CITY OF YOUNG HARRIS, GEORGIA
FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2014

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FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2014

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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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Young Harris, Georgia as of and for the year ended December 31, 2014, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Young Harris, Georgia, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof 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 for the City of Young Harris on pages 3-8 and 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 combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2015, 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
June 1, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL REPORT
CITY OF YOUNG HARRIS, GEORGIA
DECEMBER 31, 2014

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, 2014. 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 **$2,218,331** compared to $**2,119,248** in 2013 and Net Position of Governmental Activities was **$1,917,728** compared to $**1,695,046** in 2013.

- The current year's governmental activities expenses totaled **$201,873** as compared to **$284,325** in 2013, an decrease of **$82,452**, due largely to a reallocation of personnel expenditures among general and enterprise funds. The City generated **$492,121** in revenues for governmental activities compared to **$437,054** in the previous year, therefore, remaining consistent between the two years.

- For business-type activities, revenues were **$816,407** compared to **$615,450** in 2013, due largely because of water and sewer rate increase 2014. Expenses were **$717,324** compared to **$600,658** in 2013, in which the increase was a result of a reallocation of personnel expenditures between general and sewer funds. Of these revenues, **$350,528** was generated by water department operations and **$465,227** was generated by sewer department operations.

- The yearly cost for all city functions/programs was **$986,763** compared to **$940,981** in 2013.

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 City's basic services are accounted for in this section, including fire, public works, parks and general administration. Property taxes, franchise fees, business licenses, and local option sales taxes finance the majority of these activities.

2) **Business-type Activities:** Items included in this section are services for which the City charges a fee to help cover all or most of the cost of the service it provides. The 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.

- **Governmental Funds:** Basic services are reported in governmental 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. Governmental funds are reported using an accounting method called modified accrual accounting. This method measures cash and financial assets that can easily be converted to cash. The governmental fund statements supply a detailed short-range view of general government operations and basic services. Governmental fund data allows a city to determine the financial resources that can be spent in the long-term to finance the City's programs.

- **Proprietary Funds:** Proprietary funds are those funds the City charges for services it provides, both to City units and outside customers. Proprietary funds are reported in the Statement of Net Position 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 is 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 **$1,476,770** compared to **$1,520,015** in 2013.

The City's combined net position is **$4,136,059** compared to **$3,814,294** 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	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	$ 1,100,296	$ 977,165	$ 316,293	$ 146,988	$ 1,416,589	$ 1,124,153
Capital Assets	839,363	796,192	3,435,507	3,546,101	4,274,870	4,342,293
TOTAL ASSETS	**$ 1,939,659**	**$ 1,773,357**	**$ 3,751,800**	**$ 3,693,089**	**$ 5,691,459**	**$ 5,466,446**
Current Liabilities	$ 6,453	$ 66,134	$ 56,699	$ 53,826	$ 63,152	$ 119,960
Long-Term Liabilities	-	-	1,476,770	1,520,015	1,476,770	1,520,015
TOTAL LIABILITIES	**6,453**	**66,134**	**1,533,469**	**1,573,841**	**1,539,922**	**1,639,975**
DEFERRED OUTFLOWS	**15,478**	**7,415**	**-**	**-**	15,478	7,415
Net investment in capital assets	839,363	796,192	1,958,737	2,056,951	2,798,100	2,853,143
Restricted	405,708	261,812	69,049	69,049	474,757	330,861
Unrestricted	672,657	641,804	190,545	(6,752)	863,202	635,052
TOTAL NET POSITION	**$ 1,917,728**	**$ 1,699,808**	**$ 2,218,331**	**$ 2,119,248**	**$ 4,136,059**	**$ 3,819,056**

