CITY OF YOUNG HARRIS, GEORGIA
FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012

CITY OF YOUNG HARRIS, GEORGIA
FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012

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 Position 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 Position 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 Position – Proprietary Funds 19

Statement of Revenues, Expenses and Changes in Fund Net Position – 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

*****

FINANCIAL SECTION

RL Jennings & Associates, PC
Certified Public Accountants

R. Lee Jennings, CFCA, CGMA, CPA
Mona Evans, CPA
Joe Sapp, CPA
Thomas H. Evans, Jr., CPA
Sherry L. Estes, CPA
Lisa J. Hoyle, CPA
Katherine S. Washington, CPA
David E DeScalzo, CPA, CFE, PC

Member

American Institute of
Certified Public Accountants

Georgia Society of
Certified Public Accountants

506 East Third Street
Rome, Georgia 30161
Phone 706.802.1945 Fax 706.802.1279
www.romecpa.com
61 Maddox Circle
East Ellijay, Georgia 30540
Phone 706.273.1945 Fax 706.273.1946
www.ellijaycpa.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the City of Young Harris, Georgia, as of December 31, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-8 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Young Harris, Georgia's basic financial statements. 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 basic financial statements.

The schedule of projects constructed with special purpose local option sales tax is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of projects constructed with special purpose local option sales tax is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated May 7, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Young Harris, Georgia's internal control over financial reporting and compliance.

R L Jennings & Associates, PC

Ellijay, Georgia
May 7, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL REPORT
CITY OF YOUNG HARRIS, GEORGIA
DECEMBER 31, 2012

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, 2012. 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 Position 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 Position is as follows: Net Position of business-type activities was **$2,122,923** compared to $2,415,464 in 2011 and Net Position of governmental activities was **$1,603,077** compared to **$1,503,093** in 2011.

- The current year's governmental activities expenses totaled **$339,502** as compared to **$288,673** in 2011, an increase of **$50,829**, due largely to an increase in general administration expenditures. The City generated **$458,859** in revenues for governmental programs compared to **$443,766** in the previous year, due largely to an increase in SPLOST tax allocation proceeds earned in the current year, net of a reduction in grant revenue.

- For business-type activities, revenues were **$414,371** compared to **$475,906** in 2011. Expenses were **$727,257** compared to **$664,862** in 2011. Of these revenues, **$231,111** was generated by water department operations and **$183,260** was generated by sewer department operations.

- The yearly cost for all city functions/programs was **$1,066,759** compared to **$953,535** in 2011.

THE CITY AS A WHOLE ANALYSIS

Since the Statement of Net Position 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 position and *any* changes in that position. 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 Position 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 Postion 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 position 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 position represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The City has net position at year-end that is restricted for the purposes of debt service and construction of capital projects. The remaining portion of net position 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 **$1,565,633** compared to **$1,608,034** in 2011.

The City's combined net position is **$3,726,000** compared to **$3,918,557** last year. However, net position and expenses from governmental and business-type activities must be reviewed separately. Table 1 focuses on the net position and Table 2 focuses on the changes in net position of the City's governmental and business-type activities.

	TABLE 1: NET POSITION					
	Governmental Activities		Business Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	$ 912,039	$ 905,696	$ 208,527	$ 419,348	$ 1,120,566	$ 1,325,044
Capital Assets	703,433	672,251	3,569,469	3,649,968	4,272,902	4,322,219
TOTAL ASSETS	**$ 1,615,472**	**$ 1,577,947**	**$ 3,777,996**	**$ 4,069,316**	**$ 5,393,468**	**$ 5,647,263**
Current Liabilities	$ 12,395	$ 74,854	$ 89,440	$ 45,818	$ 101,835	$ 120,672
Long-Term Liabilities	-	-	1,565,633	1,608,034	1,565,633	1,608,034
TOTAL LIABILITIES	**12,395**	**74,854**	**1,655,073**	**1,653,852**	**1,667,468**	**1,728,706**
Net investment in capital assets	703,433	672,251	2,043,946	2,041,934	2,747,379	2,714,185
Restricted	165,874	12,806	44,882	103,003	210,756	115,809
Unrestricted	733,770	818,036	34,095	270,527	767,865	1,088,563
TOTAL NET POSITION	**1,603,077**	**1,503,093**	**2,122,923**	**2,415,464**	**3,726,000**	**3,918,557**
TOTAL LIABILITIES AND NET POSITION	**$ 1,615,472**	**$ 1,577,947**	**$ 3,777,996**	**$ 4,069,316**	**$ 5,393,468**	**$ 5,647,263**

