CITY OF YOUNG HARRIS, GEORGIA
FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2008

CITY OF YOUNG HARRIS, GEORGIA
FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2008

TABLE OF CONTENTS

Page

FINANCIAL SECTION
- Independent Auditor's Report 1
- Management's Discussion and Analysis 2-7
- Basic Financial Statements:
  - Government-wide Financial Statements:
    - Statement of Net Assets 8
    - Statement of Activities 9
  - Fund Financial Statements:
    - Balance Sheet – Governmental Funds 10
    - Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 11
    - Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds 12
    - Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 13
    - Statement of Net Assets – Proprietary Funds 14
    - Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds 15
    - Statement of Cash Flows – Proprietary Funds 16
  - Notes to Financial Statements 17-30
- Required Supplementary Information:
  - Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – General Fund 31
  - Notes to Supplementary Information 32

INTERNAL CONTROL AND COMPLIANCE SECTION
- Report on Internal Control Over Financial Reporting and on Compliance Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 33-34
- Schedule of Findings and Responses 35-36

*****

LAND
& ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members
of the City Council
City of Young Harris, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Young Harris, Georgia as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Young Harris, Georgia's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City of Young Harris, Georgia as of December 31, 2008, 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*, we have also issued our report dated March 13, 2009 on our consideration of the City of Young Harris, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 7 and 31 through 32, 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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Land & Associates

Ellijay, Georgia
March 13, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL REPORT
CITY OF YOUNG HARRIS, GEORGIA
DECEMBER 31, 2008

Our discussion and analysis of Young Harris's financial performance provides an overview of the City's financial activities for the fiscal year ending December 31, 2008. Please review in conjunction with the transmittal letter and the City's financial statements.

REVIEWING THE ANNUAL REPORT:

The annual report covers multiple financial statements. The Statement of Net Assets and the Statement of Activities supply data about the activities of the city as a whole and provide thorough information regarding the City's finances. For government activities, these statements show how services were financed and what remains for future spending. Fund financial statements show city operations in more detail than government-wide statements as they provide information about the City's most important funds.

FINANCIAL HIGHLIGHTS

Due to this year's operations, the City's net assets are as follows: Net assets of business-type activities were **$2,749,940** compared to **$2,818,937** in 2007 and net assets of governmental activities were **$1,323,151** compared to **$1,294,285** in 2007.

- The current year's expense total was **$281,773** compared to **$271,297** last year. The City generated **$269,447** in tax and other revenues for governmental programs compared to **$336,297** last year.

- For business-type activities, city revenues were **$349,133** compared to **$437,084** in 2007. Expenses were **$428,545** compared to **$393,962** in 2007. These figures are before Depreciation. Of these revenues, **$189,309** were generated by Water and **$159,824** were generated by Sewer charges.

- The yearly cost for all city programs was **$710,318** compared to **$665,259** in 2007.

THE CITY AS A WHOLE ANALYSIS

Since the Statement of Net Assets and the Statement of Activities provide facts about the city as a whole, the statements can help determine if a city has improved or deteriorated as a result of the year's activities. All assets and liabilities are included in the statements using the accrual basis of accounting. The accrual method is comparable to the accounting used by most private corporations. All current year revenues and expenses are included. It does not matter when cash is paid or received.

These statements give an account of the City's net assets and any changes in those assets. However, to truly judge the condition of the city, some non-financial factors must be considered. For example, a change in the tax base could greatly affect the statements.

The Statement of Net Assets and the Statement of Activities divide the city into two types of activities:

1) **Governmental activities**: The City's basic services are accounted for in this section, including fire, public works, parks and general administration. Property taxes, franchise fees, business licenses, and local option sales taxes finance the majority of these activities.
2) **Business-type activities**: Items included in this section are services for which the city charges a fee to help cover all or most of the cost of the service it provides. The city water and sewer system are reported here.

DETAILING THE MOST IMPORTANT FUNDS

The fund financial statements cover detailed information about the most important funds of the City. Certain funds are mandated by State law and by Bond agreements. Other funds are established to manage money, meet legal requirements or for certain taxes or grants.

- **Government Funds**: Basic services are reported in government funds. This section details how money flows in and out of the funds and covers the balances left at year-end that are left on hand for disbursement. Government funds are reported using an accounting method called modified accrual accounting. This method measures cash and financial assets that can easily be converted to cash. The governmental fund statements supply a detailed short-range view of general government operations and basic services. Governmental fund data allows a city to determine the financial resources that can be spent in the long-term to finance the City's programs.

- **Proprietary Funds**: Proprietary funds are those funds the city charges for services it provides, both to city units and outside customers. Proprietary funds are reported in the Statement of Net Assets and the Statement of Activities. The City's enterprise funds, a component of proprietary funds, are the same as the business-type activities we report in the government-wide statements, but they give more detailed information such as cash flow. Another component of proprietary funds are internal service funds. Internal service funds cover activities that provide supplies and services for city programs.

CITY AS A WHOLE

The largest component of the City's Net Assets is its investment in Capital assets (i.e. land, infrastructure, buildings, equipment, and other). No outstanding debt exists on these assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion of net assets is unrestricted, which can be used to finance governmental operations.

The largest component of the City's assets in the Business–type Activities is Sewer and Water infrastructure. Long-term debt on the system is **$535,293** compared to **$553,234** in 2007.

The City's combined net assets are **$4,073,091** compared to **$4,113,222** last year. However, net assets and expenses from governmental and business-type activities must be reviewed separately. Table 1 focuses on the Net Assets and Table 2 focuses on the changes in Net Assets of the City's Governmental and Business-type Activities.