	TABLE 2 - CHANGES IN NET POSITION					
	Governmental Activities		Business Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Program Revenues:						
Charges for Services	$ 6,324	$ 8,576	$ 815,755	$ 614,477	$ 822,079	$ 623,053
Operating grants	-	-	-	-	-	-
Capital Grants/Contributions	191,896	149,839	-	-	191,896	149,839
General Revenues						
Property Taxes	71,035	61,446	-	-	71,035	61,446
Other Taxes	216,408	213,750	-	-	216,408	213,750
Other General	6,458	3,443	652	973	7,110	4,416
Total Revenues	**492,121**	**437,054**	**816,407**	**615,450**	**1,308,528**	**1,052,504**
Program Expenses:						
General Government	201,873	284,325	-	-	201,873	284,325
Public Works	41,506	28,925	-	-	41,506	28,925
Culture and Recreation	16,969	16,444	-	-	16,969	16,444
Public Safety	3,091	4,174	-	-	3,091	4,174
Housing and Development	6,000	6,455	-	-	6,000	6,455
Water and Sewer	-	-	717,324	600,658	717,324	600,658
Total Expenses	**269,439**	**340,323**	**717,324**	**600,658**	**986,763**	**940,981**
Transfers, net		-	-	-	-	-
Change in Net Position	222,682	96,731	99,083	14,792	321,765	111,523
NET POSITION, BEGINNING	1,699,808	1,603,077	2,119,248	2,122,923	3,819,056	3,726,000
PRIOR PERIOD RESTATEMENT	(4,762)	-	-	(18,467)	(4,762)	(18,467)
NET POSITION, ENDING	**$ 1,917,728**	**$ 1,699,808**	**$ 2,218,331**	**$ 2,119,248**	**$ 4,136,059**	**$ 3,819,056**

The City's net position for Governmental Activities was **$1,917,728** this year compared to **$1,699,808** last year. Unrestricted net position was **$672,657** this year, compared to **$641,804** 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 **$2,218,331** this year compared to **$2,119,248** last year. Unrestricted Net Position was **$190,545** compared to **$(6,752)** last year.

Total revenues for the current year were **$1,308,528** compared to **$1,052,504** last year. The total yearly cost of all programs and services were **$986,763** compared to **$940,981** 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	
	2014	**2013**	**2014**	**2013**
General Government	**$ 201,873**	**$ 284,325**	**$ 196,107**	**$ 277,906**
Public Works	**41,506**	**28,925**	**(102,390)**	**(71,075)**
Culture & Recreation	**16,969**	**16,444**	**(31,031)**	**(33,395)**
Public Safety	**3,091**	**4,174**	**3,091**	**4,174**
Housing & Development	**6,000**	**6,455**	**5,442**	**4,298**
TOTALS	**$ 269,439**	**$ 340,323**	**$ 71,219**	**$ 181,908**

GOVERNMENTAL FUNDS

This year the governmental fund revenues were **$492,271** compared to **$439,301** last year. This year's governmental fund expenditures were **$312,610** compared to **$433,082** last year, due primarily to the renovation expenditures for the City Hall building. Fund balance was **$1,047,690** as compared to **$872,791** last year.

BUSINESS-TYPE ACTIVITIES

This year's Business-type activities operating revenues (see Table 2) were **$815,755** compared to **$614,477** last year. This year's operating expenses were **$644,377** compared to **$529,115** last year. The increase in revenues was largely due to a water and sewer rate increase in 2014 occurring early in the year. The increase in expenses was due in part to the reallocation of personnel salaries between the general and the sewer fund.

BUDGETARY HIGHLIGHTS:

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

TABLE 4

2014 BUDGET

	ORIGINAL	AMENDED	O/A VARIANCE*	2014 ACTUAL EXPENSES
General Fund	**$ 305,105**	**$ 362,418**	**$ 57,313**	**$ 312,610**
Water Fund	**449,161**	**391,165**	**(57,996)**	**293,026**
Sewer Fund	**335,004**	**480,230**	**145,226**	**351,351**
Total	**$ 1,089,270**	**$ 1,233,813**	**$ 144,543**	**$ 956,987**

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

As a whole, the City operated under budget by **$276,826** in expenditures. The General Fund revenues were **$35,765** over actual expenditures, mainly due to receiving a state grant. The Water Fund revenues were **$57,502** over actual expenses, which was mainly due to increase water rates to absorb any operating shortages. The Sewer Fund revenues were **$113,876** over expenses primarily because of sewer rate increase required by USDA Rural Development in order to receive funding for waste water treatment plant expansion.