	TABLE 2 - CHANGES IN NET POSITION					
	Governmental Activities		Business Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Program Revenues:						
Charges for Services	$ 4,416	$ 5,533	$ 414,371	$ 475,906	$ 418,787	$ 481,439
Operating grants	400	400	-	-	400	400
Capital grants/contributions	187,674	184,940	-	-	187,674	184,940
General Revenues						-
Property Taxes	33,448	35,354	-	-	33,448	35,354
Other Taxes	216,384	211,366	-	-	216,384	211,366
Other General	16,537	6,173	972	12,150	17,509	18,323
Total Revenues	**458,859**	**443,766**	**415,343**	**488,056**	**874,202**	**931,822**
Program Expenses:						
General Government	264,173	224,023			264,173	224,023
Public Works	48,679	38,147			48,679	38,147
Culture & Recreation	18,413	17,846			18,413	17,846
Public Safety	3,257	3,257			3,257	3,257
Housing & Development	4,980	5,400			4,980	5,400
Water & Sewer	-	-	727,257	664,862	727,257	664,862
Total Expenses	**339,502**	**288,673**	**727,257**	**664,862**	**1,066,759**	**953,535**
Transfers, net	(19,373)	-	19,373	-	-	-
Change in Net Position	99,984	155,093	(292,541)	(176,806)	(192,557)	(21,713)
NET POSITION, BEGINNING	1,503,093	1,348,000	2,415,464	2,592,270	3,918,557	3,940,270
NET POSITION, ENDING	**$ 1,603,077**	**$ 1,503,093**	**$ 2,122,923**	**$ 2,415,464**	**$ 3,726,000**	**$ 3,918,557**

The City's net position for Governmental Activities was **$1,603,077** this year compared to **$1,503,093** last year. Unrestricted net position was **$733,770** this year, compared to **$818,036** last year. Unrestricted net position is what can be used to finance every-day operations without restrictions set by legislation, debt covenants, or other legal regulations.

The net position of the City's Business-type Activities was **$2,122,923** this year compared to **$2,415,464** last year. Unrestricted Net Position was **$74,205** compared to **$270,527** last year.

Total revenues for the current year were **$681,712** compared to **$931,822** last year. The total yearly cost of all programs and services were **$1,066,759** compared to **$953,535** 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	
	2012	2011	2012	2011
General Government	$ 264,173	$ 224,023	$ 226,728	$ 113,809
Public Works	$ 48,679	$ 38,147	$ 48,679	$ 38,147
Culture & Recreation	$ 18,413	$ 17,846	$(136,184)	$ (64,961)
Public Safety	$ 3,257	$ 3,257	$ 3,257	$ 3,257
Housing & Development	$ 4,980	$ 5,400	$ 4,532	$ 4,548
TOTALS	$ 339,502	$ 288,673	$ 147,012	$ 97,800

GOVERNMENTAL FUNDS

This year the governmental fund revenues were **$458,376** compared to **$450,350** last year, due primarily to revenues being allocated the entire of year of 2012, while prior year was for a six month period for SPLOST allocation beginning in July 2011 from the County's SPLOST agreement that offset a decrease in grant revenue for a project that was completed in FY2012. This year's governmental fund expenditures were **$370,684** compared to **$442,508** last year, due primarily to the capital outlay expenditures for Cupid Falls Park project occurring in 2011. Fund balance was **$866,572** as compared to **$798,253** last year.

BUSINESS-TYPE ACTIVITIES

This year's Business-type activities operating revenues (see Table 2) were **$414,371** compared to **$475,906** last year. This year's operating expenditures were **$653,420** compared to **$588,201** last year. The decrease in revenues was largely due to a reduction in installations for 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 inspect and clean the sanitary sewer lines with a cost of approximately $79,000.

BUDGETARY HIGHLIGHTS:

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

TABLE 4

2012 BUDGET

	ORIGINAL	AMENDED	O/A VARIANCE*		2011 ACTUAL EXPENSES
GENERAL FUND	$ 386,787	$ 359,776	$ (27,011)		$ 295,365
WATER FUND	405,667	420,445	14,778		379,218
SEWER FUND	295,408	456,454	161,046		348,039
TOTAL	$ 1,087,862	$ 1,236,675	$ 148,813		$ 1,022,622

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

As a whole, the city operated under budget by **$214,053** in expenditures. The General Fund revenues were **$24,663** under actual expenses, mainly due to a reduction in tax revenues and an increase in administrative expenses. The Water Fund revenues were **$74,270** 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 **$164,779** under expenses primarily because of engineering fees associated with the Infiltration and Inflow studies.

2012 ANALYSIS OF PROJECTS COMPLETED OR IN PROGRESS (1) Finished a major renovation of Cupid Falls; (2) finished an Inflow and Infiltration study of the Sewer System; (3) completed the painting of the Old Union Tank; (4) held two festivals; and (5) 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 **$836,954** compared to **$1,006,988** last year. Included in cash balances are accounts restricted for debt service in the amount of **$117,753.**

CAPITAL ASSETS

At the close of the year, the City had invested **$7,524,947** in Capital Assets such as land, buildings, and improvements, equipment and infrastructure. These figures are before depreciation. Last year Capital Assets before depreciation were **$7,335,006.** After depreciation of **$3,252,045** the end of year total was **$4,272,902.** (See the note 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 **$152,008** and revenue bonds in the amount of **$1,413,625** for water system improvements for a total of **$1,565,633** in outstanding debt (See Table 5 and the note disclosure in Note 7 for more detailed information.)