TABLE 1
NET ASSETS

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL PRIMARY ACTIVITIES	
	2008	2007	2008	2007	2008	2007
Current and Other Assets	906,172	$ 905,600	406,963	588,765	1,313,135	1,494,365
Capital Assets	421,671	410,752	2,925,398	2,828,746	3,347,069	3,239,498
TOTAL ASSETS	**1,327,843**	**1,316,352**	**3,332,361**	**3,417,511**	**4,660,204**	**4,733,863**
Long Term Liabilities	00	00	535,293	535,212	535,293	535,212
Current and other Liabilities	4,692	22,067	47,128	63,362	51,820	85,429
TOTAL LIABILITIES	**4,692**	**22,067**	**582,421**	**598,574**	**587,113**	**620,641**
Net Assets: Invested in Capital Assets, net of debt	421,671	410,752	2,390,104	2,284,008	2,811,776	2,694,760
Restricted:	00	00	31,970	29,363	31,970	29,363
Unrestricted:	901,480	833,533	327,866	505,566	1,229,345	1,389,099
TOTAL NET ASSETS:	**1,323,151**	**1,294,285**	**2,749,940**	**2,818,937**	**4,073,091**	**4,113,222**
TOTAL LIABILITIES AND NET ASSETS:	**1,327,843**	**1,316,352**	**3,332,361**	**3,417,511**	**4,660,204**	**4,733,863**

TABLE 2
CHANGES IN NET ASSETS

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL PRIMARY ACTIVITIES	
	2008	2007	2008	2007	2008	2007
Revenues						
Program Revenues:						
Charges for services	4,408	4,076	349,133	437,084	353,541	441,160
Property Taxes	11,521	23,189			11,521	23,189
Other Taxes	230,054	271,803			230,054	271,803
Other General	28,826	46,012	10,415	21,051	39,241	67,063
Total Revenues	**274,809**	**345,080**	**359,548**	**458,135**	**634,357**	**803,215**
Program Expenses						
General Government	182,947	170,200			182,947	170,200
Public Works	85,340	89,282			85,340	89,282
Culture & Recreation	7,468	8,602			7,468	8,602
Public Safety	6,018	3,213			6,018	3,213
Housing & Development	00	00			00	00
Water & Sewer			428,545	393,962	428,545	393,962
TOTAL EXPENSES	**281,773**	**271,297**	**428,545**	**393,962**	**710,318**	**665,259**
Changes in Net Assets:						
Increase (Decrease)	(6,964)	73,783	(68,997)	64,173	(75,961)	137,956
Prior period adjustment	35,830	0	0	0	35,830	0
Net Assets Beginning:	1,294,285	1,220,502	2,818,937	2,754,764	4,113,222	3,975,266
NET ASSETS ENDING:	**1,323,151**	**1,294,285**	**2,749,940**	**2,818,937**	**4,073,091**	**4,113,222**

The City's Net Assets for Governmental Activities were $1,323,151 this year compared to $1,294,285 last year. Unrestricted Net Assets were **$901,480** this year, compared to **$883,533** last year. *Unrestricted Net Assets are those that can be used to finance every-day operations without restrictions set by legislation, debt covenants, or other legal regulations.*

The net assets of the City's Business-type Activities were **$2,749,940** this year compared to **$2,818,937** last year.

City Revenues for the current year were **$634,357** compared to **$803,215** last year. The Total Yearly Cost of all programs and services was **$710,318** compared to **$665,259** last year.

GOVERNMENTAL ACTIVITIES

This year's Governmental Activities Revenues were **$274,809** compared to **$345,080** last year. This year's Governmental Activities Expenses were **$281,773** compared to **$271,297** last year.

Table 3 details the cost of the City's major programs as well as each program's net cost (total cost less revenues generated by the program). The net cost indicates the financial burden that was shifted to the city's taxpayers by each of these programs.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2008	**2007**	**2008**	**2007**
Public Works	85,340	89,282	85,340	89,282
Culture & Recreation	7,468	8,602	7,468	8,602
Public Safety	6,018	3,213	6,018	3,213
TOTALS	98,826	101,097	98,826	101,097

BUSINESS-TYPE ACTIVITIES

This year's Business-type Activities Revenues (see Table 2) were **$359,548** compared to **$458,135** last year. This year's expenses were **$428,545** compared to **$393,962** last year. The decrease in Revenues is mostly because the Enota Village connection fees were included in 2007. The expenses are somewhat due to these reasons: The water/sewer lines and equipment are beginning to age and cause more problems. The Timberline Booster Pump had to be repaired and replaced several times. A Sludge Press and a Water Recycling System were installed at the Sewer Treatment Plant at a cost of **$86,280** and also completed was the Trackrock portion of Water improvements, which, along with the Engineering cost, accounted for approximately **$163,000** of the expenses.

BUDGETARY HIGHLIGHTS:

The City Council revisits the budget several times during the year. The current year's budgets were defined as follows:

TABLE 4

	ORIGINAL	AMENDED	2008 •O/A VARIANCE	2008 ACTUAL EXPENSES	VARIANCE
General Fund	301,350	298,380	(2,970)	292,692	(5,688)
Water Fund	368,309	372,640	4,331	230,566	(142.074)
Sewer	155,924	275,246	119,322	201,694	(82,372)
TOTAL	**825,583**	**946,266**	**120,683**	**724,952**	**(230,134)**

As a whole, the city operated under budget by **$230,134** in expenditures. The Revenues did not compare as well, since the total Revenues for the year were **$623,942.** The General fund Revenues were **$17,883** under Actual Expenses, mainly due to the decrease in the Local Option Sales Tax receipts and a late release of the Property Tax Bills. The Water Fund Revenues were **$41,257** under Actual Expenses, which we expected, because of the completion of the Trackrock project and Engineering fees associated with the REDC Loan. The Sewer Fund Revenues were **$38,155** under expenses mainly because of the Sludge Press and Water Recycling purchase and installation.

CITY FUNDS

At year end the City reported a Government Funds balance of **$864,477** compared to **$882,360** last year. The City also has **$31,970** in net assets restricted for Debt Service.