2014 ANALYSIS OF PROJECTS COMPLETED OR IN PROGRESS (1) purchased land for Cupid Falls Phase II; (2) finished major improvements to Cupid Falls, and (3) held two festivals.

CITY FUNDS

At year end, the City reported cash balances of **$1,199,863** compared to **$885,784** last year. Included in cash balances are accounts restricted for debt service in the amount of **$109,319.**

CAPITAL ASSETS

At the close of the year, the City had invested **$7,992,186** in Capital Assets such as land, buildings, and improvements, equipment and infrastructure. These figures are before depreciation. Last year Capital Assets before depreciation were **$7,840,763.** After depreciation of **$3,738,936** the end of year total was **$4,253,250**. (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 **$114,260** and revenue bonds in the amount of **$1,362,510** for water system improvements for a total of **$1,476,770** in outstanding debt (See Table 5 and the note disclosure in Note 6 for more detailed information.)

Table 5
Outstanding Debt at Year-End

	Beginning of Year	Reductions	End of Year	Amount Due in One Year
Notes	$ 1,387,715	$ 25,205	$ 1,362,510	$ 28.391
Capital lease	132,300	20,305	114,260	23,746
Total	$ 1,520,015	$ 45,510	$ 1,476,770	$ 52,137

The above includes a Water/Sewer Improvements Revenue Bond with The Rural Economic and Community Development Agency that was issued in 1995 for improvements to the Water System and to add Young Harris College to the Water System. The bonds issued in 2009 were for the water line improvements, including a new water tank.

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:

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CITY OF YOUNG HARRIS, GEORGIA
STATEMENT OF NET POSITION
DECEMBER 31, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 761,976	$ 325,240	$ 1,087,216
Restricted cash	-	103,331	103,331
Certificate of deposit	3,328	-	3,328
Restricted certificate of deposit	-	5,988	5,988
Property taxes receivabe	21,417	-	21,417
Other taxes receivable	7,482	-	7,482
Accounts receivable	-	88,145	88,145
Due from other governments	66,088	-	66,088
Internal balances	235,135	(235,135)	-
Prepaid items	4,870	9,740	14,610
Inventories	-	18,984	18,984
Capital assets:			
Land and contruction in progress	163,045	237,594	400,639
Other capital assets, net of depreciation	676,318	3,176,293	3,852,611
Intangible assets, net of amortization	-	21,620	21,620
Total assets	1,939,659	3,751,800	5,691,459
LIABILITIES			
Accounts payable and accrued liabilities	6,453	4,765	11,218
Customer deposits	-	51,934	51,934
Long-term liabilities:			
Due within one year	-	52,137	52,137
Due in more than one year	-	1,424,633	1,424,633
Total liabilities	6,453	1,533,469	1,539,922
DEFERRED INFLOWS			
Advanced receipts	15,478	-	15,478
NET POSITION			
Net investment in capital assets	839,363	1,958,737	2,798,100
Restricted for:			
Debt service	-	63,885	63,885
Capital projects	405,708	-	405,708
Unrestricted	672,657	195,709	868,366
Total net position	$ 1,917,728	$ 2,218,331	$ 4,136,059