Table 5
Outstanding Debt at Year-End

	Beginning of Year	Reductions	End of Year	Amount Due in One Year
Notes	$ 1,438,332	$ 24,707	$ 1,413,625	$ 25,918
Capital lease	169,702	17,694	152,008	20,652
Total	$ 1,608,034	$ 42,401	$ 1,565,633	$ 46,570

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 POSITION
DECEMBER 31, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	$ 609,402	$ 106,483	$ 715,885
Restricted cash	-	112,057	112,057
Certificate of deposit	3,316	-	3,316
Restricted certificate of deposit	-	5,696	5,696
Property taxes receivabe	29,512	-	29,512
Other taxes receivable	10,577	-	10,577
Accounts receivable	-	77,530	77,530
Due from other governments	76,396	-	76,396
Internal balances	178,824	(178,824)	-
Prepaid items	4,012	8,024	12,036
Inventories	-	18,984	18,984
Capital assets:			
Land and contruction in progress	63,496	11,250	74,746
Other capital assets, net of depreciation	639,937	3,558,219	4,198,156
Deferred charges, net of amortization	-	18,467	18,467
Intangible assets, net of amortization	-	40,110	40,110
Total assets	$ 1,615,472	$ 3,777,996	$ 5,393,468
Liabilities			
Accounts payable and accrued liabilities	$ 12,170	$ 43,760	$ 55,930
Short-term notes payable	-	-	-
Customer deposits	-	45,680	45,680
Deferred revenue	225	-	225
Long-term liabilities:			
Due within one year	-	46,570	46,570
Due in more than one year	-	1,519,063	1,519,063
Total liabilities	12,395	1,655,073	1,667,468
Net Position			
Net investment in capital assets	703,433	2,043,946	2,747,379
Restricted for:			
Debt service	-	44,882	44,882
Capital projects	165,874	-	165,874
Unrestricted	733,770	34,095	767,865
Total net position	1,603,077	2,122,923	3,726,000
Total liabilities and net position	$ 1,615,472	$ 3,777,996	$ 5,393,468

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, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Governmental activities							
General government	$ 264,173	$ 3,968	$ 400	$ 33,077	$ (226,728)	$ -	$ (226,728)
Public safety	3,257	-	-	-	(3,257)	-	(3,257)
Public works	48,679	-	-	-	(48,679)	-	(48,679)
Culture and recreation	18,413	-	-	154,597	136,184	-	136,184
Housing and development	4,980	448	-	-	(4,532)	-	(4,532)
Total governmental activities	339,502	4,416	400	187,674	(147,012)	-	(147,012)
Business-type activities							
Water	379,218	231,111	-	-	-	(148,107)	(148,107)
Sewer	348,039	183,260	-	-	-	(164,779)	(164,779)
Total business-type activities	727,257	414,371	-	-	-	(312,886)	(312,886)
Total	$ 1,066,759	$ 418,787	$ 400	$ 187,674	(147,012)	(312,886)	(459,898)
General revenues							
Property taxes					33,448	-	33,448
Sales taxes					154,765	-	154,765
Franchise taxes					8,335	-	8,335
Insurance premium tax					44,788	-	44,788
Business occupation tax					8,496	-	8,496
Unrestricted investment earnings					1,469	972	2,441
Miscellaneous					15,068	-	15,068
Transfers					(19,373)	19,373	-
Total general revenues and transfers					246,996	20,345	267,341
Change in net position					99,984	(292,541)	(192,557)
Net position, beginning of year					1,503,093	2,415,464	3,918,557
Net position, end of year					$ 1,603,077	$ 2,122,923	$ 3,726,000

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

CITY OF YOUNG HARRIS, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

Assets	General	Grant Fund	SPLOST Fund	Total
Cash and cash equivalents	$ 500,880	$ -	$ 108,522	$ 609,402
Certificate of deposit	3,316	-	-	3,316
Property taxes receivable	29,512	-	-	29,512
Other taxes receivable	10,577	-	-	10,577
Due from other governments	12,038	-	64,358	76,396
Due from other funds	187,229	-	-	187,229
Prepaid items	4,012	-	-	4,012
Total assets	$ 747,564	$ -	$ 172,880	$ 920,444
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	$ 12,170	$ -	$ -	$ 12,170
Deferred revenue	33,297	-	-	33,297
Due to other funds	1,399	-	7,006	8,405
Total liabilities	46,866	-	7,006	53,872
Fund Balances				
Nonspendable	4,012	-	-	4,012
Restricted	-	-	165,874	165,874
Assigned	69,211	-	-	69,211
Unassigned	627,475	-	-	627,475
Total fund balances	700,698	-	165,874	866,572
Total liabilities and fund balances	$ 747,564	$ -	$ 172,880	$ 920,444

