of Net Assets			
Fund Balance			\$ 2,443,986
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds			1,459,716
Long-Term liabilities are not due and payable in the period, and therefore, are not reported in current period			(26,772)
Net Assets of Governmental Activities (Exhibit 1)			\$ 3,876,930

The accompanying notes are an integral part of this statement

CITY OF CLARKESVILLE
 STATEMENTS OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 GOVERNMENT FUND
 FOR THE YEAR ENDED DECEMBER 31, 2007

EXHIBIT 4

	General Fund	SPLOST Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 1,542,261	\$ -	\$ -	\$ 1,542,261
Licenses and Permits	48,290	-	-	48,290
Intergovernmental Revenues	-	450,000	-	450,000
Charges for Services	134,404	-	-	134,404
Fines and Forfeitures	40,790	-	-	40,790
Miscellaneous	1,446,963	-	5	1,446,968
TOTAL REVENUES	\$ 3,212,708	\$ 450,000	\$ 5	\$ 3,662,713
EXPENDITURES				
CURRENT:				
General Government	\$ 1,165,615	\$ -	\$ -	\$ 1,165,615
Police and Courts	370,490	-	-	370,490
Streets and Roads	390,695	-	-	390,695
Parks and Recreation	67,729	-	-	67,729
Sanitation	141,007	-	-	141,007
Fire	349,178	-	-	349,178
CAPITAL OUTLAY				
Principal Retirement	25,428	-	-	25,428
Interest	2,768	-	-	2,768
TOTAL EXPENDITURES	2,512,910	-	-	2,512,910
REVENUES OVER EXPENDITURES	\$ 699,798	\$ 450,000	\$ 5	\$ 1,149,803
OTHER FINANCING SOURCES				
Transfer Out	-	(450,000)	-	(450,000)
NET CHANGES IN FUND BALANCE	\$ 699,798	\$ -	\$ 5	\$ 699,803
FUND BALANCE, JANUARY 1, 2007	1,743,084	-	1,099	1,744,183
FUND BALANCE, DECEMBER 31, 2007	2,442,882	-	1,104	2,443,986

**CITY OF CLARKESVILLE
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

EXHIBIT 4

Net Change in Fund Balance	\$ 699,803
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost those assets allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which Capital Outlay (\$850 000) exceeded Depreciation (\$91 264)	758,736
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which payments (\$25 427) exceed proceeds (\$0).	<u>25,427</u>
Change in assets of governmental activities (Exhibit 2)	<u><u>\$ 1,483,966</u></u>

The accompanying notes are an integral part of this statement

CITY OF CLARKESVILLE
 STATEMENTS OF NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2007

EXHIBIT 5

	Water and Wastewater Enterprise Fund
<u>ASSETS</u>	
CURRENT ASSETS	
Cash on Hand and in Bank	\$ 1,599,389
Accounts Receivable - Net	118,549
Total Current Assets	\$ 1,717,938
NON CURRENT ASSETS	
Restricted Cash - Tap Fees	\$ 65,720
CAPITAL ASSETS	
Land	\$ 24,000
Construction in Progress	736,567
Depreciable Assets, Net	3,030,543
Total Assets	\$ 3,791,110
Total Assets	\$ 5,574,768
<u>LIABILITIES AND FUND EQUITY</u>	
CURRENT LIABILITIES	
Accounts Payable	\$ -
Customer Deposits	118,732
Due to Other Funds	80,551
Construction Loan	339,830
Long Term Debt - Due Within One Year	49,238
Total Current Liabilities	\$ 588,351
NON CURRENT LIABILITIES	
Revenue Bonds Payable	\$ 750,405
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	\$ 2,651,637
Unrestricted Assets	1,584,375
Total Net Assets	\$ 4,236,012
Total Liabilities and Net Assets	\$ 5,574,768

The accompanying notes are an integral part of this statement

CITY OF CLARKESVILLE
 STATEMENT OF REVENUES, EXPENSES, AND NET FUND ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2007