CAPITAL ASSETS

At the close of the year, the City had invested **$5,820,929** in Capital Assets such as land, buildings, and improvements, equipment and infrastructure. These figures are before depreciation. After depreciation of **$2,473,860,** the City had a total of **$3,347,069** in Capital Assets. Last year Capital Assets before depreciation was **$5,562,449.** After depreciation of **$2,322,951** there was an end of year total left of **$3,239,498.** (See the Notes to the Financial Statements for more detailed information.)

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-type Activities		Totals Activities	
	2008	2007	2008	2007	2008	2007
Revenue Bonds and Notes Payable			535,293	553,234	535,293	553,234
TOTALS			**535,293**	**553,234**	**535,293**	**553,234**

•O/A refers to the variance between the Original Budget and the Amended Budget

DEBT MANAGEMENT

At the close of the year, the city had **$535,293** in outstanding Bonds and Notes, Revenue Bonds for Water improvements in the amount of **$517,500** and a Sewer Loan in the amount of **$17,793.** (See Table 5 and the Notes to Financial Statements for more detailed information.)

The above includes a Water/Sewer Improvements Revenue Bond with The Rural Economic and Community Development Agency that was issued in 1995 for improvements to the Water System and to add Young Harris College to the Water System. The City also has a loan with the Georgia Environmental Facilities Agency that paid for Sewer Improvements. The City is applying for a grant/loan with the Rural Economic and Community Development Agency to make water system improvements.

ECONOMIC ISSUES/UPCOMING YEARLY BUDGETS

City officials considered many issues when establishing the upcoming year's budget, tax rates, and fees. The City included Water Tank access, Water Line extensions, Sewer Plant renovations, the installation of Automatic Read Meters and a new computer and software to upgrade the system that has been in service since 1993.

CONTACT INFORMATION

This report has been created to give our citizens, taxpayers, customers, and creditors a summary of city finances and to show allocation of the money it receives. If you have any questions regarding this report, or if you need additional financial information, please contact:

Shirley Jarrard
City Clerk/Financial Officer
P.O. Box 122
Young Harris, GA. 30582

Phone: 706-379-3171

Fax: 706-379-3172

sbj@alltel.net
cityofyh@alltel.net

CITY OF YOUNG HARRIS, GEORGIA
STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	$ 776,822	$ 390,856	$ 1,167,678
Accounts receivable, net of allowances	51,035	39,081	90,116
Intergovernmental	27,584	-	27,584
Interfund	48,000	(48,000)	-
Prepaid items	2,731	5,462	8,193
Inventories	-	19,564	19,564
Capital assets:			
Capital assets, not being depreciated	43,099	33,175	76,274
Capital assets, net of depreciation	378,572	2,892,223	3,270,795
Total assets	$ 1,327,843	$ 3,332,361	$ 4,660,204
Liabilities			
Accounts payable	$ 4,017	$ -	$ 4,017
Accrued liabilities	-	1,896	1,896
Customer deposits	-	45,232	45,232
Deferred revenue	675	-	675
Long-term liabilities:			
Due within one year	-	18,966	18,966
Due in more than one year	-	516,327	516,327
Total liabilities	4,692	582,421	587,113
Net Assets			
Investment in capital assets, net of related debt	421,671	2,390,105	2,811,776
Restricted for capital projects	-	31,970	31,970
Unrestricted	901,480	327,865	1,229,345
Total net assets	1,323,151	2,749,940	4,073,091
Total liabilities and net assets	$ 1,327,843	$ 3,332,361	$ 4,660,204

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

CITY OF YOUNG HARRIS, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Total
Primary government						
Governmental activities						
General government	$ 182,947	$ 4,408	$ 954	$ (177,585)	$ -	$ (177,585)
Public safety	6,018	-	-	(6,018)	-	(6,018)
Public works	85,340	-	-	(85,340)	-	(85,340)
Culture and recreation	7,468	-	-	(7,468)	-	(7,468)
Total governmental activities	281,773	4,408	954	(276,411)	-	(276,411)
Business-type activities						
Water	234,280	189,309	-	-	(44,971)	(44,971)
Sewer	197,979	159,824	-	-	(38,155)	(38,155)
Total business-type activities	432,259	349,133	-	-	(83,126)	(83,126)
Total primary government	$ 714,032	$ 353,541	$ 954	(276,411)	(83,126)	(359,537)
General revenues						
Property taxes				11,521	-	11,521
Sales taxes				166,481	-	166,481
Other taxes				63,573	-	63,573
Unrestricted investment earnings				25,487	14,129	39,616
Miscellaneous				2,385	-	2,385
Total general revenues and transfers				269,447	14,129	283,576
Change in net assets				(6,964)	(68,997)	(75,961)
Net assets, beginning of year				1,294,285	2,818,937	4,113,222
Prior period adjustment				35,830	-	35,830
Net assets, end of year				$ 1,323,151	$ 2,749,940	$ 4,073,091

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

CITY OF YOUNG HARRIS, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

Assets	General	Total Governmental Funds
Cash and cash equivalents	$ 776,821	$ 776,821
Property taxes receivable, net	34,574	34,574
Other taxes receivable, net	44,045	44,045
Due from other funds	48,000	48,000
Prepaid items	2,731	2,731
Total assets	$ 906,171	$ 906,171
Liabilities		
Accounts payable	$ 4,016	$ 4,016
Deferred revenue	37,678	37,678
Total liabilities	41,694	41,694
Fund Balances		
Reserved for the following purpose:		
Prepaid items	2,731	2,731
Unreserved, undesignated reported in:		
General fund	861,746	861,746
Total fund balances	864,477	864,477
Total liabilities and fund balances	$ 906,171	$ 906,171

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

CITY OF YOUNG HARRIS, GEORGIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008

Total fund balance, governmental funds	$	864,477
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities column of the Statement of Net Assets.		421,671
Certain other long-term assets (such as deferred taxes) are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		37,003
Net assets of governmental activities in the Statement of Net Assets	$	1,323,151