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 POSITION
DECEMBER 31, 2012

Total fund balance, governmental funds			$ 866,572
Amounts reported for governmental activities in the Statement of Net Position 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 Position.			
	Cost of capital assets	$ 1,161,524	
	Less accumulated depreciation	(458,091)	703,433
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.			33,072
Net assets of governmental activities in the Statement of Net Position			$ 1,603,077

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, 2012

	General	Grant Fund	SPLOST Fund	Total
Revenues				
Property taxes	$ 32,965	$ -	$ -	$ 32,965
Sales taxes	154,765	-	-	154,765
Franchise taxes	8,335	-	-	8,335
Business taxes	53,284	-	-	53,284
Licenses and permits	4,410	-	-	4,410
Intergovernmental	-	33,077	153,848	186,925
Charges for services	6	-	-	6
Interest	1,469	-	749	2,218
Other revenues	15,468	-	-	15,468
Total revenues	270,702	33,077	154,597	458,376
Expenditures				
Current:				
General government	240,539	-	-	240,539
Public works	38,336	-	-	38,336
Culture and recreation	6,782	-	-	6,782
Housing and development	4,980	-	-	4,980
Capital outlay:				
General government	4,728	53,393	-	58,121
Public works	-	20,397	-	20,397
Culture and recreation	-	-	1,529	1,529
Total expenditures	295,365	73,790	1,529	370,684
Other financing sources (uses)				
Transfers in	2,067	40,713	-	42,780
Transfers out	(62,153)	-	-	(62,153)
Total other financing sources (uses)	(60,086)	40,713	-	(19,373)
Net change in fund balances	(84,749)	-	153,068	68,319
Fund balance, beginning of year	785,447	-	12,806	798,253
Fund balance, end of year	$ 700,698	$ -	$ 165,874	$ 866,572

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, 2012

Net change in fund balances - total governmental funds			$ 68,319
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.			483
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	$ 78,518	
	Depreciation expense	(47,336)	31,182
Change in net position of governmental activities			$ 99,984

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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Over (Under)
Resources (inflows):				
Taxes:				
General property taxes:				
Real property	$ 29,000	$ 28,492	$ 18,503	$ (9,989)
Public utilities	8,900	9,126	9,126	-
Personal property	1,200	1,388	1,777	389
Motor vehicle	2,900	3,450	3,290	(160)
Real estate transfer	-	-	166	166
Penalties and interest	-	-	103	103
Franchise tax:				
TV/Cable	1,400	4,259	4,836	577
Telephone	5,200	3,717	3,499	(218)
General sales and use taxes:				
Local option sales tax	156,800	156,411	154,765	(1,646)
Business taxes:				
Insurance premium tax	43,000	44,788	44,788	-
Financial institution tax	3,390	4,746	8,496	3,750
	251,790	256,377	249,349	(7,028)
Licenses and permits:				
Business license	750	537	388	(149)
Insurance business license	2,800	2,290	1,965	(325)
Alcohol beverage	-	-	1,609	1,609
Zoning and land use fees	500	-	-	-
Sign permits	600	110	110	-
Land disturbance permits	-	-	44	44
Soil and erosion permits	-	294	294	-
	4,650	3,231	4,410	1,179
Charges for services:				
Credit card surcharge	25	-	6	6
Intergovernmental:				
State grant	60,000	-	-	-
Investment income:				
Interest income	1,800	1,250	1,469	219
Miscellaneous income:				
Other income	-	162	12,893	12,731
Rent income	2,400	2,625	2,575	(50)
	2,400	2,787	15,468	12,681
Total Revenues	*320,665*	*263,645*	*270,702*	*7,057*

(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, 2012

	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	3,600	3,683	3,856	173
	12,000	12,083	12,256	173
Legislative:				
Personal services and employee benefits:				
Salaries	14,400	14,400	14,400	-
Other current expenditures:				
Travel	400	1,550	1,550	-
	14,800	15,950	15,950	-
Elections:				
Other current expenditures:				
Contract labor	1,200	-	-	-
Supplies	-	1,000	-	(1,000)
	1,200	1,000	-	(1,000)
General administration:				
Personal services and employee benefits:				
Salaries	77,561	77,212	78,337	1,125
Payroll taxes	8,180	9,885	10,542	657
Retirement contributions	2,054	1,995	2,218	223
Workers' compensation	3,200	7,439	7,439	-
Health reimbursement account	6,000	9,500	9,500	-
Other employee benefits	1,200	1,750	1,704	(46)
Other current expenditures:				
Accounting and auditing	4,500	5,200	5,083	(117)
Administrative planning	5,700	4,500	4,880	380
Advertising	6,200	1,500	1,704	204
Computer programming	5,000	1,300	4,103	2,803
Contract labor	-	-	924	924
Custodial services	2,800	2,500	2,440	(60)
Dues and fees	1,600	2,800	2,069	(731)
Education and training	1,100	1,000	875	(125)
Engineering services	-	-	1,200	1,200
Equipment rental	1,500	268	268	-
Garbage pickup	950	900	790	(110)
Insurance	5,780	3,377	4,870	1,493
Legal services	15,000	35,000	28,804	(6,196)
Payments to other agencies	350	3,000	3,000	-
Payments to Georgia Municipal Assoc.	700	700	690	(10)
Payments to RDC	3,000	4,000	3,000	(1,000)
Postage	400	300	486	186
Printing and binding	1,200	1,200	576	(624)