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, 2014

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	$ 201,873	$ 5,766	$ -	$ -	$ (196,107)	$ -	$ (196,107)
Public safety	3,091	-	-	-	(3,091)	-	(3,091)
Public works	41,506	-	-	143,896	102,390	-	102,390
Culture and recreation	16,969	-	-	48,000	31,031	-	31,031
Housing and development	6,000	558	-	-	(5,442)	-	(5,442)
Total governmental activities	269,439	6,324	-	191,896	(71,219)	-	(71,219)
Business-type activities							
Water	365,973	350,528	-	-	-	(15,445)	(15,445)
Sewer	351,351	465,227	-	-	-	113,876	113,876
Total business-type activities	717,324	815,755	-	-	-	98,431	98,431
Total	$ 986,763	$ 822,079	$ -	$ 191,896	(71,219)	98,431	27,212
General revenues							
Property taxes					71,035	-	71,035
Sales taxes					156,182	-	156,182
Franchise taxes					9,650	-	9,650
Insurance premium tax					48,487	-	48,487
Business occupation tax					2,089	-	2,089
Unrestricted investment earnings					785	652	1,437
Miscellaneous					5,673	-	5,673
Total general revenues and transfers					293,901	652	294,553
Change in net position					222,682	99,083	321,765
Net position, beginning of year, as restated					1,695,046	2,119,248	3,814,294
Net position, end of year					$ 1,917,728	$ 2,218,331	$ 4,136,059

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

CITY OF YOUNG HARRIS, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	General	SPLOST Fund	Other Governmental Fund	Total
ASSETS				
Cash and cash equivalents	$ 410,052	$ 351,924	$ -	$ 761,976
Certificate of deposit	3,328	-	-	3,328
Property taxes receivable	21,417	-	-	21,417
Other taxes receivable	7,482	-	-	7,482
Due from other governments	12,129	53,959	-	66,088
Due from other funds	254,220	-	15,203	269,423
Prepaid items	4,870	-	-	4,870
Total assets	713,498	405,883	15,203	1,134,584
LIABILITIES				
Accounts payable and accrued liabilities	6,453	-	-	6,453
Due to other funds	34,113	175	-	34,288
Total liabilities	40,566	175	-	40,741
DEFERRED INFLOWS				
Unavailable revenue	30,950	-	15,203	46,153
Total deferred inflows				
FUND BALANCES				
Nonspendable	4,870	-	-	4,870
Restricted	-	405,708	-	405,708
Unassigned	637,112	-	-	637,112
Total fund balances	$ 641,982	$ 405,708	$ -	$ 1,047,690

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, 2014

Total fund balance, governmental funds		$ 1,047,690
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	$ 1,389,673	
Accumulated depreciation	(550,310)	839,363
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.		30,675
Net position of governmental activities in the Statement of Net Position		$ 1,917,728

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, 2014

	General	SPLOST Fund	Other Governmental Fund	Total
Revenues				
Property taxes	$ 71,185	$ -	$ -	$ 71,185
Sales taxes	156,182	-	-	156,182
Franchise taxes	9,650	-	-	9,650
Business taxes	50,576	-	-	50,576
Licenses and permits	6,216	-	-	6,216
Intergovernmental	48,000	143,352	-	191,352
Charges for services	108	-	-	108
Interest	785	544	-	1,329
Other revenues	5,673	-	-	5,673
Total revenues	348,375	143,896	-	492,271
Expenditures				
Current:				
General government	174,576	-	-	174,576
Public works	34,677	-	-	34,677
Culture and recreation	12,109	-	-	12,109
Housing and development	11,400	-	-	11,400
Capital outlay:				
General government	5,614	-	-	5,614
Public safety	-	-	-	-
Public works	13,192	-	-	13,192
Culture and recreation	61,042	-	-	61,042
Total expenditures	312,610	-	-	312,610
Excess (deficiency) of revenues under expenditures	35,765	143,896	-	179,661
Other financing sources (uses)	-	-	-	-
Net change in fund balances	35,765	143,896	-	179,661
Fund balance, beginning of year, as restated	606,217	261,812	-	868,029
Fund balance, end of year	$ 641,982	$ 405,708	$ -	$ 1,047,690

