CITY OF YOUNG HARRIS, GEORGIA
FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011

CITY OF YOUNG HARRIS, GEORGIA
FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011

TABLE OF CONTENTS

Page

FINANCIAL SECTION
- Independent Auditor's Report 1-2
- Management's Discussion and Analysis 3-8
- Basic Financial Statements:
  - Government-wide Financial Statements:
    - Statement of Net Assets 9
    - Statement of Activities 10
  - Fund Financial Statements:
    - Balance Sheet – Governmental Funds 11
    - Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 12
    - Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds 13
    - Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 14
    - Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – General Fund 15-18
    - Statement of Net Assets – Proprietary Funds 19
    - Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds 20
    - Statement of Cash Flows – Proprietary Funds 21
  - Notes to Financial Statements 22-37
- Other Supplementary Information:
  - Schedule of Projects Constructed with Special Purpose Local Option Sales Tax 38

INTERNAL CONTROL AND COMPLIANCE SECTION
- 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* 39-40
- Schedule of Findings and Responses 41-42

*****

FINANCIAL SECTION

RL Jennings & Associates, PC
Certified Public Accountants

R. Lee Jennings, CFCA, CPA
Mona Evans, CPA
Thomas H. Evans, Jr., CPA
Sherry L. Estes, CPA
Lisa J. Hoyle, CPA
Katherine S. Washington, CPA

61 Maddox Circle, East Ellijay
Post Office Box 2683, Ellijay, GA 30540
706-276-3700
Fax 706-276-3710
www.ellijaycpa.com
www.facebook.com/RLJ.ellijay

Member of
American Institute of
Certified Public Accountants
Georgia Society of
Certified Public Accountants

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 and each major fund of City of Young Harris, Georgia, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Young Harris, Georgia's management. Our responsibility is to express opinions on these financial statements based on our audit.

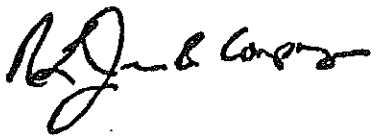
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2011, and the respective changes in financial position, and cash flows, where applicable, and the respective budgetary comparison for the General Fund, 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 June 29, 2012, 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 should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Young Harris, Georgia's financial statements as a whole. The accompanying schedule of projects constructed with special purpose local option sales tax is presented for purposes of additional analysis as required by Official Code of Georgia 48-8-121, and is not a required part of the financial statements. This schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Ellijay, Georgia
June 29, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL REPORT
CITY OF YOUNG HARRIS, GEORGIA
DECEMBER 31, 2011

Our discussion and analysis of City of Young Harris's financial performance provides an overview of the City's financial activities for the fiscal year ending December 31, 2011. Please review in conjunction with 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 **$2,415,464** compared to **$2,592,270** in 2010 and Net Assets of governmental activities were **$1,503,093** compared to **$1,348,000** in 2010.

- The current year's governmental activities expenses totaled **$288,673** as compared to **$276,863** in 2010, an increase of **$11,810**. The City generated **$443,766** in revenues for governmental programs compared to **$362,050** in the previous year, due largely to SPLOST tax allocation proceeds earned in the current year.

- For business-type activities, revenues were **$475,906** compared to **$425,694** in 2010. Expenses were **$664,862** compared to **$548,428** in 2010. Of these revenues, **$262,326** were generated by water department operations and **$213,580** were generated by sewer department operations.

- The yearly cost for all city functions/programs was **$953,535** compared to **$825,291** in 2010.

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 cities 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 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 cities 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.

THE 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). Outstanding debt exists on these assets in the form of capital leases and revenue bonds. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The City has net assets at year-end that are restricted for the purposes of debt service and construction of capital projects. 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 water and sewer infrastructure. Long-term debt on the system is **$1,608,034** compared to **$1,658,445** in 2010. During June 2011, the City Council entered into an agreement with a local bank for a tax-anticipation loan of **$65,000** at an interest rate of 5%, payable quarterly. The proceeds were used to finance the Cupid Falls Park Improvements. The short term debt had an outstanding balance of **$64,285** on December 31, 2011.

The City's combined net assets are **$3,918,557** compared to **$3,940,270** 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		Totals	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	$ 905,696	$ 844,210	$ 419,348	$ 609,656	$ 1,325,044	$ 1,453,866
Capital Assets	672,251	518,414	3,649,968	3,692,021	4,322,219	4,210,435
TOTAL ASSETS	**$ 1,577,947**	**$ 1,362,624**	**$ 4,069,316**	**$ 4,301,677**	**$ 5,647,263**	**$ 5,664,301**
Current Liabilities	$ 74,854	$ 14,624	$ 45,818	$ 50,962	$ 120,672	$ 65,586
Long-Term Liabilities	-	-	1,608,034	1,658,445	1,608,034	1,658,445
TOTAL LIABILITIES	**74,854**	**14,624**	**1,653,852**	**1,709,407**	**1,728,706**	**1,724,031**
Net Assets: Invested in Capital Assets, net of debt	672,251	518,414	2,041,934	2,033,576	2,714,185	2,551,990
Restricted	12,806	-	103,003	28,483	115,809	28,483
Unrestricted	818,036	829,586	270,527	530,211	1,088,563	1,359,797
TOTAL NET ASSETS	**1,503,093**	**1,348,000**	**2,415,464**	**2,592,270**	**3,918,557**	**3,940,270**
TOTAL LIABILITIES AND NET ASSETS	**$ 1,577,947**	**$ 1,362,624**	**$ 4,069,316**	**$ 4,301,677**	**$ 5,647,263**	**$ 5,664,301**