EXHIBIT 6

	<u>Water and Wastewater Enterprise Fund</u>
<u>OPERATING REVENUES:</u>	
Water and Sewer Fees	\$ 1,233,046
Meter Installation	95,294
Sewer Tap-On	11,900
Back Flow Devices	<u>2,280</u>
Total Operating Revenues	<u>\$ 1,342,520</u>
<u>OPERATING EXPENSES:</u>	
General Expenses	\$ 254,875
Water Treatment Plant	391,018
Sewer Treatment Plant	199,589
Distribution and Lines	325,066
Depreciation	<u>156,109</u>
Total Operating Expenses	<u>\$ 1,326,657</u>
OPERATING INCOME	<u>\$ 15,863</u>
NON OPERATING REVENUES (EXPENSES)	
Grants	\$ 211,493
Interest Income	57,917
Other	8,000
Bond Interest Expense	<u>(35,455)</u>
NET NON OPERATING REVENUES	<u>\$ 241,955</u>
INCOME BEFORE TRANSFERS	257,818
TRANSFERS IN	450,000
CHANGE IN NET ASSETS	\$ 707,818
TOTAL NET ASSETS BEGINNING	<u>3,528,194</u>
TOTAL NET ASSETS ENDING	<u>\$ 4,236,012</u>

The accompanying notes are an integral part of this statement

CITY OF CLARKESVILLE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
DECEMBER 31, 2007

EXHIBIT 7

	Water and Wastewater Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customer	\$ 1,392,770
Payments to Suppliers	835,065
Payments to Employees	340,602
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 217,103</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers In	\$ 450,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest Paid	\$ (35,455)
Principal Paid on Bonds	(47,128)
Grants	211,493
Purchased Capital Assets	(827,503)
Construction Loan	339,830
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ (358,763)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Earned	<u>\$ 57,917</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 366,257
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,298,852</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,665,109</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities	
Operating Income	<u>\$ 15,863</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities	
Depreciation	\$ 156,109
Decrease in Accounts Payable	(5,119)
Increase in Customer Deposits	19,053
Decrease in Accounts Receivable	23,197
Other Income	8,000
TOTAL ADJUSTMENTS	<u>\$ 201,240</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 217,103</u>

The accompanying notes are an integral part of this statement

CITY OF CLARKESVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

The City of Clarkesville operates under a mayor-council form of Government. The city's combined financial statements include the accounts of all the city operations.

The financial statements of the City of Clarkesville have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The criteria for including organizations as component units within the City's reporting entity, as set forth in section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, includes whether:

- the organization is legally separate
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is a fiscal dependency by the organization on the City

Related Organizations

The Housing Authority of the City of Clarkesville administers federal funding and/or other financing for improvement of housing conditions in the City. The five citizens who serve as the governing board are appointed by the City Commission. The City has no significant influence over the management, budget, or policies of the Clarkesville Housing Authority. The Authority reports independently.

The City of Clarkesville has elected to treat the Downtown Development Authority as a discreetly presented component unit. The Authority did not adopt an annual budget in 2007 and was essentially dormant for the year. Additional financial information on the Authority can be obtained from the City.

B. Basis of Presentation – Fund Accounting

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The statement, known as the "Reporting Model" statement, affects the way the City prepares financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private sector financial reports. GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions.

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The City generally first uses restricted assets

CITY OF CLARKESVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transaction. The government-wide Statement of Activities reflects both the gross and net cost per functional category (recreation, public safety, streets and sanitation, etc.) which is otherwise being supported by general government revenues (property, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions.

The program revenues must be directly associated with the function (public safety, public works, recreation, etc.) or a business-type activity. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental funds are presented on a different measurement focus and basis of accounting than the government-wide statement's governmental column, reconciliation is presented which briefly explains the adjustment necessary to reconcile funds based on financial statements with the governmental column of the government-wide presentation.