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, 2014

Net change in fund balances - total governmental funds			$ 179,661
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.			(150)
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	$ 87,485	
	Depreciation expense	(44,314)	43,171
Change in net position of governmental activities			$ 222,682

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 BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Over (Under)
Revenues:				
Taxes:				
General property taxes:				
Real property	$ 26,500	$ 15,300	$ 18,169	$ 2,869
Public utilities	9,125	8,098	6,866	(1,232)
Personal property	1,200	1,807	65	(1,742)
Motor vehicle and mobile home	2,385	6,740	4,627	(2,113)
Title ad valorem tax	35,626	43,000	41,458	(1,542)
Franchise tax:				
TV/Cable	3,500	4,355	4,331	(24)
Telephone	3,850	-	-	-
Right of way use	1,600	6,200	5,319	(881)
General sales and use taxes:				
Local option sales tax	140,000	155,080	156,182	1,102
Business taxes:				
Insurance premium tax	46,500	48,487	48,487	-
Financial institution tax	7,500	2,736	2,089	(647)
	277,786	291,803	287,593	(4,210)
Licenses and permits:				
Business license	500	550	650	100
Insurance business license	2,665	2,700	2,940	240
Alcohol beverage	480	1,784	2,068	284
Zoning and land use fees	1,500	-	-	-
Sign permits	150	50	49	(1)
Soil and erosion permits	600	509	509	-
	5,895	5,593	6,216	623
Charges for services:				
Credit card surcharge	-	39	18	(21)
Printing and copy fees	50	90	90	-
	50	129	108	(21)
Intergovernmental:				
State grant	-	48,000	48,000	-
Investment income:				
Interest income	625	560	785	225
Miscellaneous income:				
Contributions and donations	100	200	2,573	2,373
Rent income	2,425	3,100	3,100	-
	2,525	3,300	5,673	2,373
Total Revenues	*286,881*	*349,385*	*348,375*	*(1,010)*

(continued)

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

CITY OF YOUNG HARRIS, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Over (Under)
Expenditures:				
General Government:				
Executive:				
Personal services and employee benefits:				
Salaries	16,800	8,400	8,530	130
Other current expenditures:				
Travel	3,500	4,200	3,116	(1,084)
	20,300	12,600	11,646	(954)
Legislative:				
Personal services and employee benefits:				
Salaries	18,000	14,400	14,400	-
Other current expenditures:				
Travel	2,000	600	537	(63)
	20,000	15,000	14,937	(63)
General administration:				
Personal services and employee benefits:				
Salaries	28,624	22,119	22,119	-
Payroll taxes	8,711	6,623	6,064	(559)
Retirement contributions	1,683	1,955	1,868	(87)
Workers' compensation	6,340	4,584	4,584	-
Health reimbursement account	13,200	9,500	8,175	(1,325)
Other employee benefits	900	900	968	68
Other current expenditures:				
Accounting and auditing	5,335	6,200	4,333	(1,867)
Administrative planning	1,500	4,873	10,948	6,075
Advertising	2,600	5,200	5,790	590
Computer programming	1,500	1,500	1,533	33
Contingencies	27,650	54,634	-	(54,634)
Contract labor	26,500	16,640	18,944	2,304
Custodial services	2,500	3,200	3,234	34
Dues and fees	1,500	1,500	1,529	29
Education and training	1,500	1,500	354	(1,146)
Garbage pickup	960	1,100	1,002	(98)
Insurance	6,200	6,200	6,426	226
Legal services	18,335	35,000	22,739	(12,261)
Payments to other agencies	3,000	-	-	-
Payments to Georgia Municipal Assoc.	700	700	-	(700)
Payments to RDC	3,000	3,000	3,000	-
Postage	100	250	226	(24)
Printing and binding	500	1,500	1,254	(246)
Professional services	-	500	66	(434)