	TABLE 2 - CHANGES IN NET ASSETS					
	Governmental Activities		Business Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Program Revenues:						
Charges for Services	$ 5,533	$ 5,834	$ 475,906	$ 425,694	$ 481,439	$ 431,528
Operating grants	400	700		-	400	700
Capital grants/contributions	184,940	109,005		-	184,940	109,005
General Revenues					-	
Property Taxes	35,354	38,599		-	35,354	38,599
Other Taxes	211,366	193,094		-	211,366	193,094
Other General	6,173	14,818	12,150	11,184	18,323	26,002
TOTAL REVENUES	**443,766**	**362,050**	**488,056**	**436,878**	**931,822**	**798,928**
Program Expenses:						
General Government	224,023	224,829		-	224,023	224,829
Public Works	38,147	35,675		-	38,147	35,675
Culture & Recreation	17,846	8,259		-	17,846	8,259
Public Safety	3,257	6,440		-	3,257	6,440
Housing & Development	5,400	1,660		-	5,400	1,660
Water & Sewer	-	-	664,862	548,428	664,862	548,428
Total Expenses	**288,673**	**276,863**	**664,862**	**548,428**	**953,535**	**825,291**
CHANGES IN NET ASSETS	155,093	85,187	(176,806)	(111,550)	(21,713)	(26,363)
NET ASSETS, BEGINNING	1,348,000	1,283,943	2,592,270	2,703,820	3,940,270	3,987,763
PRIOR PERIOD ADJUSTMENT	-	(21,130)	-	-	-	(21,130)
NET ASSETS, ENDING	**$ 1,503,093**	**$ 1,348,000**	**$ 2,415,464**	**$ 2,592,270**	**$ 3,918,557**	**$ 3,940,270**

The City's Net Assets for Governmental Activities were **$1,503,093** this year compared to **$1,348,000** last year. Unrestricted Net Assets were **$818,036** this year, compared to **$829,586** 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 **$2,415,464** this year compared to **$2,592,270** last year. Unrestricted Net Assets were **$270,527** compared to **$530,211** last year.

Total Revenues for the current year were **$931,822** compared to **$798,928** last year. The Total Yearly Cost of all programs and services were **$953,535** compared to **$825,291** 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 (Revenue) of Services	
	2011	**2010**	**2011**	**2010**
General Government	**$ 224,023**	**$ 224,829**	**$ 116,809**	**$ 111,232**
Public Works	**$ 38,147**	**$ 35,675**	**$ 38,147**	**$ 35,675**
Culture & Recreation	**$ 17,846**	**$ 8,259**	**$ (64,961)**	**$ 8,259**
Public Safety	**$ 3,257**	**$ 6,440**	**$ 3,257**	**$ 6,440**
Housing & Development	**$ 5,400**	**$ 1,660**	**$ 4,548**	**$ (282)**
TOTALS	**$ 288,673**	**$ 276,863**	**$ 97,800**	**$ 161,324**

GOVERNMENTAL FUNDS

This year the Governmental Fund revenues were **$450,350** compared to **$357,861** last year, due primarily to revenues being allocated beginning July 2011 to the City from the County's SPLOST Agreement. This year's Governmental Fund expenditures were **$442,508** compared to **$369,269** last year, due primarily to the capital outlay expenditures for Cupid Falls Park project. Fund balance was **$798,253** as compared to **$790,411** last year.

BUSINESS-TYPE ACTIVITIES

This year's Business-type activities operating revenues (see Table 2) were **$488,056** compared to **$436,878** last year. This year's operating expenditures were **$664,862** compared to **$548,428** last year. The increase in revenues is mostly due to the increase in students at Young Harris College. We had customers who left their accounts dormant and did not come for the summer. We did not install as many new customers and we did not receive the interest on our accounts that we have in the past but still managed to hold our revenues because of Young Harris College. The increase in expenses was due in part to the expenses paid to Engineering Services: Hayes/James-$31,692 and G. Ben Turnipseed-$60,999; the expenses paid to Structural Engineering: $81,717 and the purchase of equipment: $63,185. A part of the Turnipseed expenses will be refunded from the Rural Development Grant.

BUDGETARY HIGHLIGHTS:

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

TABLE 4

2011 BUDGET

	ORIGINAL	AMENDED	O/A VARIANCE*		2011 ACTUAL EXPENSES
GENERAL FUND	$ 523,309	$ 490,376	$ (32,933)		$ 276,374
WATER FUND	415,984	415,109	(875)		408,630
SEWER FUND	274,379	275,254	875		256,232
TOTAL	$ 1,213,672	$ 1,180,739	$ (32,933)		$ 941,236

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

As a whole, the city operated under budget by **$239,503** in expenditures. The General Fund revenues were **$4,964** under actual expenses, mainly due to expenses for Engineering Fees. The Water Fund revenues were **$65,233** under actual expenses, which we expected, because of the Engineering fees associated with the Hwy. 76 Line Extension and the painting/renovation of the Old Union Tank. The Sewer Fund revenues were **$41,930** under expenses primarily because of engineering fees associated with the Rural Development Loan/Grant, and the Infiltration and Inflow studies.

2011 ANALYSIS OF PROJECTS COMPLETED OR IN PROGRESS (1) Finished a major renovation of Cupid Falls; (2) began an Inflow and Infiltration study of the Sewer System; (3) purchased a new Kubota lawn mower, a skid steer, and a track hoe; (4) completed the painting of the Old Union Tank; (5) held two festivals; and (6) began the process of obtaining a loan/grant for increasing the capacity of the Sewer system.

CITY FUNDS

At year end, the City reported cash balances of **1,006,988** compared to **$1,225,753** last year. Included in cash balances are accounts restricted for debt service in the amount of **$138,070.**

CAPITAL ASSETS

At the close of the year, the City had invested **$7,335,006** in Capital Assets such as land, buildings, and improvements, equipment and infrastructure. These figures are before depreciation. Last year Capital Assets before depreciation were **$7,038,994.** After depreciation of **$3,012,787** the end of year total was **$4,322,219.** (See the disclosure in Note 5 for more detailed information.)