The focus of the revised model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

Management's Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

Government-Wide Financial Statements – The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and other capital assets, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

Schedule of Net Assets – The Schedule of Net Assets is designed to display the financial position of the primary government (government and business-type activities). Governments will report all capital assets in the government-wide Schedule of Net Assets and will report depreciation expense-the cost of "using up" capital assets-in the Schedule of Activities. The net assets of a government will be broken down into three categories 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Schedule of Program Activities – The new government-side statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

Budgetary Comparison Schedules – Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons. Under the new reporting model, governments will continue to provide budgetary comparison information in their annual reports. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

CITY OF CLARKESVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objective in accordance with special regulations, restrictions, or limitations.

1. Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed.

General Fund

The General Fund is the primary operating fund of the City and is always classified as a major fund. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income.

2. Proprietary Funds

Proprietary Funds are used to account for activities that are similar to those found in the private sector. All assets, liabilities, equities, revenues, expense, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Operating revenues include charges for services. Subsidies and grants to proprietary funds which finance either capital or current operations are recorded as non-operating revenue when earned. Operating expenses include cost of service as well as, materials, contracts, personnel, and depreciation. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, the City has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for proprietary funds.

Enterprise Fund or Business Funds

The Enterprise Fund accounts for operations that are financed in a manner similar to private business enterprise, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's Enterprise Fund accounts for the operations of the City's water and wastewater system which is a major fund.

3. Policy of Using Restricted Resources

The City first applies unrestricted resources when an expense for purposes for which both restricted and unrestricted net assets are available.

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus, only current assets and current liabilities generally are include on the balance sheet in the fund statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statements of net assets and statements of activities, all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the balance sheet. Proprietary fund equity is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

CITY OF CLARKESVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

The fund financial statements of the General Fund and the Special Revenues Fund are maintained and reported on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within sixty days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

The statements of net assets, statements of activities, and financial statements of the Proprietary Fund are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

D. Budgets and Budgetary Accounting

The City Commission annually adopts budgets for the General Fund of the Primary Government. All appropriations are legally controlled at the departmental level for the General Fund. On December 6, 2006, the City Commission adopted the original budget which was amended on December 3, 2007.

Expenditures may not legally exceed appropriations at the department level. Transfers within departments may be approved by the City Clerk. Transfers between departments may be approved by the City Commission. A supplementary budget appropriation would be necessary to support expenditures in excess of the annual appropriated budget.

The budgets are integrated into the accounting system, and the budgetary, as presented in financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the Budgetary Comparison Schedule for the General Fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders, contracts and other commitments for the expenditures are recorded to reserve that portion other applicable appropriation is not utilized by the City of Clarkesville.

E. Cash and Investments

Cash includes amounts in demand deposits. State statutes include certificates of deposit and bank money market accounts within its definition of investments and this is the manner in which they are presented on the balance sheet. State statutes authorize the City to invest only in obligations of the United States and of its agencies and instrumentalities, or bonds or certificates of indebtedness of the State of Georgia and of its agencies and instrumentalities, or certificates of deposit of banks which have deposits insured by the FDIC with any uninsured cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

F. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the Proprietary Funds are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billings during the month following the close of the year.

G. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

CITY OF CLARKESVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

H. Inventories

It is the City's policy to expense parts as they are purchased. No inventory is recorded due to lack of materiality.

I. Prepaid Expenses

Prepaid expenses are recognized as expenses during the benefiting period in proprietary funds.

J. Capital Assets

Capital outlays are recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent of the City's capitalization threshold is met. The City capitalizes asset purchase valued at \$5,000 or more. Depreciation is recorded on general capital assets on a government-wide basis. Capital outlays of the Proprietary Fund are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the government-wide basis. All capital assets are valued at their estimated fair market value on the date donated.