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

CITY OF YOUNG HARRIS, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General	Total
Revenues		
Property taxes	$ 11,521	$ 11,521
Sales taxes	166,481	166,481
Franchise taxes	7,744	7,744
Other taxes	55,829	55,829
Licenses and permits	4,408	4,408
Intergovernmental	954	954
Charges for services	360	360
Interest	25,487	25,487
Other revenues	2,025	2,025
Total revenues	274,809	274,809
Expenditures		
Current:		
General government	174,498	174,498
Public safety	3,000	3,000
Public works	79,562	79,562
Culture and recreation	2,166	2,166
Capital outlay:		
General government	33,466	33,466
Total expenditures	292,692	292,692
Deficiency of revenues under expenditures	(17,883)	(17,883)
Fund balance, beginning of year	882,360	882,360
Fund balance, end of year	$ 864,477	$ 864,477

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

CITY OF YOUNG HARRIS, 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, 2008

Net change in fund balances - total governmental funds		$ (17,883)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than $1,000 and an estimated useful life in excess of two years are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlays	$ 33,466	
Depreciation expense	(22,547)	10,919
Change in net assets of governmental activities		$ (6,964)

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

CITY OF YOUNG HARRIS, GEORGIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008

	Enterprise Funds		
Assets	**Water Fund**	**Sewer Fund**	**Total**
Current assets:			
Cash and cash equivalents	$ 241,931	$ 69,770	$ 311,701
Restricted cash	79,155	-	79,155
Accounts receivable, net of allowances	22,321	16,760	39,081
Inventory	19,564	-	19,564
Prepaid items	2,731	2,731	5,462
Total current assets	365,702	89,261	454,963
Noncurrent assets:			
Capital assets:			
Capital assets, not being depreciated	24,175	9,000	33,175
Capital assets, net of depreciation	1,125,913	1,766,310	2,892,223
Total noncurrent assets	1,150,088	1,775,310	2,925,398
Total assets	$ 1,515,790	$ 1,864,571	$ 3,380,361
Liabilities			
Current liabilities:			
Accounts payable	$ -	$ -	$ -
Accrued interest payable	1,756	140	1,896
Due to other funds	-	48,000	48,000
Customer deposits	38,207	7,025	45,232
Notes payable	-	9,988	9,988
Bonds payable	8,978	-	8,978
Total current liabilities	48,941	65,153	114,094
Noncurrent liabilities:			
Notes payable	-	7,805	7,805
Bonds payable	508,522	-	508,522
Total noncurrent liabilities	508,522	7,805	516,327
Total liabilities	557,463	72,958	630,421
Net Assets			
Invested in capital assets, net of related debt	632,588	1,757,517	2,390,105
Restricted for debt service	31,970	-	31,970
Unrestricted	293,769	34,096	327,865
Total net assets	958,327	1,791,613	2,749,940
Total liabilities and net assets	$ 1,515,790	$ 1,864,571	$ 3,380,361

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

CITY OF YOUNG HARRIS, GEORGIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenues:			
Water	$ 176,623	$ -	$ 176,623
Sewer	-	157,574	157,574
Connection fees	9,250	2,250	11,500
Service charges	3,436	-	3,436
Miscellaneous income	-	-	-
Total operating revenues	189,309	159,824	349,133
Operating expenses:			
Personal services	69,641	54,087	123,728
Contractual services	16,790	5,980	22,770
Repairs and maintenance	20,320	9,935	30,255
Supplies and expenses	24,748	20,767	45,515
Other operating expenses	25,309	26,522	51,831
Depreciation and amortization	44,583	83,778	128,361
Total operating expenses	201,391	201,069	402,460
Net operating income(loss)	(12,082)	(41,245)	(53,327)
Nonoperating revenues (expenses):			
Operating grants and contributions	-	-	
Interest income	12,292	1,837	14,129
Interest expense	(29,174)	(625)	(29,799)
Total nonoperating revenues (expenses)	(16,882)	1,212	(15,670)
Income (Loss) before contributions and transfers	(28,964)	(40,033)	(68,997)
Transfers:			
Transfers in	3,715	-	3,715
Transfers out	-	(3,715)	(3,715)
Total transfers	3,715	(3,715)	-
Change in net assets	(25,249)	(43,748)	(68,997)
Net assets, begninning of year	983,576	1,835,361	2,818,937
Net assets, end of year	$ 958,327	$ 1,791,613	$ 2,749,940

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

CITY OF YOUNG HARRIS, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 191,513	$ 158,078	$ 349,591
Payments to suppliers and service providers	(90,440)	(15,396)	(105,836)
Payments to employees	(69,641)	(54,087)	(123,728)
Net cash provided by operating activities	31,432	88,595	120,027
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Net transfers	8,004	(8,004)	-
Net cash provided by investing activities	8,004	(8,004)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase and construction of capital assets	(138,734)	(86,280)	(225,014)
Principal paid on debt	(8,681)	(9,526)	(18,207)
Interest and other charges	(29,643)	(586)	(30,229)
Net cash used in capital financing activities	(177,058)	(96,392)	(273,450)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	12,292	1,837	14,129
Net cash provided by investing activities	12,292	1,837	14,129
Net increase in cash and cash equivalents	(125,330)	(13,964)	(139,294)
Cash, beginning of year	446,415	83,734	530,149
Cash, end of year	$ 321,085	$ 69,770	$ 390,855
Reconciliation of operating loss to net cash used in operating activities:			
Operating income	$ (12,082)	$ (41,245)	$ (53,327)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	44,583	83,778	128,361
Change in assets and liabilities:			
Accounts receivable	(440)	(4,446)	(4,886)
Accounts payable	(2,860)	-	(2,860)
Other payables	-	48,000	48,000
Prepaid items	(197)	(192)	(389)
Inventory	(216)	-	(216)
Customer deposits	2,644	2,700	5,344
Net cash used in operating activities	$ 31,432	$ 88,595	$ 120,027

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Young Harris, Georgia ("the City") have been prepared in conformity with generally accepted accounting principles (GAAP) 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 of the City's accounting policies are described below.