(continued)

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

CITY OF YOUNG HARRIS, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Over (Under)
General administration (concluded)				
Repairs and maintenance - general	10,000	5,400	7,622	2,222
Repairs and maintenance -vehicles	1,800	50	12	(38)
Supplies - general	8,000	4,200	5,234	1,034
Supplies - office	2,500	2,500	2,129	(371)
Tax billing	450	325	230	(95)
Telephone	3,200	3,600	2,610	(990)
Travel	800	700	589	(111)
Capital outlay:				
Computer equipment	2,500	5,500	4,562	(938)
Furniture and fixtures	8,500	2,000	1,052	(948)
	200,588	213,453	149,196	(64,257)
General government buildings:				
Other current expenditures:				
Electricity	3,600	4,986	4,411	(575)
Total General Government	*244,488*	*246,039*	*180,190*	*(65,849)*
Public Works:				
Highways and streets:				
Personal services and employee benefits:				
Salaries	35,552	26,572	26,602	30
Other current expenditures:				
Electricity- street lights	8,500	8,500	8,075	(425)
Capital outlay:				
TE Project	5,000	6,000	9,223	3,223
Maple Street Improvements	-	-	3,969	3,969
Total Public Works	*49,052*	*41,072*	*47,869*	*6,797*
Culture and Recreation:				
Parks:				
Other current expenditures:				
Electricity	3,565	2,965	1,220	(1,745)
Repairs and maintenance	2,500	2,500	4,270	1,770
Supplies	2,300	2,300	1,099	(1,201)
Capital outlay:				
Improvements other than buildings	-	-	-	-
Cupid Falls Phase II	-	-	5,520	5,520
Land	-	61,042	61,042	-
Total Culture and Recreation	*8,365*	*68,807*	*73,151*	*4,344*

(continued)

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

CITY OF YOUNG HARRIS, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Over (Under)
Housing and Development				
Engineering services	3,200	6,500	11,400	4,900
Total Housing and Development	*3,200*	*6,500*	*11,400*	*4,900*
Total Expenditures	*305,105*	*362,418*	*312,610*	*(49,808)*
Excess of Revenues over (under) Expenditures	*(18,224)*	*(13,033)*	*35,765*	*48,798*
Other Financing Sources (Uses):				
Transfers in	96,131	321,296	-	(321,296)
Transfers out	-	308,254	-	(308,254)
Total other financing sources (uses)	*96,131*	*629,550*	-	*(629,550)*
Net change in fund balance	*77,907*	*616,517*	*35,765*	*(580,752)*
Fund balance, beginning of year, as restated	606,217	606,217	606,217	-
Fund balance, end of year	$ 684,124	$ 1,222,734	$ 641,982	$ (580,752)

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, 2014

	Enterprise Funds		
ASSETS	**Water Fund**	**Sewer Fund**	**Total**
Current assets:			
Cash and cash equivalents	$ 75,895	$ 249,345	$ 325,240
Restricted cash	103,331	-	103,331
Restricted certificate of deposit	5,988	-	5,988
Accounts receivable	59,161	28,984	88,145
Due from other funds	-	47,707	47,707
Inventories	16,148	2,836	18,984
Prepaid items	4,870	4,870	9,740
Total current assets	265,393	333,742	599,135
Noncurrent assets:			
Capital assets:			
Construction in progress	-	237,594	237,594
Other capital assets, net of depreciation	1,864,374	1,311,919	3,176,293
Intangible assets, net of amortization	-	21,620	21,620
Total noncurrent assets	1,864,374	1,571,133	3,435,507
Total assets	2,129,767	1,904,875	4,034,642
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	1,484	784	2,268
Accrued interest payable	2,497	-	2,497
Due to other funds	230,100	52,742	282,842
Customer deposits	45,434	6,500	51,934
Capital leases payable - current portion	23,746	-	23,746
Revenue bonds payable - current portion	28,391	-	28,391
Total current liabilities	331,652	60,026	391,678
Noncurrent liabilities:			
Capital leases payable	90,514	-	90,514
Revenue bonds payable	1,334,119	-	1,334,119
Total noncurrent liabilities	1,424,633	-	1,424,633
Total liabilities	1,756,285	60,026	1,816,311
NET POSITION			
Net investment in capital assets	387,604	1,571,133	1,958,737
Restricted for debt service	63,885	-	63,885
Unrestricted	(78,007)	273,716	195,709
Total net position	$ 373,482	$ 1,844,849	$ 2,218,331