DEBT MANAGEMENT

At the close of the year, the city had an outstanding capital lease in the amount of **$169,702** and revenue bonds in the amount of **$1,438,332** for Water improvements for a total of **$1,608,034** in Outstanding Debt (See Table 5 and the Notes to Financial Statements for more detailed information.)

Table 5
Outstanding Debt at Year-End

	Beginning of Year	Reductions	End of Year	Amount Due in One Year
Notes	$ 1,462,048	$ 23,716	$ 1,438,332	$ 24,767
Capital lease	196,397	26,695	169,702	19,485
Total	$ 1,658,445	$ 50,411	$ 1,608,034	$ 44,252

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.

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, replacing some older equipment, more storage, and Sewer Plant renovations.

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

shirleyjarrard@cityofyoungharris.net
cityofyh@windstream.net

CITY OF YOUNG HARRIS, GEORGIA
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	$ 711,755	$ 151,603	$ 863,358
Restricted cash	-	134,750	134,750
Certificate of deposit	3,320	-	3,320
Restricted certificate of deposit	-	5,560	5,560
Property taxes receivabe	31,985	-	31,985
Other taxes receivable	6,468	-	6,468
Accounts receivable	-	75,391	75,391
Due from other governments	150,787	-	150,787
Internal balances	(2,057)	2,057	-
Prepaid items	3,438	6,876	10,314
Inventories	-	16,958	16,958
Capital assets:			
Land and contruction in progress	43,099	-	43,099
Other capital assets, net of depreciation	629,152	3,649,968	4,279,120
Deferred charges, net of amortization	-	18,953	18,953
Intangible assets, net of amortization	-	7,200	7,200
Total assets	$ 1,577,947	$ 4,069,316	$ 5,647,263
Liabilities			
Accounts payable and accrued liabilities	$ 10,120	$ 4,686	$ 14,806
Short-term notes payable	64,285	-	64,285
Customer deposits	-	41,132	41,132
Deferred revenue	449	-	449
Long-term liabilities:			
Due within one year	-	44,252	44,252
Due in more than one year	-	1,563,782	1,563,782
Total liabilities	74,854	1,653,852	1,728,706
Net Assets			
Investment in capital assets, net of related debt	607,966	2,041,934	2,649,900
Restricted for:			
Debt service	-	103,003	103,003
Capital projects	12,806	-	12,806
Unrestricted	882,321	270,527	1,152,848
Total net assets	1,503,093	2,415,464	3,918,557
Total liabilities and net assets	$ 1,577,947	$ 4,069,316	$ 5,647,263

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

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

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental activities							
General government	$ 224,023	$ 4,681	$ 400	$ 102,133	$ (116,809)	$ -	$ (116,809)
Public safety	3,257	-	-	-	(3,257)	-	(3,257)
Public works	38,147	-	-	-	(38,147)	-	(38,147)
Culture and recreation	17,846	-	-	82,807	64,961	-	64,961
Housing and development	5,400	852	-	-	(4,548)	-	(4,548)
Total governmental activities	288,673	5,533	400	184,940	(97,800)	-	(97,800)
Business-type activities							
Water	408,630	262,326	-	-	-	(146,304)	(146,304)
Sewer	256,232	213,580	-	-	-	(42,652)	(42,652)
Total business-type activities	664,862	475,906	-	-	-	(188,956)	(188,956)
Total	$ 953,535	$ 481,439	$ 400	$ 184,940	(97,800)	(188,956)	(286,756)
General revenues							
Property taxes					35,354	-	35,354
Sales taxes					159,663	-	159,663
Franchise taxes					6,610	-	6,610
Insurance premium tax					42,167	-	42,167
Business occupation tax					2,926	-	2,926
Unrestricted investment earnings					2,160	2,650	4,810
Miscellaneous					4,013	-	4,013
Gain on disposition of capital asset					-	9,500	9,500
Total general revenues					252,893	12,150	265,043
Change in net assets					155,093	(176,806)	(21,713)
Net assets, beginning of year					1,348,000	2,592,270	3,940,270
Net assets, end of year					$ 1,503,093	$ 2,415,464	$ 3,918,557

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

CITY OF YOUNG HARRIS, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

Assets	General	Grant Fund	SPLOST Fund	Total
Cash and cash equivalents	$ 710,640	$ -	$ 1,115	$ 711,755
Certificate of deposit	3,320	-	-	3,320
Property taxes receivable	31,985	-	-	31,985
Other taxes receivable	6,468	-	-	6,468
Due from other governments	12,906	70,334	67,547	150,787
Due from other funds	73,953	-	8,429	82,382
Prepaid items	3,438	-	-	3,438
Total assets	$ 842,710	$ 70,334	$ 77,091	$ 990,135
Liabilities				
Accounts payable and accrued liabilities	$ 10,120	$ -	$ -	$ 10,120
Deferred revenue	33,038	-	-	33,038
Due to other funds	14,105	70,334	-	84,439
Short-term notes payable	-	-	64,285	64,285
Total liabilities	57,263	70,334	64,285	191,882
Fund Balances				
Nonspendable	3,438	-	-	3,438
Restricted	-	-	12,806	12,806
Unassigned	782,009	-	-	782,009
Total fund balances	785,447	-	12,806	798,253
Total liabilities and fund balances	$ 842,710	$ 70,334	$ 77,091	$ 990,135

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
DECEMBER 31, 2011

Total fund balance, governmental funds		$ 798,253
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.		
Cost of capital assets	$ 1,088,507	
Less accumulated depreciation	(416,256)	672,251
Property taxes receivable levied for the current and prior years and not collected within sixty days of year end are not available soon enough to pay for the current year's expenditures, and therefore, are reported as deffered revenue in the funds.		32,589
Net assets of governmental activities in the Statement of Net Assets		$ 1,503,093