A. THE REPORTING ENTITY

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The City's financial statements include the City's accounts of all operations. The criteria for including organizations within the City's reporting entity, as set forth in Governmental Accounting Standards Board's Statement No. 14 (GASB 14), "The Financial Reporting Entity", is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. As of December 31, 2008, there are no component units included in the financial statements of the City.

B. BASIS OF PRESENTATION - FUND ACCOUNTING

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The City's funds are grouped into two broad fund categories and two generic fund types for financial statement presentation purposes. The governmental fund type includes the general fund. The proprietary fund type includes the enterprise fund.

C. BASIS OF ACCOUNTING

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the City, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

Transfers between governmental and business-type activities on the government-wide statement of activities are reported below general revenues as the last item before the change in net assets. Transfers between funds reported in the governmental activities column are eliminated. Transfers between funds reported in the business-type activities column are eliminated.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIS OF ACCOUNTING (CONTINUED)

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

GOVERNMENTAL FUNDS

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within sixty days of year-end and available to pay obligations of the current period). This includes property taxes, investment earnings, income taxes withheld by employers, fines and forfeitures and state-levied locally shared taxes (including motor vehicle fees). Reimbursements due for grant projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

Governmental fund activities, if any, have been consolidated in the government-wide financial statements. Total governmental funds have been combined with capital assets and long-term liabilities. The effect of inter-fund activity, if any, has been removed from the government-wide financial statements. Due to/from other funds, if any, have been eliminated and operating transfers between funds have also been eliminated.

Other revenues, including licenses and permits, certain charges for services, income taxes other than those withheld by employers, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on long-term debt, which has not matured, are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPRIETARY FUNDS

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resources measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at each year-end. Proprietary type funds have selected to consistently follow Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. 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's enterprise funds are charges for water and sewer usage. Operating expenses for the enterprise funds include all costs to operate the water and sewer system and to deliver water and sewer service to customers. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The City reports the following major governmental funds:

General Fund: This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major enterprise funds:

Water Fund and Sewer Fund: These funds account for the development, operation and maintenance of utility systems that provide water and sewer service.

D. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. CASH AND CASH EQUIVALENTS

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments, (including restricted assets) with a maturity date of three months or less when purchased to be cash equivalents.

Cash includes amounts in demand deposits. Statutes authorize the City to invest in U.S. Government obligations, U.S. Government agency obligations, State of Georgia obligations, obligations of other counties, municipal corporations and political subdivisions of the State of Georgia which are rated "AA" or better by Moody's Investors Service, Inc., negotiable certificates of deposit issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association, repurchase agreements when collateralized by U.S. Government or agency obligations, and pooled investment programs sponsored by the State of Georgia for the investment of local government funds

F. PROPERTY TAX CALENDAR

The City is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts with in the City. The City levied property taxes as of November 1, 2008 on property values assessed. Secured property tax payments are due on February 28, 2009 with penalties and interest applied on May 31, 2009. The City has the option to place a lien on the property as of June 30, 2009.

G. INVENTORIES

Inventories consist of supplies and are stated at cost. Inventories are accounted for on the first-in, first-out (FIFO) method of accounting for inventory. The City uses the consumption method of accounting for inventories under which materials and supplies are recorded as inventory when purchased and are recorded as an expense when used.

H. PREPAIDS

The City accounts for expenditures for insurance and similar services extending over more than one accounting period in governmental funds as expenditures in the period of acquisition.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. CAPITAL ASSETS

All assets over the capitalization threshold of $1,000 for infrastructure and for all types of assets with a useful life extending beyond one year are capitalized and depreciated over time using the straight line method. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to January 1, 2004. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Infrastructure	10-50
Buildings	50
Building improvements	20
Vehicles	2-15
Office equipment	3-15
Computer equipment	3-15

J. COMPENSATED ABSENCES

The liability for compensated absences in the government-wide and proprietary fund statements consists of unpaid, accumulated annual leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

K. USE OF ESTIMATES

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

NOTE 2. LEGAL COMPLIANCE - BUDGETS

Budgets and Budgetary Accounting

The applicable statutes of the State of Georgia require the City to operate under an annual balanced budget adopted by resolution. A budget is defined as being balanced when the sum of estimated net revenues and appropriated fund balance is equal to appropriations. Each fund's appropriated budget is prepared on a detailed line-item basis. Revenues are budgeted by source. Expenditures are budgeted by line item. This constitutes the legal level of control. Budget revisions at this level are subject to final review by the City Council. During the current fiscal year, there were no revisions made to the original budget.

Annual budgets are adopted for all governmental funds and proprietary funds. The budget is adopted on a basis consistent with generally accepted accounting principles, and on the same basis of accounting used by each fund to which the budget applies. An operating budget is adopted for the proprietary Water Fund and Sewer Fund for administrative control purposes.

NOTE 3. DEPOSITS AND INVESTMENTS

State statutes authorize the City to invest in obligations of the State of Georgia or other states; obligations issued by the U.S. government; obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States; obligations of any corporation of the U.S. government; prime banker's acceptances; the local government investment pool established by state law; repurchase agreements; and obligations of other political subdivisions of the State of Georgia.

Currently the City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities.