The estimated useful lives are as follows:

Buildings	20-40 years
Utility Plant and System	30-35 years
Equipments	5-7 years

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sales or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

K. Long-Term Obligations

The City reports long-term debt of governmental funds at face value in the Government-wide Statement of Net Assets. Long-term debt is not reported for governmental activities in the fund financial statements. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in both the government-wide and fund financial statements.

L. Fund Equity/Net Assets

In the Government-wide Financial Statements, net assets are classified in the following categories: Invested Capital Assets, Net of Related Debt - This category groups all capital assets into one component of net assets, accumulated depreciation and the outstanding balance of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category. Restricted Net Assets - This category presents external restrictions imposed by bond ordinances. Unrestricted Net Assets - This category represents the net assets of the City, which are not restricted for any project or other purpose.

M. Internal Activity

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and 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 noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

CITY OF CLARKESVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

N. Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

O. Program Revenues

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

P. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 enterprise fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

State statutes include certificates of deposit and bank money market accounts within its definition of investments and this is the manner in which they are presented on the balance sheet. To conform to GASB Statement No. 3 definitions of deposits and investments, however, these certificates of deposit and money market accounts have been reclassified from investments to deposits for the data presented below.

At December 31, 2007, the carrying amount of the City's deposits was \$ 4,125,492 and the bank balances were \$ 4,205,533. All bank balances of deposits as of December 31, 2007 are entirely insured or collateralized with securities held by the City or by its agent in the City's name.

NOTE 3 – CAPITAL ASSETS

The following is a summary of changes in the governmental activities during the fiscal year:

	Balance 1/01/07	Additions	Deletions	Balance 12/31/07
Non-Depreciable Assets-Land	\$ 313,572	\$ -	\$ -	\$ 313,572
Construction in Progress	\$ 98,938	\$ 850,000	\$ -	\$ 948,938
Other Capital Assets				
Buildings	\$ 464,614	\$ -	\$ -	\$ 464,614
Machinery and Equipment	1,115,461	-	-	1,115,461
Total Depreciable Assets	\$ 1,580,075	\$ -	\$ -	\$ 1,580,075
Less: Accumulated Depreciation for:				
Buildings	(272,121)	(11,888)	-	(284,009)
Machinery and Equipment	(1,019,483)	(79,377)	-	(1,098,860)
Net Depreciable Assets	\$ 288,471	\$ (91,265)	\$ -	\$ 197,206

CITY OF CLARKESVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

Construction In Progress

On December 5, 2006 the City entered into an agreement to purchase land and buildings to be used as a City Hall for \$ 948,938. The City has paid for the property in full and is now renovating it.

Depreciation was charged to governmental functions as follows:

General Government Administration	\$ 8,730
Police and Courts	5,341
Streets	20,467
Fire	29,137
Parks and Recreation	17,243
Sanitation	10,347
Total	<u><u>\$ 91,265</u></u>

The following is a summary of proprietary fund-type fixed assets at December 31, 2007:

	Balance 1/01/07	Additions	Deletions	Balance 12/31/07
Non-Depreciable Assets				
Land and Improvements	\$ 24,000	\$ -	\$ -	\$ 24,000
Construction in Progress	<u>\$ 79,164</u>	<u>\$ 657,403</u>	<u>\$ -</u>	<u>\$ 736,567</u>
Other Capital Assets				
Water system	\$ 1,989,221	\$ 170,100	\$ -	\$ 2,159,321
Sewer System	2,231,899	-	-	2,231,899
Machinery & Equipment	534,418	-	-	534,418
Auto and Trucks	40,653	-	-	40,653
Total Depreciable Assets	<u>\$ 4,796,191</u>	<u>\$ 170,100</u>	<u>\$ -</u>	<u>\$ 4,966,291</u>
Less: Accumulated Depreciation for:				
Water System	\$ (917,379)	\$ (50,366)	\$ -	\$ (967,745)
Sewer System	(660,480)	(68,448)	-	(728,928)
Machinery and Equipment	(170,919)	(34,420)	-	(205,339)
Auto and Trucks	(30,861)	(2,875)	-	(33,736)
Net Depreciable Assets	<u>\$ 3,016,552</u>	<u>\$ 13,991</u>	<u>\$ -</u>	<u>\$ 3,030,543</u>

The City is in the process of building two water tanks and water lines for the Water System. The total estimated cost of the project is 2.5 million dollars and will be funded by a grant of \$300,000, the Habersham County Special Purpose Local Option Sales Tax will provide \$450,000 with the remaining balances being paid by a GEFA loan and savings. As of December 31, 2007, the City has paid \$ 736,567 on this project.