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, 2011

	General	Grant Fund	SPLOST Fund	Total
Revenues				
Property taxes	$ 41,938	$ -	$ -	$ 41,938
Sales taxes	159,663	-	-	159,663
Franchise taxes	6,610	-	-	6,610
Other taxes	45,093	-	-	45,093
Licenses and permits	5,341	-	-	5,341
Intergovernmental	6,000	96,133	82,807	184,940
Charges for services	192	-	-	192
Interest	2,160	-	-	2,160
Other revenues	4,413	-	-	4,413
Total revenues	271,410	96,133	82,807	450,350
Expenditures				
Current:				
General government	206,182	-	-	206,182
Public works	32,326	-	-	32,326
Culture and recreation	9,631	-	-	9,631
Housing and development	5,400	-	-	5,400
Capital outlay:				
General government	4,645	96,133	-	100,778
Public works	12,721	-	-	12,721
Culture and recreation	5,469	-	70,001	75,470
Total expenditures	276,374	96,133	70,001	442,508
Net change in fund balances	(4,964)	-	12,806	7,842
Fund balance, beginning of year	790,411	-	-	790,411
Fund balance, end of year	$ 785,447	$ -	$ 12,806	$ 798,253

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

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

Net change in fund balances - total governmental funds			$ 7,842
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.			(6,584)
Governmental funds report capital outlays to purchase or build capital assets 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	$ 188,969	
	Depreciation expense	(35,134)	153,835
Change in net assets of governmental activities			$ 155,093

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

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Over (Under)
Resources (inflows):				
Taxes:				
General property taxes:				
Real property	$ 29,384	$ 28,999	$ 28,084	$ (915)
Public utilities	9,085	8,877	8,877	-
Personal property	1,351	1,189	1,094	(95)
Motor vehicle	2,750	2,900	2,892	(8)
Real estate transfer	100	-	717	717
Penalties and interest	-	274	274	-
Franchise tax:				
TV/Cable	3,300	1,308	2,759	1,451
Telephone	3,600	5,181	3,851	(1,330)
General sales and use taxes:				
Local option sales tax	145,000	156,800	159,663	2,863
Business taxes:				
Insurance premium tax	33,000	42,167	42,167	-
Financial institution tax	4,000	3,390	2,926	(464)
	231,570	251,085	253,304	2,219
Licenses and permits:				
Business license	750	750	1,204	454
Insurance business license	2,800	2,800	3,285	485
Zoning and land use fees	1,000	500	500	-
Sign permits	-	317	352	35
Soil and erosion permits	1,000	-	-	-
	5,550	4,367	5,341	974
Charges for services:				
Election qualifying fees	216	180	180	-
Credit card surcharge	-	25	12	(13)
Printing and copy fees	10	-	-	-
	226	205	192	(13)
Intergovernmental:				
Solar installation incentive	-	6,000	6,000	-
State grant	226,391	226,391	-	(226,391)
	226,391	232,391	6,000	(226,391)
Investment income:				
Interest income	6,500	1,800	2,160	360
Miscellaneous income:				
Other income	-	778	1,713	935
Rent income	2,400	2,200	2,700	500
	2,400	2,978	4,413	1,435
Total Revenues	*472,637*	*492,826*	*271,410*	*(221,416)*

(continued)

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

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Over (Under)
Charges to appropriations (outflows):				
General Government:				
Executive:				
Personal services and employee benefits:				
Salaries	8,400	8,400	8,400	-
Other current expenditures:				
Travel	3,200	3,200	2,545	(655)
	11,600	11,600	10,945	(655)
Legislative:				
Personal services and employee benefits:				
Salaries	15,000	14,400	14,400	-
Other current expenditures:				
Travel	-	400	-	(400)
	15,000	14,800	14,400	(400)
Elections:				
Other current expenditures:				
Contract labor	472	1,200	859	(341)
Supplies	125	-	832	832
	597	1,200	1,691	491
General administration:				
Personal services and employee benefits:				
Salaries	17,325	62,564	58,603	(3,961)
Payroll taxes	5,468	6,931	7,978	1,047
Retirement contributions	2,059	1,956	2,195	239
Workers' compensation	4,032	2,324	2,324	-
Health reinbursement account	9,700	5,400	5,400	-
Other employee benefits	1,150	1,211	11	(1,200)
Other current expenditures:				
Accounting and auditing	4,500	3,900	3,650	(250)
Administrative	1,750	5,700	7,136	1,436
Advertising	6,200	4,200	4,960	760
Computer programming	5,000	5,000	3,788	(1,212)
Contract labor	10,500	600	504	(96)
Custodial services	2,500	2,600	2,423	(177)
Dues and fees	1,500	1,600	1,844	244
Education and training	1,100	407	605	198
Engineering services	6,200	2,150	2,130	(20)
Equipment rental	600	1,500	433	(1,067)
Garbage pickup	950	850	830	(20)
Insurance	4,200	5,054	1,616	(3,438)
Legal services	40,000	15,000	37,371	22,371
Payments to other agencies	3,150	350	-	(350)
Payments to Georgia Municipal Assoc.	600	600	111	(489)
Payments to RDC	3,000	3,000	3,350	350
Postage	200	350	329	(21)
Printing and binding	3,500	500	253	(247)

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

(continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Over (Under)
General administration (concluded)				
Professional services	600	6,100	8,801	2,701
General	20,000	10,000	6,726	(3,274)
Vehicles	1,000	200	101	(99)
General	8,000	5,500	5,896	396
Office	2,000	1,200	3,689	2,489
Tax billing	300	300	303	3
Telephone	5,200	434	477	43
Travel	1,000	200	182	(18)
Capital outlay:				
Computer equipment	1,500	3,200	1,646	(1,554)
Equipment	7,200	-	-	-
Furniture and fixtures	8,500	8,500	2,999	(5,501)
Contingencies	-	10,587	-	(10,587)
	190,484	179,968	178,664	(1,304)
General government buildings:				
Other current expenditures:				
Electricity	7,250	6,200	5,127	(1,073)
Capital outlay:				
Improvements other than buildings	226,391	226,391	-	(226,391)
Equipment	10,000	-	-	-
	243,641	232,591	5,127	(227,464)
Total General Government	461,322	440,159	210,827	(229,332)
Public Safety:				
Fire department:				
Other current expenditures:				
Repairs and maintenance	2,000	2,000	-	(2,000)
Total Public Safety	2,000	2,000	-	(2,000)
Public Works:				
Highways and streets:				
Personal services and employee benefits:				
Salaries	36,931	17,795	22,884	5,089
Other current expenditures:				
Electricity- street lights	9,348	10,170	8,869	(1,301)
Gas and oil	225	100	573	473
Capital outlay:				
Equipment	-	-	12,721	12,721
Total Public Works	46,504	28,065	45,047	16,982