NOTE 4. RECEIVABLES

Receivables at December 31, 2008, for the City's individual funds in the aggregate are as follows:

Receivables:				
Property Taxes	$ 34,574	$ -	$ -	$ 34,574
Franchise	6,603	-	-	6,603
Financial institution	9,858	-	-	9,858
Intergovernmental	27,584	-	-	27,584
Water	-	22,321	-	22,321
Sewer	-	-	16,760	16,760
Gross receivables	78,619	22,321	16,760	117,700
Less allowance for uncollectibles	-	-	-	-
Net receivables	$ 78,619	$ 22,321	$ 16,760	$ 117,700

Property taxes were levied on November 26, 2008. Bills are payable on or before February 28, 2009, after which the applicable property is subject to lien and penalties and interest as assessed. The City bills and collects its own property taxes. Property taxes levied for 2008 are recorded as receivables. The receivables collected during the year ended December 31, 2008, and collected by February 28, 2009, are recognized as revenues in the year ended December 31, 2008. Net receivables estimated to be collected subsequent to February 28, 2009 are recorded as revenue when received. Prior year levies were recorded using substantially the same principles, and remaining receivables are reevaluated annually.

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

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 36,000	$ 7,099	$ -	$ 43,099
Total capital assets, not being depreciated	36,000	7,099	-	43,099
Capital assets, being depreciated:				
Land improvements	288,954	-	-	288,954
Infrastructure	-	7,359	-	7,359
Buildings	250,650	-	-	250,650
Machinery and equipment	79,855	19,008	-	98,863
Vehicles	58,782	-	-	58,782
Total capital assets, being depreciated	678,241	26,367	-	704,608
Less accumulated depreciation for:				
Land improvements	133,246	10,404	-	143,650
Infrastructure	-	61	-	61
Buildings	84,941	5,013	-	89,954
Machinery and equipment	45,848	3,555	-	49,403
Vehicles	39,454	3,514	-	42,968
Total accumulated depreciation	303,489	22,547	-	326,036
Total capital assets, being depreciated, net	374,752	3,820	-	378,572
Governmental activities capital assets, net	$ 410,752	$ 10,919	$ -	$ 421,671

NOTE 5. CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Additions	Reclass	Deductions	Ending Balance
Business-type activities:					
Capital assets not being depreciated:					
Construction in progress	$ 42,008	$ 33,175	$ (42,008)	$ -	$ 33,175
Total capital assets not being depreciated	42,008	33,175	(42,008)	-	33,175
Capital assets, being depreciated:					
Machinery and equipment	127,814	81,186	-	-	209,000
Sewer infrastructure	3,087,478	-	-	-	3,087,478
Water infrastructure	1,584,853	107,736	42,008	-	1,734,597
Buildings	6,055	2,917	-	-	8,972
Total capital assets, being depreciated	4,806,200	191,839	42,008	-	5,040,047
Less accumulated depreciation for:					
Machinery and equipment	102,819	11,770	-	-	114,589
Sewer infrastructure	1,319,413	77,478	-	-	1,396,891
Water infrastructure	595,651	38,823	-	-	634,474
Buildings	1,579	291	-	-	1,870
Total accumulated depreciation	2,019,462	128,362	-	-	2,147,824
Total capital assets being depreciated, net	2,786,738	63,477	-	-	2,892,223
Business-type activities capital assets, net	$ 2,828,746	$ 96,652	$ -	$ -	$ 2,925,398

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

Governmental activities:	
General government	$ 8,449
Public safety	3,018
Public works	5,778
Culture and recreation	5,302
Total depreciation expense - governmental activities	$ 22,547
Business-type activities:	
Water	$ 44,583
Sewerage	83,779
Total depreciation expense - business-type activities	$ 128,362

NOTE 6. LONG-TERM DEBT

BUSINESS-TYPE ACTIVITIES – BONDS/NOTE PAYABLE

As of December 31, 2008, the Water Fund owed $517,500 to the Rural Economic and Community Development Agency, for construction of water line extensions. The original debt amount was $596,200 with an interest rate of 5.625% and monthly payments of $3,148 until maturity in 2035.

As of December 31, 2008, the Sewer Fund owed $17,793 to the Georgia Environmental Facilities Agency for construction of sewer lines. The original debt amount was $84,415 with an interest rate of 4.76% and monthly payments of $2,665 until maturity in 2010.

The following is a summary of long-term debt activity for the year ended December 31, 2008:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities:					
Bonds payable	$ 525,913	$ -	$ 8,413	$ 517,500	$ 8,978
Note payable	27,321	-	9,528	17,793	9,988
Total	$ 553,234	$ -	$ 17,941	$ 535,293	$ 18,966

Payments of interest and principal related to the notes and bonds payable for the next five years and until maturity are as follows:

	Business-Type Activities					
	Bonds			Notes		
Year	Interest	Principal	Total	Interest	Principal	Total
2009	$ 28,878	$ 8,978	$ 37,856	$ 670	$ 9,988	$ 10,658
2010	28,364	9,412	37,776	187	7,805	7,992
2011	27,821	9,955	37,776	-	-	-
2012	27,246	10,530	37,776	-	-	-
2013	26,638	11,138	37,776	-	-	-
2014-2018	122,772	66,108	188,880	-	-	-
2019-2023	101,359	87,521	188,880	-	-	-
2024-2028	73,010	115,870	188,880	-	-	-
2029-2033	35,478	153,402	188,880	-	-	-
2034-2037	1,659	44,586	46,245	-	-	-
Total	$ 473,225	$ 517,500	$ 990,725	$ 857	$ 17,793	$ 18,650

NOTE 7. INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances as of December 31, 2008, is as follows:

Transfers

Transfers In	Transfers Out	Amount
Water Fund	Sewer Fund	$ 3,715

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that the statute or budget requires to expend them, and (2) provide unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Due To/From Funds

Payable To	Payable From	Amount
General Fund	Sewer Fund	$ 48,000

This amount represents reimbursable expenses and was the result of the time lag between the dates that (1) interfund reimbursable expenses occur, (2) transactions are recorded in the accounting period, and (3) payments between funds are made. The City expects to repay the balance within subsequent fiscal year.