NOTE 4 – INTERFUND RECEIVABLES AND PAYABLES

During normal operations, the City will occasionally pay for goods and services or transfer monies between the General and Sewer Funds. At December 31, 2007, the Water and Wastewater Fund owed the General Fund \$ 80,551. There have been no eliminations between or within fund types.

CITY OF CLARKESVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 5 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Agency Property and Liability Insurance Fund and the Georgia Municipal Association Group Self-Insurance Workers Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for member local governments.

Pursuant to Title 34, Chapter 9, Article 5 of the official code of Georgia Annotated, the City of Clarkesville became a member of the Georgia Municipal Association Workers' Compensation Self Insurance Fund. The liability of the fund to the employees of any employer (City of Clarkesville) is specifically limited to such obligations as are imposed by applicable state laws against the employer for workers' compensation and/or employer's liability.

As a part of these risk pools, the Government 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 fund, and 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 Government is also to allow the pool's agents and attorneys to represent the Government in investigation, settlement discussions and all levels of litigation arising out of any claim against the Government within the scope of loss protection furnished by the fund.

The Fund is to defend, in the name of and on behalf of the members, any suits or other proceedings which may at any time be instituted against them on account of injuries or death within the preview of the Workers' Compensation Law of Georgia, or on the basis of employer's liability, including suits or other proceedings, allegations or demands be wholly groundless, false or fraudulent. The fund is to pay all cost taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expense incurred for investigation, negotiation or defense.

There have been no insurance settlements exceeding coverage within the past three years.

NOTE 6. EMPLOYEE RETIREMENT SYSTEM

A. PLAN DESCRIPTION

The City contributes to the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer defined benefit pension plan that acts as a common investment and administrative agent for cities in the municipalities in Georgia. The City is assigned the authority to establish and amend benefit provisions of the Plan. The Plan provides retirement and disability Benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Section 47-20-10 of the Georgia Code sets forth the funding standards for state and local government pension plans. Administrative expenses are based on total covered payroll of plan members and are added to the annual funding requirement. The GMEBS issues a publicly available financial report that includes financial statements and required supplementary information for the City of Clarkesville retirement plan. That report may be obtained by writing to Georgia Municipal Association, 201 Pryor Street, SW, Atlanta, Georgia 30303 or by calling 404-688-0472.

Funding Policy

City employees are not required to contribute to the Plan. The City is required to contribute at an actuarially determined rate; the current rate is 5.90% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the Georgia Municipal Employees Benefit System Board of Trustees.

Annual Pension Cost

For 2007, the City's annual pension cost of \$ 62,826 to GMEBS was equal to the City's required and actual contributions. The last actuarial valuation date was September, 2007. The funding policy for the plan is to contribute an amount equal to the recommended contribution in each year. The

CITY OF CLARKESVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

recommended contribution meets the guidelines for calculating an annual required contribution set forth in Paragraphs 9-10 of Statement No. 27. These contributions are determined under the projected unit credit actuarial cost method and the asset valuation method for developing the actuarial value of assets. 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 provisions and 30 years for actuarial assumptions and cost methods as a level dollar amount. These amortization periods, if applicable, are open for this plan year.

To minimize the effect of random variations in financial market values on the recommended contribution, the Board of Trustees adopted an asset valuation method for use in the calculation. The method for determining the actuarial value of assets is part of GMEBS actuarial funding policy. The smoothing technique gradually incorporates investment performance that exceeds or falls short of the expected return of 8%, which is the valuation's investment return assumption.