(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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Over (Under)
General administration (concluded)				
Professional services	8,800	10,690	11,961	1,271
Repairs and maintenance - general	10,000	3,650	2,482	(1,168)
Repairs and maintenance -vehicles	500	850	1,448	598
Supplies - general	6,000	8,000	7,649	(351)
Supplies - office	2,000	3,800	6,626	2,826
Tax billing	300	350	220	(130)
Telephone	434	2,100	2,276	176
Travel	1,000	1,200	1,185	(15)
Capital outlay:				
Improvements other than buildings	30,000	5,252	-	(5,252)
Computer equipment	10,000	6,200	4,728	(1,472)
Equipment	12,000	9,000	-	(9,000)
Furniture and fixtures	8,500	8,200	-	(8,200)
Contingencies	-	48,253	-	(48,253)
	243,509	282,871	214,077	(68,794)
General government buildings:				
Other current expenditures:				
Electricity	6,200	3,640	2,984	(656)
Total General Government	*277,709*	*315,544*	*245,267*	*(70,277)*
Public Safety:				
Fire department:				
Other current expenditures:				
Repairs and maintenance	2,000	-	-	-
Total Public Safety	*2,000*	-	-	-
Public Works:				
Highways and streets:				
Personal services and employee benefits:				
Salaries	23,608	29,200	28,060	(1,140)
Other current expenditures:				
Electricity- street lights	10,170	9,500	8,002	(1,498)
Education	1,000	-	-	-
Gas and oil	1,000	1,800	2,274	474
Total Public Works	*35,778*	*40,500*	*38,336*	*(2,164)*
Culture and Recreation:				
Parks:				
Other current expenditures:				
Electricity	3,800	2,082	1,881	(201)
Repairs and maintenance	5,500	800	506	(294)
Supplies	2,000	850	4,395	3,545
Total Culture and Recreation	*11,300*	*3,732*	*6,782*	*3,050*

(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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Over (Under)
Housing and Development				
Engineering services	60,000	-	4,980	4,980
Total Housing and Development	*60,000*	*-*	*4,980*	*4,980*
Total Expenditures	*386,787*	*359,776*	*295,365*	*(64,411)*
Excess of Revenues over (under) Expenditures	*(66,122)*	*(96,131)*	*(24,663)*	*71,468*
Other Financing Sources (Uses):				
Transfers in	-	96,131	2,067	(94,064)
Transfers out	-	-	(62,153)	(62,153)
Total other financing sources (uses)	*-*	*96,131*	*(60,086)*	*(156,217)*
Net change in fund balance	*(66,122)*	-	*(84,749)*	*(84,749)*
Fund balance, beginning of year	785,447	785,447	785,447	-
Fund balance, end of year	$ 719,325	$ 785,447	$ 700,698	$ (84,749)

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

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

	Enterprise Funds		
Assets	**Water Fund**	**Sewer Fund**	**Total**
Current assets:			
Cash and cash equivalents	$ 24,105	$ 82,378	$ 106,483
Restricted cash	112,057	-	112,057
Restricted certificate of deposit	5,696	-	5,696
Accounts receivable	51,311	26,219	77,530
Due from other funds	1,455	6,397	7,852
Inventories	16,148	2,836	18,984
Prepaid items	4,012	4,012	8,024
Total current assets	214,784	121,842	336,626
Noncurrent assets:			
Capital assets:			
Construction in progress	-	11,250	11,250
Other capital assets, net of depreciation	2,070,408	1,487,811	3,558,219
Deferred charges, net of amortization	18,467	-	18,467
Intangible assets, net of amortization	-	40,110	40,110
Total noncurrent assets	2,088,875	1,539,171	3,628,046
Total assets	$ 2,303,659	$ 1,661,013	$ 3,964,672
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	$ 39,200	$ 294	$ 39,494
Accrued interest payable	4,266	-	4,266
Due to other funds	105,093	81,583	186,676
Customer deposits	41,205	4,475	45,680
Capital leases payable - current portion	20,652	-	20,652
Revenue bonds payable - current portion	25,918	-	25,918
Total current liabilities	236,334	86,352	322,686
Noncurrent liabilities:			
Capital leases payable	131,356	-	131,356
Revenue bonds payable	1,387,707	-	1,387,707
Total noncurrent liabilities	1,519,063	-	1,519,063
Total liabilities	1,755,397	86,352	1,841,749
Net Position			
Net investment in capital assets	504,775	1,539,171	2,043,946
Restricted for debt service	44,882	-	44,882
Unrestricted	(1,395)	35,490	34,095
Total net position	548,262	1,574,661	2,122,923
Total liabilities and net position	$ 2,303,659	$ 1,661,013	$ 3,964,672