(continued)

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

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Over (Under)
Culture and Recreation:				
Parks:				
Other current expenditures:				
Electricity	1,483	3,162	2,527	(635)
Repairs and maintenance	10,000	5,590	1,609	(3,981)
Supplies	2,000	9,200	5,495	(3,705)
Capital outlay:				
Improvements other than buildings	-	-	5,469	5,469
Total Culture and Recreation	13,483	17,952	15,100	(2,852)
Housing and Development				
Engineering services	-	2,200	5,400	3,200
Total Housing and Development	-	2,200	5,400	3,200
Total Expenditures	*523,309*	*490,376*	*276,374*	*(214,002)*
Excess of Revenues over (under) Expenditures	(50,672)	2,450	(4,964)	(7,414)
Other Financing Sources (Uses):				
Transfers	-	(2,450)	-	2,450
Net change in fund balance	(50,672)	-	(4,964)	(4,964)
Fund balance, beginning of year	790,411	790,411	790,411	-
Fund balance, end of year	$ 739,739	$ 790,411	$ 785,447	$ (4,964)

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

CITY OF YOUNG HARRIS, GEORGIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Enterprise Funds		
Assets	**Water Fund**	**Sewer Fund**	**Total**
Current assets:			
Cash and cash equivalents	$ 31,887	$ 119,716	$ 151,603
Restricted cash	134,750	-	134,750
Restricted certificate of deposit	5,560	-	5,560
Accounts receivable	51,213	24,178	75,391
Due from other funds	-	8,475	8,475
Inventory	16,958	-	16,958
Prepaid items	3,438	3,438	6,876
Deferred charges, net of amortization	18,953	-	18,953
Intangible assets, net of amortization	-	7,200	7,200
Total current assets	262,759	163,007	425,766
Noncurrent assets:			
Capital assets:			
Other capital assets, net of depreciation	2,086,163	1,563,805	3,649,968
Total noncurrent assets	2,086,163	1,563,805	3,649,968
Total assets	$ 2,348,922	$ 1,726,812	$ 4,075,734
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	$ 265	$ 144	$ 409
Accrued interest payable	4,277	-	4,277
Due to other funds	6,418	-	6,418
Customer deposits	37,307	3,825	41,132
Capital leases payable - current portion	19,485	-	19,485
Revenue bonds payable - current portion	24,767	-	24,767
Total current liabilities	92,519	3,969	96,488
Noncurrent liabilities:			
Capital leases payable	150,217	-	150,217
Revenue bonds payable	1,413,565	-	1,413,565
Total noncurrent liabilities	1,563,782	-	1,563,782
Total liabilities	1,656,301	3,969	1,660,270
Net Assets			
Invested in capital assets, net of related debt	478,129	1,563,805	2,041,934
Restricted for debt service	103,003	-	103,003
Unrestricted	111,489	159,038	270,527
Total net assets	692,621	1,722,843	2,415,464
Total liabilities and net assets	$ 2,348,922	$ 1,726,812	$ 4,075,734

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, 2011

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenues:			
Water	$ 254,640	$ -	$ 254,640
Sewer	-	210,813	210,813
Connection fees	2,400	700	3,100
Service charges	4,492	1,559	6,051
Miscellaneous income	794	508	1,302
Total operating revenues	262,326	213,580	475,906
Operating expenses:			
Personal services	97,865	53,637	151,502
Contractual services	56,386	45,641	102,027
Repairs and maintenance	16,024	18,690	34,714
Supplies	24,023	6,751	30,774
Utilities	23,030	24,999	48,029
Other operating expenses	24,236	16,686	40,922
Depreciation and amortization	90,405	89,828	180,233
Total operating expenses	331,969	256,232	588,201
Net operating income (loss)	(69,643)	(42,652)	(112,295)
Nonoperating revenues (expenses):			
Gain on sale of equipment	9,500	-	9,500
Interest income	1,928	722	2,650
Interest expense	(76,661)	-	(76,661)
Total nonoperating revenues (expenses)	(65,233)	722	(64,511)
Change in net assets	(134,876)	(41,930)	(176,806)
Net assets, beginning of year	827,497	1,764,773	2,592,270
Net assets, end of year	$ 692,621	$ 1,722,843	$ 2,415,464