<u>Fiscal Year Ending</u>	<u>Annual Pension</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/2005	43,448	100.00%	0
9/30/2006	44,649	100.00%	0
9/30/2007	62,826	100.00%	0

Funding Status:

<u>Actuarial Valuation Date Sept. 1</u>	<u>Actuarial Value Of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Annual Covered Payroll</u>	<u>Unfunded AAL AS Percentage Of Covered Payroll</u>
2005	\$ 928,484	\$ 894,734	103.80%	\$ (33,750)	\$ 897,156	(3.80)%
2006	1,001,738	844,279	118.70	(157,459)	820,912	(19.20)
2007	1,068,712	1,146,290	93.23	77,578	1,065,428	7.28

Effect of plan changes on the actuarial accrued liability of any current year changes in assumption or benefit provisions is:

The plan provision valued and the actuarial assumptions are the same as those used in the preceding valuation. The actuarial assumptions have been changed since the preceding year and the effect will be provided upon request.

The effect on the recommended contributions of any current year changes in actuarial assumptions, benefit provisions or actuarial funding method is:

The plan provisions valued and the actuarial assumptions and cost methods are the same as those used to determine the contribution requirement for the preceding year and the effect will be provided upon request.

CITY OF CLARKESVILLE
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2007

Actuarial Assumptions and methods:

Economic Assumptions	
Interest Rate	8.0%
Annual Rates of Increase in:	
Salaries: Inflation	5.0
Merit	0.5
Future Social Security Wage Bases	5.5
Cost of Living Adjustment	N/A

Demographic Assumptions

Mortality	1983 GAM Table	
Termination	Age	Rate
	20	.2580
	30	.1560
	40	.0945
	50	.0585
	60	-

Disability	50% of 1975 SSA Study
Retirement	Employees: 65 with 5 years of service
Form of Payment	Life annuity
Administrative Expenses	\$5,000 plus \$50 per participant, plus 0.05% of the market value of the assets.

Changes in Assumptions: The administrative expenses are now determined as a flat base amount plus a flat amount per participant plus a percentage of the market value of assets. There have been no other changes in actuarial assumptions since the last valuation.

NOTE 7. CONTINGENT LIABILITIES - GRANT PROGRAMS

The City participated in state and Federal grant programs. These programs are subject to program compliance audits by the grantors or their representatives.

NOTE 8. CAPITAL LEASES

The City has entered into lease agreements as lessee for financing the acquisition of equipment for the General Fund. These lease agreements qualify as capital leases for accounting purposes (bargain purchase option) and therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

In 2006, the City leased a truck and a police car, at a cost of \$ 45,000.00. The minimum payments and present value of the lease payments and the minimum lease payments are as follows:

	General Fund	Water Fund
2008 Payments	\$ 28,195	\$ 3,683
Less: Interest Portion	<u>(1,423)</u>	<u>(229)</u>
Present Value of Future Payments	<u>\$ 26,772</u>	<u>\$ 3,454</u>

CITY OF CLARKESVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 9. PROPERTY TAX CALENDAR

The City levies property tax in the fall of each year. The 2006 millage was set on October 19, 2006 the due date was March 10, 2007, liens on uncollected taxes were filed on May 1. Taxes are collected throughout the year. Receivables are recorded when the taxes are levied.

The net 2006 property assessment was \$149,217,062 of real and personal property. The 2006 property is taxed at 6.15 mills and the tax due after exemptions and adjustments was \$ 1,036,918 and was recognized in 2007.