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 POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenues:			
Water	$ 215,919	$ -	$ 215,919
Sewer	-	177,842	177,842
Connection fees	5,550	-	5,550
Service charges	9,534	2,341	11,875
Miscellaneous income	108	3,077	3,185
Total operating revenues	231,111	183,260	414,371
Operating expenses:			
Personal services	88,471	55,915	144,386
Contractual services	27,676	47,505	75,181
Repairs and maintenance	20,665	102,724	123,389
Supplies	25,231	9,137	34,368
Utilities	21,651	23,779	45,430
Other operating expenses	17,072	11,370	28,442
Depreciation and amortization	104,615	97,609	202,224
Total operating expenses	305,381	348,039	653,420
Net operating income (loss)	(74,270)	(164,779)	(239,049)
Nonoperating revenues (expenses):			
Interest income	717	255	972
Interest expense	(73,837)	-	(73,837)
Total nonoperating revenues (expenses)	(73,120)	255	(72,865)
Income (loss) before transfers	(147,390)	(164,524)	(311,914)
Transfers			
Transfers in	3,719	22,128	25,847
Transfers out	(688)	(5,786)	(6,474)
Total transfers	3,031	16,342	19,373
Change in net position	(144,359)	(148,182)	(292,541)
Net position, beginning of year	692,621	1,722,843	2,415,464
Net position, end of year	$ 548,262	$ 1,574,661	$ 2,122,923

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, 2012

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows From Operating Activities			
Receipts from customers	$ 234,911	$ 181,869	$ 416,780
Payments to suppliers and service providers	(73,434)	(197,925)	(271,359)
Payments to employees	(88,163)	(55,765)	(143,928)
Net cash provided by (used in) operating activities	73,314	(71,821)	1,493
Cash Flows From Capital and Related Financing Activities			
Purchase and construction of capital assets	(88,374)	(28,549)	(116,923)
Proceeds from disposition of capital asset	-	-	-
Acquisition of intangible assets	-	(37,225)	(37,225)
Principal paid on debt	(42,401)	-	(42,401)
Interest and other charges	(73,848)	-	(73,848)
Net cash provided by (used in) capital financing activities	(204,623)	(65,774)	(270,397)
Cash Flows From Noncapital Financing Activities			
Interfund loans made or repaid	102,782	83,660	186,442
Transfers from other funds, net	3,031	16,342	19,373
Net cash provided by (used in) noncapital financing activities	105,813	100,002	205,815
Cash Flows From Investing Activities			
Interest revenue	717	255	972
Net cash provided by investing activities	717	255	972
Net increase (decrease) in cash and cash equivalents	(24,779)	(37,338)	(62,117)
Cash, beginning of year	166,637	119,716	286,353
Cash, end of year	$ 141,858	$ 82,378	$ 224,236
Reconciliation of Total Cash:			
Unrestricted	$ 24,105	$ 82,378	$ 106,483
Restricted	117,753	-	117,753
	$ 141,858	$ 82,378	$ 224,236
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	$ (74,270)	$ (164,779)	$ (239,049)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	104,615	97,609	202,224
Change in assets and liabilities:			
Accounts receivable	(98)	(2,041)	(2,139)
Inventories	810	(2,836)	(2,026)
Prepaid items	(574)	(574)	(1,148)
Accounts payable and accrued liabilities	38,933	150	39,083
Customer deposits	3,898	650	4,548
Net cash provided by (used in) operating activities	$ 73,314	$ (71,821)	$ 1,493

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, 2012, 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 position 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 position. 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 position should be reported as restricted when constraints placed on 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 2012.

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 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 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. BASIS OF ACCOUNTING (concluded)

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 on December 10, 2012 based on property values assessed. Secured property tax payments were due on February 28, 2013 with penalties and interest to be applied on May 30, 2013. 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. INTANGIBLE ASSETS

Intangible assets consist of system maps, studies, and master plans in the Sewerage Fund, and are being amortized over the estimated term of their usefulness of 5 years.

K. COMPENSATED ABSENCES

The liability for compensated absences in the government-wide and proprietary fund statements consists of unpaid, accumulated annual leave balances. The liability, if any, is 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.

L. 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.

M. FUND EQUITY

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

Governmental Fund Financial Statements

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.

Committed – This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council.