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, 2014

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenues:			
Water	$ 299,989	$ -	$ 299,989
Sewer	-	422,399	422,399
Connection fees	45,390	40,250	85,640
Service charges	4,794	2,578	7,372
Miscellaneous income	355	-	355
Total operating revenues	350,528	465,227	815,755
Operating expenses:			
Personal services	100,959	92,200	193,159
Contractual services	19,952	30,475	50,427
Repairs and maintenance	3,982	13,109	17,091
Supplies	20,121	30,294	50,415
Utilities	24,006	24,002	48,008
Other operating expenses	22,254	57,635	79,889
Depreciation and amortization	101,752	103,636	205,388
Total operating expenses	293,026	351,351	644,377
Net operating income (loss)	57,502	113,876	171,378
Nonoperating revenues (expenses):			
Interest income	517	135	652
Interest expense	(72,947)	-	(72,947)
Total nonoperating revenues (expenses)	(72,430)	135	(72,295)
Income (loss) before transfers	(14,928)	114,011	99,083
Transfers	-	-	-
Change in net position	(14,928)	114,011	99,083
Net position, beginning of year, as restated	388,410	1,730,838	2,119,248
Net position, end of year	$ 373,482	$ 1,844,849	$ 2,218,331

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

CITY OF YOUNG HARRIS, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Enterprise Funds		
	Water Fund	**Sewer Fund**	**Total**
Cash Flows From Operating Activities			
Receipts from customers	$ 319,578	$ 470,995	$ 790,573
Payments to suppliers and service providers	(96,113)	(155,964)	(252,077)
Payments to employees	(100,959)	(92,200)	(193,159)
Net cash provided by (used in) operating activities	122,506	222,831	345,337
Cash Flows From Capital and Related Financing Activities			
Purchase and construction of capital assets	-	(63,929)	(63,929)
Principal paid on debt	(43,245)	-	(43,245)
Interest and other charges	(73,013)	-	(73,013)
Net cash provided by (used in) capital financing activities	(116,258)	(63,929)	(180,187)
Cash Flows From Noncapital Financing Activities			
Interfund loans received or paid	(2,922)	13,539	10,617
Net cash provided by (used in) noncapital financing activities	(2,922)	13,539	10,617
Cash Flows From Investing Activities			
Interest revenue	517	135	652
Net cash provided by investing activities	517	135	652
Net increase (decrease) in cash and cash equivalents	3,843	172,576	176,419
Cash, beginning of year	181,371	76,769	258,140
Cash, end of year	$ 185,214	$ 249,345	$ 434,559
Reconciliation of Total Cash:			
Unrestricted	$ 75,895	$ 249,345	$ 325,240
Restricted	109,319	-	109,319
	$ 185,214	$ 249,345	$ 434,559
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	$ 57,502	$ 113,876	$ 171,378
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:			
Depreciation and amortization	101,752	103,636	205,388
Change in assets and liabilities:			
Accounts receivable	(32,411)	4,293	(28,118)
Prepaid items	(449)	(449)	(898)
Accounts payable and accrued liabilities	(5,349)	-	(5,349)
Customer deposits	1,461	1,475	2,936
Net cash provided by (used in) operating activities	$ 122,506	$ 222,831	$ 345,337

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, 2014, 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 only one nonmajor fund in 2014.