NOTE 10. JOINT VENTURES

Under Georgia law, the City, in conjunction with other cities and counties in the northeast Georgia area, is a member of the Georgia Mountains Regional Development Center (RDC). Membership in an RDC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the RDC in Georgia. The RDC 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 an RDC. Separate financial statements may be obtained from:

Georgia Mountains Regional Development Center
P.O. Box 1720
Gainesville, Georgia 30503

CITY OF CLARKESVILLE
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2007

NOTE 11. REVENUE BONDS AND NOTES PAYABLE

On December 20, 2000 the City borrowed \$ 1,059,406 to pay on the renovation of the wastewater treatment plant. Principal and interest are due in quarterly payments of \$ 19,725 including interest at 4% per annum beginning April 1, 2001 as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 45,784	\$ 33,115
2009	47,761	31,138
2010	49,824	29,075
2011	51,975	26,924
2012	54,219	24,680
2013	56,561	22,338
2014	59,003	19,896
2015	61,551	17,348
2016	64,209	14,690
2017	66,982	11,917
2018	69,874	9,025
2019	72,891	6,008
2020	76,039	2,860
2021	19,516	390
	<u>\$ 796,189</u>	<u>\$ 249,404</u>

CITY OF CLARKESVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 12. HOTEL-MOTEL TAX

The City did not collect any Hotel-Motel Tax during 2007.

NOTE 13. LITIGATION AND CONTINGENT LIABILITIES

The City is not aware of any litigation or other contingent liabilities either in effect or pending against itself.

NOTE 14. LONG TERM DEBT

Changes in Long Term Debt:

<u>Governmental Activities</u>	<u>Balance 1-1-07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12-31-07</u>	<u>Due Within One Year</u>
Capital Leases	\$ 52,200	\$ -	\$ 25,428	\$ 26,772	\$ 26,772
<u>Business Type Activities</u>					
GEFA Loan and Revenue Bond	\$ 840,079	\$ -	\$ 43,890	\$ 796,189	\$ 45,784
Capital Leases	6,692	-	3,238	3,454	3,454
	<u>\$ 846,771</u>	<u>\$ -</u>	<u>\$ 47,128</u>	<u>\$ 799,643</u>	<u>\$ 49,238</u>

**CITY OF CLARKESVILLE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

EXHIBIT 8

	<u>Original Budget</u>	<u>Budget As Amended</u>	<u>Actual</u>	<u>Variance From Amended</u>
REVENUES				
Taxes	\$ 1,406,363	\$ 1,406,363	\$ 1,542,261	\$ 135,898
Licenses and Permits	54,950	54,950	48,290	(6,660)
Intergovernmental Revenues	2,500	452,500	450,000	(2,500)
Charges for Services	125,480	125,480	134,404	8,924
Fines and Forfeitures	29,500	29,500	40,790	11,290
Miscellaneous	14,854	14,854	1,446,968	1,432,114
TOTAL REVENUES	<u>\$ 1,633,647</u>	<u>\$ 2,083,647</u>	<u>\$ 3,662,713</u>	<u>\$ 1,579,066</u>
EXPENDITURES				
CURRENT				
General Government	\$ 362,453	\$ 1,245,453	\$ 1,165,615	\$ 79,838
Police and Courts	348,002	371,000	370,490	510
Streets and Roads	375,685	391,000	390,695	305
Parks and Recreation	56,000	70,007	67,729	2,278
Sanitation	152,136	162,136	141,007	21,129
Fire	331,680	350,000	349,178	822
CAPITAL OUTLAYS				
Principal Retirement	-	26,000	25,428	572
Interest	3,684	3,684	2,768	916
TOTAL EXPENDITURES	<u>\$ 1,629,640</u>	<u>\$ 2,619,280</u>	<u>\$ 2,512,910</u>	<u>\$ 106,370</u>
REVENUES OVER EXPENDITURES	<u>\$ 4,007</u>	<u>\$ (535,633)</u>	<u>\$ 1,149,803</u>	<u>\$ 1,685,436</u>
Transfer Out	-	(450,000)	(450,000)	-
NET CHANGES IN FUND BALANCE	<u>\$ 4,007</u>	<u>\$ (985,633)</u>	<u>\$ 699,803</u>	<u>\$ 1,685,436</u>