Assigned – This classification includes amounts that are constrained by the City's intent to use for a specific purpose but are neither restricted nor committed (i.e., an appropriation of existing

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

M. FUND EQUITY (concluded)

fund balance to eliminate a projected budgetary deficit in the subsequent year's budget). This intent can be expressed by (a) the City Council itself or (b) the Council's delegating this responsibility to City management through the budgetary process. This classification also includes all remaining positive fund balance for all governmental funds, other than the General Fund. However, an assignment of fund balance cannot cause a deficit in unassigned fund balance to occur.

Unassigned – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. Positive unassigned fund balance is reported only in the General Fund, but 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.

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.

Government-wide and Proprietary Fund Financial Statements

Net Position – Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets and related intangible assets, net of accumulated depreciation and amortization, 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 position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted. It is the City's policy to use restricted net position first, when both restricted and unrestricted net position is available.

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

Excess of Expenditures over Appropriations – Governmental Funds

At December 31, 2012, the following expenditures exceeded appropriated amounts in the General Fund by a minimum of 3% or more of the applicable line item budget:

Executive:	
Supplies	$ 173
General administration:	
Salaries	1,125
Payroll taxes	657
Retirement contributions	223
Administrative planning	380
Advertising	204
Computer programming	2,803
Contract labor	924
Engineering services	1,200
Insurance	1,493
Postage	186
Professional services	1,271
Repairs and maintenance - vehicles	598
Supplies – office	2,826
Telephone	176
Highways and streets:	
Gas and oil	474
Parks:	
Supplies	3,545
Housing and development:	
Engineering services	4,980
Transfers out	62,153

Expenditures exceeding budgeted amounts were a result of failure to adequately budget expected amounts. In addition, grant expenditures were budgeted in the General Fund, but are reflected in the Capital Projects Fund. These over-expenditures were funded by available General 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.

NOTE 3. DEPOSITS AND INVESTMENTS (concluded)

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, 2012, for the City's individual funds in the aggregate are as follows:

	General Fund	SPLOST Fund	Water Fund	Sewer Fund	Total
Receivables:					
Property Taxes	$ 29,512	$ -	$ -	$ -	$ 29,512
Franchise	3,079	-	-	-	3,079
Financial institution	7,498	-	-	-	7,498
Intergovernmental	12,038	64,358	-	-	76,396
Water	-	-	51,311	-	51,311
Sewer	-	-	-	26,219	26,219
Gross receivables	52,127	64,358	51,311	26,219	194,015
Less allowance for uncollectibles	-	-	-	-	-
Net receivables	$ 52,127	$ 64,358	$ 51,311	$ 26,219	$ 194,015

The City bills and collects its own property taxes. Property taxes levied for 2012 are recorded as receivables. The 2012 digest receivables and those collected during the year ended December 31, 2012 are not recognized as revenues in the year ended December 31, 2012, but are deferred until the subsequent year since the levy is intended to finance the 2013 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, 2012 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	-	20,397	-	20,397
Total capital assets, not being depreciated	43,099	20,397	-	63,496
Capital assets, being depreciated:				
Land improvements	311,346	-	-	311,346
Infrastructure	82,830	-	-	82,830
Buildings and improvements	455,788	53,393	-	509,181
Machinery and equipment	136,662	4,728	(5,500)	135,890
Vehicles	58,782	-	-	58,782
Total capital assets, being depreciated	1,045,408	58,121	(5,500)	1,098,029
Less accumulated depreciation for:				
Land improvements	179,240	11,518	-	190,758
Infrastructure	3,052	4,141	-	7,193
Buildings	104,993	16,605	-	121,598
Machinery and equipment	75,461	11,557	(5,500)	81,518
Vehicles	53,510	3,515	-	57,025
Total accumulated depreciation	416,256	47,336	(5,500)	458,092
Total capital assets, being depreciated, net	629,152	10,785	-	639,937
Governmental activities capital assets, net	$ 672,251	$ 31,182	$ -	$ 703,433

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

NOTE 5. CAPITAL ASSETS (concluded)

Business-type activities:

Capital assets not being depreciated:					
Construction in progress	$ -	$ 11,250	$ -	$ -	$ 11,250
Total capital assets not being depreciated	-	11,250	-	-	11,250
Capital assets, being depreciated:					
Machinery and equipment	476,995	7,529	-	-	484,524
Sewer infrastructure	3,087,478	-	-	-	3,087,478
Water infrastructure	2,673,054	86,845	-	-	2,759,899
Vehicle	-	11,300	-	-	11,300
Buildings	8,972	-	-	-	8,972
Total capital assets, being depreciated	6,246,499	105,674	-	-	6,352,173
Less accumulated depreciation for:					
Machinery and equipment	185,736	43,106	-	-	228,842
Sewer infrastructure	1,629,328	77,479	-	-	1,706,807
Water infrastructure	778,643	75,013	-	-	853,656
Vehicle	-	1,507	-	-	1,507
Buildings	2,824	318	-	-	3,142
Total accumulated depreciation	2,596,531	197,423	-	-	2,793,954
Total capital assets being depreciated, net	3,649,968	(91,749)	-	-	3,558,219
Business-type activities capital assets, net	$ 3,649,968	$ (80,499)	$ -	$ -	$ 3,569,469

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

Governmental activities:	
General government	$ 23,634
Public safety	3,257
Public works	10,343
Culture and recreation	10,102
Total depreciation expense - governmental activities	$ 47,336
Business-type activities:	
Water	$ 104,129
Sewerage	93,294
Total depreciation expense - business-type activities	$ 197,423

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 an 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 the beginning of the year.