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

CITY OF YOUNG HARRIS, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows From Operating Activities			
Receipts from customers	$ 236,398	$ 206,354	$ 442,752
Payments to suppliers and service providers	(146,567)	(114,569)	(261,136)
Payments to employees	(97,867)	(54,343)	(152,210)
Net cash provided by (used in) operating activities	(8,036)	37,442	29,406
Cash Flows From Capital and Related Financing Activities			
Purchase and construction of capital assets	(94,447)	(50,448)	(144,895)
Proceeds from disposition of capital asset	9,500	-	9,500
Principal paid on debt	(50,411)	-	(50,411)
Interest and other charges	(76,342)	-	(76,342)
Net cash provided by (used in) capital financing activities	(211,700)	(50,448)	(262,148)
Cash Flows From Noncapital Financing Activities			
Interfund loans made or repaid	1,875	(5,818)	(3,943)
Net cash provided by (used in) noncapital financing activities	1,875	(5,818)	(3,943)
Cash Flows From Investing Activities			
Interest revenue	1,796	722	2,518
Net cash provided by investing activities	1,796	722	2,518
Net increase (decrease) in cash and cash equivalents	(216,065)	(18,102)	(234,167)
Cash, beginning of year	382,702	137,818	520,520
Cash, end of year	$ 166,637	$ 119,716	$ 286,353
Reconciliation of Total Cash:			
Unrestricted	$ 31,887	$ 119,716	$ 151,603
Restricted	134,750	-	134,750
	$ 166,637	$ 119,716	$ 286,353
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	$ (69,643)	$ (42,652)	$ (112,295)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	90,405	89,828	180,233
Change in assets and liabilities:			
Accounts receivable	(26,378)	(6,876)	(33,254)
Inventories	(1,375)	-	(1,375)
Prepaid items	780	780	1,560
Accounts payable and accrued liabilities	(2,275)	(3,288)	(5,563)
Customer deposits	450	(350)	100
Net cash provided by (used in) operating activities	$ (8,036)	$ 37,442	$ 29,406

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, 2011, 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.

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

Government-Wide Financial Statements

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. The City had no nonmajor funds in 2011.

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)

C. BASIS OF ACCOUNTING (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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. BASIS OF ACCOUNTING (concluded)

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.

MAJOR FUNDS

The City reports the following major governmental funds:

The General Fund 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 Grant Fund is a capital projects fund that is used to account for construction projects underway by the City that is financed largely by grant revenue.

The SPLOST Fund is a capital projects fund that is used to account for the revenues generated from a special purpose local option sales tax to be spent for capital improvements for the City.

The City reports the following major enterprise funds:

The Water Fund and the Sewer Fund account for the development, operation and maintenance of utility systems that provide water and sewer services.

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 November 21, 2011 on property values assessed. Secured property tax payments were due on February 28, 2012 with penalties and interest to be applied on May 31, 2012. The City has the option to place a lien on the property, but has not yet chosen to do so.

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. PREPAID ITEMS

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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

L. FUND EQUITY

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

Fund Balance – Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

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

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

Unassigned – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the General Fund. Negative unassigned fund balances may be reported in all funds.

Flow Assumptions - When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order: First committed, then assigned, and lastly unassigned.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

L. FUND EQUITY (concluded)

Net Assets – Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used (i.e., the amount that the City has spent) for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted as described in the fund balance section above. All other net assets are reported as unrestricted.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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. Unspent appropriations lapse at year end. 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.

(The remainder of this page has been intentionally left blank).

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (concluded)

Excess of Expenditures over Appropriations – Governmental Funds

At December 31, 2011, the following expenditures exceeded appropriated amounts in the General Fund by a minimum of 3% or more of the applicable line item budget:

Elections:	
Supplies	$ 832
General administration:	
Payroll taxes	1,047
Retirement contributions	239
Administrative	1436
Advertising	760
Dues and fees	244
Education and training	198
Legal services	22,371
Payment to RDC	350
Professional services	2,701
General supplies	396
Office supplies	2,489
Telephone	43
Highways and streets:	
Salaries	5,089
Gas and oil	473
Equipment	12,721
Parks:	
Improvements other than buildings	5,469
Housing and development:	
Engineering services	3,200

Expenditures exceeding budgeted amounts were a result of failure to adequately budget expected amounts. These over-expenditures were funded by available fund balance.

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.

NOTE 3. DEPOSITS AND INVESTMENTS (concluded)

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, 2011, for the City's individual funds in the aggregate are as follows:

	General Fund	Grant Fund	SPLOST Fund	Water Fund	Sewer Fund	Total
Receivables:						
Property Taxes	$ 31,985	$ -	$ -	$ -	$ -	$ 31,985
Franchise	2,719	-	-	-	-	2,719
Financial institution	3,749	-	-	-	-	3,749
Intergovernmental	12,906	70,334	67,547	-	-	150,787
Water	-	-	-	51,213	-	51,213
Sewer	-	-	-	-	24,178	24,178
Gross receivables	51,359	70,334	67,547	51,213	24,178	264,631
Less allowance for uncollectibles	-	-	-	-	-	-
Net receivables	$ 51,359	$ 70,334	$ 67,547	$ 51,213	$ 24,178	$ 264,631

The City bills and collects its own property taxes. Property taxes levied for 2011 are recorded as receivables. The 2011 digest receivables and those collected during the year ended December 31, 2011 are not recognized as revenues in the year ended December 31, 2011, but are deferred until the subsequent year since the levy is intended to finance the 2012 budget. Prior year levies were recorded using substantially the same principles, and the remaining receivables are reevaluated annually. Property taxes attached as an enforceable lien on property are of a date not yet determined.

(The remainder of this page has been intentionally left blank).

NOTE 5. CAPITAL ASSETS

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

	Beginning of Year	Increases	Reclassifications	End of Year
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 43,099	$ -	$ -	$ 43,099
Construction in progress	109,005	-	(109,005)	-
Total capital assets, not being depreciated	152,104	-	-	43,099
Capital assets, being depreciated:				
Land improvements	311,346	-	-	311,346
Infrastructure	7,359	75,471	-	82,830
Buildings and improvements	250,650	96,133	109,005	455,788
Machinery and equipment	119,295	17,367	-	136,662
Vehicles	58,782	-	-	58,782
Total capital assets, being depreciated	747,432	188,971	109,005	1,045,408
Less accumulated depreciation for:				
Land improvements	164,303	14,937	-	179,240
Infrastructure	797	2,255	-	3,052
Buildings	99,980	5,013	-	104,993
Machinery and equipment	66,046	9,415	-	75,461
Vehicles	49,996	3,514	-	53,510
Total accumulated depreciation	381,122	35,134	-	416,256
Total capital assets, being depreciated, net	366,310	153,837	109,005	629,152
Governmental activities capital assets, net	$ 518,414	$ 153,837	$ 109,005	$ 672,251

(The remainder of this page has been intentionally left blank).