NOTE 8. DEFINED CONTRIBUTION PLAN

The City offers employees the opportunity for participation in a SIMPLE contributory retirement plan through the Bank of Hiawassee, the plan administrator in accordance with Section 408(p) of the Internal Revenue Code. All full-time employees are eligible for the defined contribution plan. Contributions are based on a percentage of salary and the City matches the amounts at a rate of 100% of the employees' contribution up to 4% of their salary as determined by the City Council. Plan provisions were established and may be amended by the City Council. The employer and employee contributions for the year ended December 31, 2008 were $3,232 and $6,464, respectively.

NOTE 9. JOINT VENTURE

The City, in conjunction with cities and counties in the thirteen (13) county Northeast Georgia area, is a member of the Georgia Mountain Regional Development Center (RDC). Membership in a regional development center is automatic for each municipality and county in the state. The official Code of Georgia Section 50-8-34 (Georgia Planning Act of 1989) provides for the organizational structure of the RDCs. Each county and municipality in the state is required by law to pay minimum annual dues to the RDC. An RDC Board membership includes the chief elected official of each county and the chief elected official of each municipality. The County board members and municipal board members from the same County elect one member of the Board who is a resident (but not an elected or appointed official or employee of the County or municipality) to serve as the non-public Board member from a County.

NOTE 9. JOINT VENTURE (CONTINUED)

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RDCs as "public agencies and instrumentalities of their members". Georgia laws also provide that the member governments are liable for any debts or obligations of an RDC beyond its resources (O.C.G.A. 50-8-39.1). Separate financial statements can be provided by contacting the RDC directly at the following address:

Georgia Mountain Regional Development Center
Post Office Box 1720
Gainesville, GA 30503

NOTE 10. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers compensation for which the City carries the following insurance coverage.

There were no significant reductions of insurance coverage compared to the prior year. Settled claims have not exceeded the commercial excess coverage in any of the past three fiscal years.

Risk Pools

The City joined the Georgia Interlocal Risk Management Agency (GIRMA). Insurance coverage and deductible options for property, casualty and crime under the policy are selected by City's management based on the anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed by GIRMA, as well as following loss reduction and prevention procedures established by GIRMA. GIRMA's responsibility includes paying claims and representing the City in defense and settlement of claims. GIRMA's basis for estimating the liabilities for unpaid claims is "IBNR" established by an actuary. The City has not compiled a record of the claims paid up to the applicable deductible for the prior year or the current fiscal year. The City is unaware of any claims that the City is liable (up to the applicable deductible) which were outstanding and unpaid at December 31, 2008. No provisions have been made in the financial statements for the year ended December 31, 2008 for any estimate of potential unpaid claims.

The City has elected to be a member of the Georgia Municipal Association Workers' Compensation Self-Insurance Fund (GMAWCSIF), a risk management agency created under Georgia law. As a participant in the GMAWCSIF, the City has no legal obligation to pay its own workers' compensation claims. The City is required to make an annual contribution to the fund in an amount that is determined on the basis of actuarial projections of losses. With payment of the City's annual contribution, the City has effectively transferred the risk and responsibility for payment of its workers' compensation claims. However, the enabling statute creating the GMAWCSIF permits the fund to levy an assessment upon its members to make up any deficiency the fund may have in surplus or reserves. No amount has been recorded in the financial statements for this contingency, as management believes the likelihood for assessment is remote.

NOTE 11. RESTRICTED ASSETS

On March 9, 1995, the City issued a Water System Improvement Bond in the amount of $596,200, which is serviced by the Water Fund. The resolution requires a reserve be maintained to pay principal and interest when due. The amount restricted for this purpose at December 31, 2008 was $40,948. In addition, customer deposits for water service held by the City totaling $38,207 are restricted in nature. Thus, total restricted assets are $79,155. The current portion of the bonds payable totaling $8,978 and customer deposits of $38,207 are restricted also, resulting in restricted liabilities of $31,970.

NOTE 12. PRIOR PERIOD ADJUSTMENT

The following prior period adjustment is needed to correct a misstatement as of the prior year:

Governmental Activities
Government-wide level
The City has determined that a restatement is required to report the appropriate balance of deferred revenue on the prior year Statement of Net Assets. The following prior year ending fund balance was restated by increasing net assets for the overstatement of deferred revenue.

Net assets	$ 35,830

NOTE 13. COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

There are no suits pending on unasserted claims that would result in material liabilities to the City. The City has entered into various agreements and contracts in the normal course of business. Such agreements which give rise to assets or liabilities that are considered to be material at December 31, 2008 are as follows:

The City Council has approved installation of radio read meters. The meters were delivered to the City in 2008, but due to negotiations between the City Attorney and the vendor, Ferguson Enterprises, Inc., concerning warranty issues, the contract was not finalized prior to year end. The City has not been invoiced for the cost of the meters, approximately $165,324, as financing will be obtained for payment. The meters have not been placed into service, and, therefore, have not been capitalized at December 31, 2008.

The City was approved for a loan in the amount of $1,025,000 from the United States Department of Agriculture (USDA) for water system improvements. The City expects that the loan documentation will be finalized in early 2009. The City has incurred expenses related to engineering fees that were paid by the Water Fund. Upon funding of the loan, the Water Fund will recover these expenses. The aforementioned engineering fees have been capitalized and included in construction in progress in the Water Fund at December 31, 2008.