Short-term debt activity for the year ended December 31, 2012 was as follows:

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

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, 2012:

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.	$ 478,778
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.	934,847
	$ 1,413,625

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.	$ 152,008

NOTE 7. LONG-TERM DEBT (concluded)

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

Equipment	$ 225,143
Less: accumulated depreciation	(81,206)
Net value	$ 143,937

The following is a summary of long-term debt activity for the year ended December 31, 2012:

	Beginning of Year	Additions	Reductions	End of Year	Due Within One Year
Business-type activities:					
Bonds payable	$ 1,438,332	$ -	$ 24,707	$ 1,413,625	$ 25,918
Capital lease	169,702	-	17,694	152,008	20,652
Total	$ 1,608,034	$ -	$ 42,401	$ 1,565,633	$ 46,570

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
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	56,251	31,109	87,360
2018-2022	257,876	178,924	436,800
2023-2027	211,271	225,529	436,800
2028-2032	151,911	284,889	436,800
2033-2037	84,483	247,611	332,094
2038-2042	44,544	203,376	247,920
2043-2045	7,154	131,037	138,191
Total	$ 1,051,780	$ 1,413,625	$ 2,465,405

Future minimum payments under the capital lease consist of the following at December 31, 2012:

Year	
2013	$ 31,515
2014	31,515
2015	31,515
2016	31,515
2017	31,515
2018-2019	36,767
	194,342
Less: imputed interest	(42,334)
Net Present Value	$ 152,008

NOTE 8. INTERFUND BALANCES AND ACTIVITY

Balances due to/from other funds consisted of the following at December 31, 2012:

$ 100,058	Due to the General Fund from the Water Fund for project costs
80,165	Due to the General Fund from the Sewer Fund for project costs
7,006	Due to the General Fund from the SPLOST Fund for project costs
37	Due to the Water Fund from General Fund for vendor payments
1,418	Due to the Water Fund from the Sewer Fund for vendor payments
5,035	Due to the Sewer Fund from the Water Fund for water deposits
1,362	Due to the Sewer Fund from the General Fund for vendor payments
$ 195,081	

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

Transfers among funds consisting of the following for the year ended December 31, 2012:

$ 2,067	Transfer to General Fund from Sewer Fund for insurance allocation.
40,713	Transfer to Grant Fund from General Fund for expenditures relating to grant projects.
3,719	Transfer to Water Fund from Sewer Fund for insurance allocation.
21,440	Transfer to Sewer Fund from General Fund for capital asset costs.
688	Transfer to Sewer Fund from Water Fund for project costs.
$ 68,627	

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 $4,012.

Assigned – The General Fund has fund balances that are assigned in the amount of $69,211 to eliminate the subsequent year's projected budgetary deficit.

Restricted - The SPLOST Fund has fund balances in the amount of $165,874 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, 2012 were $5,981 and $10,947, 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 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

NOTE 12. RISK MANAGEMENT (concluded)

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, 2012. No provisions have been made in the financial statements for the year ended December 31, 2012 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, 2012 was $75,422. The current portion of bonds payable and accrued interest are payable from those restricted assets in the amount of $30,540.

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, 2012.

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, 2012

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	1,529	71,530	89%
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**	**$ 1,529**	**$ 71,530**	

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

INTERNAL CONTROL AND COMPLIANCE

RL Jennings & Associates, PC
Certified Public Accountants

R. Lee Jennings, CFCA, CGMA, CPA
Mona Evans, CPA
Joe Sapp, CPA
Thomas H. Evans, Jr., CPA
Sherry L. Estes, CPA
Lisa J. Hoyle, CPA
Katherine S. Washington, CPA
David E DeScalzo, CPA, CFE, PC

Member

American Institute of
Certified Public Accountants

Georgia Society of
Certified Public Accountants

506 East Third Street
Rome, Georgia 30161
Phone 706.802.1945 Fax 706.802.1279
www.romecpa.com
61 Maddox Circle
East Ellijay, Georgia 30540
Phone 706.273.1945 Fax 706.273.1946
www.ellijaycpa.com

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of City of Young Harris, Georgia, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise City of Young Harris, Georgia's basic financial statements and have issued our report thereon dated May 7, 2013.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses that we consider to be significant deficiencies, and are identified as Finding 2004-1 and 2008-1.

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.*

City of Young Harris, Georgia's Response to Findings

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

Purpose of this Report

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

R L Jennings & Associates, PC

Ellijay, Georgia
May 7, 2013

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.