NOTE 5. CAPITAL ASSETS (concluded)

	Beginning of Year	Additions	Reclass	Deductions	End of Year
Business-type activities:					
Capital assets not being depreciated:					
Construction in progress	$ 9,000	$ -	$ (9,000)	$ -	$ -
Total capital assets not being depreciated	9,000	-	(9,000)	-	-
Capital assets, being depreciated:					
Machinery and equipment	442,681	63,168	-	(28,854)	476,995
Sewer infrastructure	3,087,478	-	-	-	3,087,478
Water infrastructure	2,591,327	81,727	-	-	2,673,054
Buildings	8,972	-	-	-	8,972
Total capital assets, being depreciated	6,130,458	144,895	-	(28,854)	6,246,499
Less accumulated depreciation for:					
Machinery and equipment	176,222	38,368	-	(28,854)	185,736
Sewer infrastructure	1,551,849	77,479	-	-	1,629,328
Water infrastructure	716,860	61,783	-	-	778,643
Buildings	2,506	318	-	-	2,824
Total accumulated depreciation	2,447,437	177,948	-	(28,854)	2,596,531
Total capital assets being depreciated, net	3,683,021	(33,053)	-	-	3,649,968
Business-type activities capital assets, net	$ 3,692,021	$ (33,053)	$ -	$ -	$ 3,649,968

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

Governmental activities:	
General government	$ 17,841
Public safety	3,257
Public works	5,821
Culture and recreation	8,215
Total depreciation expense - governmental activities	$ 35,134
Business-type activities:	
Water	$ 89,919
Sewerage	88,029
Total depreciation expense - business-type activities	$ 177,948

NOTE 6. SHORT-TERM DEBT

GOVERNMENTAL ACTIVITIES – NOTES

On October 1, 2009, the City entered into an agreement with a local bank for a tax-anticipation loan of $65,000 at a interest rate of 5%, payable quarterly. The proceeds were used to finance the Cupid Falls Park improvements. The note matured on December 31, 2011, and the loan principal as noted below was still outstanding at year-end. State law requires that short-term debt borrowings be repaid by December 31st in the year that the loan was made. Therefore, the City is not in compliance at year-end with the state statutes.

Short-term debt activity for the year ended December 31, 2011 was as follows:

Beginning balance	$ -
Additions	65,000
Reductions	(715)
Ending balance	$ 64,285

NOTE 7. LONG-TERM DEBT

BUSINESS-TYPE ACTIVITIES – REVENUE BONDS

Water Fund

Revenue bonds payable in the Water Fund consisted of the following at December 31, 2010:

Series 1994 Revenue Bonds were issued in the amount of $596,200 at 5.625%, with monthly payments of principal and interest of $3,148 until maturity in 2035, for the construction of water line extensions.	$ 489,247
Series 2009 Revenue Bonds were issued in the amount of $1,025,100 at 3.75%, with monthly payments of principal and interest of $4,132 until maturity in 2050, for the construction of water line improvements.	949,085
	$ 1,438,332

BUSINESS-TYPE ACTIVITIES – CAPITAL LEASE

Water Fund

United Community Bank, automatic read meter system lease payable in monthly installments of $2,626, including interest at 7.00%. Original balance of $225,143, with a maturity date of July 1, 2019, for the purchase of capital assets.	$ 169,702

NOTE 7. LONG-TERM DEBT (concluded)

Included in capital assets are the following assets recorded under capital leases:

Equipment	$ 225,143
Less: accumulated depreciation	(57,438)
Net value	$ 167,705

The following is a summary of long-term debt activity for the year ended December 31, 2011:

	Beginning of Year	Additions	Reductions	End of Year	Due Within One Year
Business-type activities:					
Bonds payable	$ 1,462,048	$ -	$ 23,716	$ 1,438,332	$ 24,767
Capital lease	196,397	-	26,695	169,702	19,485
Total	$ 1,658,445	$ -	$ 50,411	$ 1,608,034	$ 44,252

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

Business-Type Activities
Revenue Bonds

Year	Interest	Principal	Total
2012	$ 62,593	$ 24,767	$ 87,360
2013	61,442	25,918	87,360
2014	60,235	27,125	87,360
2015	58,970	28,390	87,360
2016	57,643	29,717	87,360
2017-2021	265,926	170,874	436,800
2022-2026	221,512	215,288	436,800
2027-2031	164,965	271,835	436,800
2032-2036	96,108	273,701	369,809
2037-2041	52,018	195,902	247,920
2042-2045	23,521	174,815	198,336
Total	$ 1,124,933	$ 1,438,332	$ 2,563,265

Future minimum payments under the capital lease consist of the following at December 31, 2011:

Year	
2012	$ 31,369
2013	31,369
2014	31,369
2015	31,369
2016	31,369
2017-2019	62,738
	219,583
Less: imputed interest	(49,881)
Net Present Value	$ 169,702

NOTE 8. INTERFUND BALANCES AND ACTIVITY

Balances due to/from other funds consisted of the following at December 31, 2011:

$ 70,334	Due to the General Fund from the Grant Fund for project costs
8,429	Due to the SPLOST Fund from the General Fund for excess reimbursement
5,676	Due to the Sewer Fund from the General Fund for vendor payments
3,619	Due to the General Fund from the Water Fund for vendor payments
2,799	Due to the Sewer Fund from the Water Fund for vendor payments
$ 90,857	

All interfund balances are expected to be repaid within one year from the date of the financial statements.

NOTE 9. FUND EQUITY

Nonspendable - The General Fund has fund balances that are nonspendable because they are allocated to prepaid items in the amount of $3,438.

Restricted - The SPLOST Fund has fund balances in the amount of $12,806 restricted for capital projects.

NOTE 10. 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, 2011 were $6,461 and $11,884, respectively.