CITY OF YOUNG HARRIS, GEORGIA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Revenues				
Property taxes	$ 17,700	$ 17,710	$ 11,521	$ (6,189)
Sales taxes	180,000	177,262	166,481	(10,781)
Franchise taxes	7,000	6,602	7,744	1,142
Other taxes	54,640	54,160	55,829	1,669
Licenses and permits	4,395	3,895	4,408	513
Intergovernmental	-	954	954	-
Charges for services	15	360	360	-
Interest	36,000	32,912	25,487	(7,425)
Other revenues	1,600	4,525	2,025	(2,500)
Total revenues	301,350	298,380	274,809	(23,571)
Expenditures				
Current:				
General government	211,055	216,954	174,498	42,456
Public safety	2,000	3,000	3,000	-
Public works	69,395	68,976	79,562	(10,586)
Culture and recreation	4,500	1,250	2,166	(916)
Capital outlay:				
General government	14,400	8,200	33,466	(25,266)
Total expenditures	301,350	298,380	292,692	5,688
Excess of revenues over expenditures	-	-	(17,883)	(17,883)
Other financing sources (uses)				
Proceeds from sale of capital assets	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	(17,883)	
Fund balance, beginning of year	-	-	882,360	
Fund balance, end of year	$ -	$ -	$ 864,477	

The notes to required supplementary information are an integral part of this statement.

A. BUDGETS AND BUDGETARY CONTROL

The City Clerk prepares a rough draft of the annual budget from which the Mayor and City Council prepare a proposed budget. The City then advertises in a local newspaper giving notice regarding a public hearing in which local citizens may give their input regarding the proposed budget. The City also places a copy of the proposed budget on file for public inspection prior to the actual approval. Once all of these steps have been taken, the City Council and Mayor then formally adopt the annual balanced budget in a legally permissible manner. The legal level of control of the budget of the City is at the line item level. All appropriations lapse at year end.

Budgets have been legally adopted for all funds. Budgets are adopted on a basis consistent with generally accepted accounting principles, and on the same basis of accounting used by each fund to which the budget applies.

Each fund's appropriated budget is prepared on a detailed line-item basis. Revenues are budgeted by source. Expenditures are budgeted by line item. This constitutes the legal level of control. Budget revisions at this level are subject to final review by the City Council. During the current fiscal year, there were revisions made to the original budget.

B. BUDGET NON-COMPLIANCE

At December 31, 2008, public works, culture and recreation and general government capital outlay exceeded appropriated amounts by $10,586, $916, and $25,266, respectively, as shown in the budgetary comparison statement, primarily due to the capitalization of expenditures previously budgeted in other line items. Fund balance was available to offset expenditures exceeding budgeted amounts.

LAND
& ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

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

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

To the Honorable Mayor and Members
of the City Council
City of Young Harris, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of City of Young Harris, Georgia as of and for the year ended December 31, 2008, which collectively comprise the City of Young Harris, Georgia's basic financial statements and have issued our report thereon dated March 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Young Harris, 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 Young Harris, Georgia's financial statements that is more than inconsequential will not be prevented or detected by the City of Young Harris, Georgia's internal control. We consider the deficiencies described at 04-01 and 08-01 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Young Harris, Georgia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards.*

We noted certain matters that we reported to management of the City of Young Harris, Georgia, in a separate letter dated March 13, 2009.

City of Young Harris, Georgia's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City of Young Harris, Georgia's response and, accordingly, we express no opinion on them.

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

Carl & Associates

Ellijay, Georgia
March 13, 2009

We consider the following deficiencies to be significant deficiencies in internal control:

Repeat finding from the prior year:

04-01 Lack of Segregation of Duties

Criteria: Segregation of employees' duties is a common practice in an effective internal control structure. Policies should be in place requiring the segregation of duties involving cash receipts, cash disbursements, payroll, general ledger and bank reconciliation.

Condition/Context: During the course of the audit, we noted many of critical duties are combined and given to the available employees. Presently, a single individual prepares the deposit slip, opens the mail, collects cash receipts, prepares check disbursements, reconciles bank accounts, performs payroll duties as well as maintains the general ledger.

Effect: Without segregation of duties within these functions, there is increased exposure that City assets could be intentionally or unintentionally misappropriated.

Cause: The limited number of employees working in the office and the resulting overlapping of duties causes segregation of duties to be difficult.

Recommendation: To the extent possible, duties should be segregated to maintain the best control system possible. We feel segregation of duties could be improved if different employees performed the separate duties of processing cash receipts and cash disbursements, and maintaining the general ledger. In situations where additional personnel are not available, an effort should be made to divide the duties of the available personnel in such a manner as to achieve the greatest possible segregation of duties. Continued Council involvement in the City's finances is encouraged to strengthen internal controls. With implementation of these suggestions, the City's internal controls will be enhanced, so that the risk of misappropriation of assets is reduced.

Response: The lack of segregation of duties is a recurring item that due to the limited number of employees is difficult to accomplish. Management plans to continue close involvement with the City's operations to reduce the risk of misappropriation.

Current year finding:

08-01 Material Adjustments and Maintenance of General Ledger

Criteria: The City is responsible for preparing annual financial statements in accordance with generally accepted accounting principles (GAAP). Recording transactions on an accrual basis (or where applicable, the modified accrual basis) is in accordance with GAAP and provides more meaningful financial information.

Condition/Context: Although the year-end financial statements are prepared on the appropriate accrual basis (modified accrual basis, where applicable), the City maintains its general ledger on a cash basis throughout the year. Accrual entries for revenue, receivables, expenditures, payables and other general ledger account adjustments are posted only at year end.

Effect: Failure to properly account for revenue, receivables, expenditures, payables and other general ledger transactions could distort financial information provided to management and the City Council, and could result in critical financial decisions being made in consideration of incomplete data.

Cause: Routine preparation of reconcilements of detailed account balances within the general ledger is not being performed due to limited available personnel.

Recommendation: We recommend that the general ledger account balances be reconciled on a routine basis. We understand that reconciliation procedures to maintain the City's general ledger on the accrual/modified accrual basis throughout the year can be a time consuming task. However, this practice would enable the City to prepare properly adjusted accrual financial reporting for year-end accounting, and more easily produce interim financial statements for monthly reporting to management.

Response: The City agrees with this finding and will implement procedures for the maintenance and reconciliation of general ledger account balances prior to year end.