**CITY OF CLARKESVILLE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 1 – BUDGETARY DATA

The city is required by law to adopt a budget. The procedures in establishing the budgetary data reflected in the financial statements are as follows:

1. Prior to January 1, the City Clerk submits to the City Commission a proposed operating budget for the fiscal year commencing January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at City Hall to obtain taxpayer comments.
3. Prior to January 1, the Commission approves the budget.
4. The City Clerk is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any department must be approved by the City Commission.
5. Formal budgetary integration is employed as a management control device during the year for all funds.

The Budgetary Comparison Schedule presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended.

Expenditures may not legally exceed budgeted appropriations at the departmental level in the general fund. The Enterprise Funds adopt a budget at the fund level. No eliminations have been made between funds.

Jack P. Green, Jr.

CERTIFIED PUBLIC ACCOUNTANT

27 WEST DOYLE STREET
POST OFFICE BOX 342
TOCCOA, GEORGIA 30577
PHONE: 706/886-7143

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
GEORGIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

May 8, 2008

INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF
SPECIAL PURPOSE LOCAL OPTION SALES TAX

Mayor and Council
City of Clarkesville
Clarkesville, Georgia

I have audited the accompanying Schedule of Special Purpose Local Option Sales Tax for the City of Clarkesville, Georgia for the year ended December 31, 2007. This Schedule is the responsibility of the City of Clarkesville, Georgia's management. My responsibility is to express an opinion on the Schedule of Special Purpose Local Option Sales Tax based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the Schedule of Special Purpose Local Option Sales Tax is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Special Purpose Local Option Sales Tax. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation on the Schedule of Special Purpose Local Option Sales Tax. I believe that my audit provides a reasonable basis for my opinion.

The accompanying Schedule of Special Purpose Local Option Sales Tax is prepared for the purpose of complying with the Official Code of Georgia Annotated, 48-8-121 on the modified accrual basis of accounting as described in Note 1 and is not intended to be a complete presentation of the City of Clarkesville, Georgia's revenues and expenditures.

In my opinion, the Schedule of Special Purpose Local Option Sales Tax referred to above presents fairly, in all material respects, the original estimated cost, the current estimated cost, and the current and prior year expenditures for each project of the City of Clarkesville, Georgia for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Jack P. Green, Jr.

CITY OF CLARKESVILLE
 SCHEDULE OF SPECIAL PURPOSE LOCAL OPTION SALES TAX
 FOR THE YEAR ENDED DECEMBER 31, 2007

EXHIBIT 9

Project SPLOST #4	Estimated Costs		Expenditures		Estimated Percentage of Completion
	Original	Prior Years	Current Year	Total	
Water Development	\$ 390,489	\$ -	\$ 350,000	\$ 350,000	90%
Roads and Bridges	157,719	-	-	-	0%
Public Safety- Fire Equipment	152,673	29,170	100,000	129,170	85%
	<u>\$ 700,881</u>	<u>\$ 29,170</u>	<u>\$ 450,000</u>	<u>\$ 479,170</u>	

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TOCCOA, GEORGIA 30577
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May 8, 2008

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

To the Mayor and City Council
City of Clarkesville, Georgia

I have audited the financial statements of the governmental activities, business-type activities, and each major fund of the city of Clarkesville, as of and for the year ended December 31, 2007, which collectively comprise the City of Clarkesville, Georgia's basic financial statements and have issued my report thereon dated May 8, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and with the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management of employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of deficiencies, that adversely affects the City of Clarkesville, Georgia's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Clarkesville, Georgia's financial statements that is more than inconsequential will not be prevented or detected by the City of Clarkesville, Georgia's internal control.

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

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

Compliance

As part of obtaining reasonable assurance about whether the City of Clarkesville's financial statements are free of material misstatement, I 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 such an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

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

Jack P. Green, Jr.