NOTE 11. 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 Commission (GMRC). Membership in a regional commission (RC), formerly known as regional development centers (RDCs), 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 RCs. Each county and municipality in the state is required by law to pay minimum annual dues to the RC. An RC 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

NOTE 11. JOINT VENTURE (concluded)

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.

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RCs 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 RC beyond its resources (O.C.G.A. 50-8-39.1). Separate financial statements can be provided by contacting the RC directly.

NOTE 12. 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 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 has joined the Georgia Interlocal Risk Management Agency (GIRMA), public entity risk pool which operates as a common risk management and insurance program. 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, 2011. No provisions have been made in the financial statements for the year ended December 31, 2011 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 13. RESTRICTED ASSETS

In previous years, the City issued revenue bonds, which are serviced by the Water Fund. The bond resolutions require a reserve be maintained to pay principal and interest when due. The amount restricted for this purpose at December 31, 2011 was $99,080. In addition, customer deposits for water service held by the City totaling $41,230 are restricted in nature. Thus, total restricted assets are $140,310. The outstanding customer deposits of $37,307 are payable from those restricted assets.

NOTE 14. 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. There were no such agreements which give rise to assets or liabilities that are considered to be material at December 31, 2011.

OTHER SUPPLEMENTARY INFORMATION

CITY OF YOUNG HARRIS, GEORGIA

SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

Project	Original Estimated Cost	Expenditures: Prior Years	Expenditures: Current Year	Expenditures: Accumulated Total	Estimated % of Completion
Paid from SPLOST Fund:					
SPLOST 2011					
Water and sewer facilities and equipment	$ 125,000	$ -	$ -	$ -	0%
Cupid Falls Park improvements	80,000	-	70,001	70,001	88%
Mayor's Park equipment and improvements	29,000	-	-	-	0%
Improvements to Community Center	50,000	-	-	-	0%
Street and sidewalk improvements - pedestrian crossin	250,000	-	-	-	0%
Maple Street improvements	200,000	-	-	-	0%
Fire hydrants	100,000	-	-	-	0%
Total SPLOST	**$ 834,000**	**$ -**	**$ 70,001**	**$ 70,001**	

Note A: The SPLOST schedule has been prepared on the modified accrual basis of accounting.

INTERNAL CONTROL AND COMPLIANCE

RL Jennings & Company, PC
Certified Public Accountants

R.. Lee Jennings, CFCA, CPA
Mona Evans, CPA
Thomas H. Evans, Jr., CPA
Sherry L. Estes, CPA
Lisa J. Hoyle, CPA
Katherine S. Washington, CPA

61 Maddox Circle, East Ellijay
Post Office Box 2683, Ellijay, GA 30540
706-276-3700
Fax 706-276-3710
www.ellijaycpa.com
www.facebook.com/RLJ.ellijay

Member of
American Institute of
Certified Public Accountants
Georgia Society of
Certified Public Accountants

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 of
City of Young Harris, Georgia

We have audited the 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, 2011, which collectively comprise the City of Young Harris, Georgia's basic financial statements and have issued our report thereon dated June 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of City of Young Harris, Georgia is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered 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 City of 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.

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

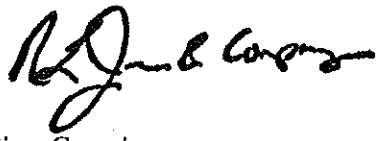
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over reporting, and are identified as Finding 2004-1 and 2008-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 one instance of noncompliance or other matters that is required to be reported under *Governmental Auditing Standards* and which is described in the accompanying schedule of findings and responses as Item 2011-1.

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

This report is intended solely for the information and use of management, City Council, others within the entity, 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.



Ellijay, Georgia
June 29, 2012

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

Repeat findings from prior years:

2004-01 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 may 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 administrative employees 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 involvement by the City Council in the City's finances is encouraged to strenghten internal controls. With implementation of these suggestions, the City's internal control 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 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.

2008-01 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: During the course of the audit, elements of the financial statements requiring significant adjustments were identified and additional audit procedures were required to report the City's year-end financial statements in accordance with GAAP. Material adjustments related primarily to reclassifying expenses in the Water Fund as capital assets and to the reclassification of interfund activity. In addition, adjustment for the accrual of revenues in the Water Fund was necessary, and the recording of depreciation expense.

Effect: Failure to properly record accruals of revenue and expenditures could result in critical financial decisions being made on erroneous data.

Cause: Routine preparation of reconcilements of detailed account balances is not being performed until year-end, due to limited personnel.

Recommendation: We recommend that the City devote the resources necessary to reconcile and review the general ledger balances each year-end.

Response: The City agrees with this finding and plans to increase the monitoring of the City's general ledger accounts at year-end.

Current Year Finding:

2011-01 Non-Compliance with State Statute

Criteria: State statutes allows governments to borrow in the short-term if revenues fall below projections, but with strict conditions: the amount of the short-term borrowing must be paid back by the end of the fiscal year.

Condition/Context: As of December 31, 2011, the City had outstanding short-term borrowings in the form of a tax anticipation note with a local bank with a maturity date of December 31st.

Effect: Failure to repay the loan by the end of the fiscal year resulted in the City not being in compliance with state statutes as applicable to local governments.

Cause: The City expected to finance the Cupid Falls improvements project with the allocation of special purpose local option sales tax proceeds to be received from Towns County government (the "County"). The City anticipated SPLOST funds would be provided in a sufficient amount to repay the loan by the end of the fiscal year. The proceeds of the tax could be not used or allocated to the City until the Series 2011 Bond debt service requirements were met by the County for the September 1st payment date. Therefore, the City did not receive sufficient amount of SPLOST proceeds from the County to repay the debt by the maturity date of December 31st.

Recommendation: The City should remedy the noncompliance by seeking other sources of financing, either from interfund loans or outside sources of allowable long-term debt.

Response: The City agrees with this finding and has made plans subsequent to year-end to repay the loan in order to be compliant with state law.