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 earningsfines 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, 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 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 November 20, 2014 based on property values assessed. Secured property tax payments were due on February 28, 2015 with penalties and interest to be applied on May 31, 2015. 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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

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 useful life 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

M. FUND EQUITY (concluded)

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 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.

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

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.

Excess of Expenditures over Appropriations – Governmental Funds

At December 31, 2014, the following expenditures exceeded appropriated amounts in the General Fund by a minimum of 3% or more of the applicable line item budget:

General administration:	
Other employee benefits	**68**
Administrative planning	**6,075**
Advertising	**590**
Contract labor	**2,304**
Insurance	**226**
Repairs and maintenance - general	**2,222**
Supplies – general	**1,034**
Public Works:	
Capital outlay – TE Project	**3,223**
Capital outlay – Maple Street	**3,969**
Culture and Recreation:	
Repairs and maintenance	**1,770**
Capital outlay – Cupid Falls Phase II	**5,520**
***Housing and development*:**	
Engineering services	**4,900**

Expenditures exceeding budgeted amounts were a result of failure to adequately budget expected amounts. 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. 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, 2014, for the City's individual funds in the aggregate are as follows:

	General Fund	SPLOST Fund	Water Fund	Sewer Fund	Total
Receivables:					
Property taxes	$ 21,417	$ -	$ -	$ -	$ 21,417
Franchise	1,373	-	-	-	1,373
Financial institution	2,089	-	-	-	2,089
Intergovernmental	12,129	53,959	-	-	66,088
TAVT	4,020	-	-	-	4,020
Water	-	-	59,161	-	59,161
Sewer	-	-	-	28,984	28,984
Gross receivables	41,028	53,959	59,161	28,984	183,132
Less allowance for uncollectibles	-	-	-	-	-
Net receivables	$ 41,028	$ 53,959	$ 59,161	$ 28,984	$ 183,132

The City bills and collects its own property taxes. Property taxes levied for 2014 are recorded as receivables. The 2014 digest receivables and those collected during the year ended December 31, 2014 are not recognized as revenues in the year ended December 31, 2014, but are deferred until the subsequent year since the levy is intended to finance the 2015 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.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

	Beginning of Year	Increases	Reclassifications	End of Year
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 43,099	$ 61,042	$ -	$ 104,141
Construction in progress	36,961	21,943	-	58,904
Total capital assets, not being depreciated	80,060	82,985	-	163,045
Capital assets, being depreciated:				
Land improvements	328,340	-	-	328,340
Infrastructure	82,830	-	-	82,830
Buildings and improvements	598,326	-	-	598,326
Machinery and equipment	153,850	4,500	-	158,350
Vehicles	58,782	-	-	58,782
Total capital assets, being depreciated	1,222,128	4,500	-	1,226,628
Less accumulated depreciation for:				
Land improvements	202,347	11,797	(3,420)	210,724
Infrastructure	11,334	4,141	-	15,475
Buildings	139,835	19,722	3,420	162,977
Machinery and equipment	93,698	8,654	-	102,352
Vehicles	58,782		-	58,782
Total accumulated depreciation	505,996	44,314	-	550,310
Total capital assets, being depreciated, net	716,132	(39,814)	-	676,318
Governmental activities capital assets, net	$ 796,192	$ 43,171	$ -	$ 839,363

NOTE 5. CAPITAL ASSETS (concluded)

	Beginning of Year	Additions	Reclass	End of Year
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	$ 183,376	$ 54,218	$ -	$ 237,594
Total capital assets, not being depreciated	183,376	54,218	-	237,594
Capital assets, being depreciated:				
Machinery and equipment	487,560	9,719	-	497,279
Sewer infrastructure	3,087,478	-	-	3,087,478
Water infrastructure	2,759,889	-	-	2,759,889
Vehicle	11,300	-	-	11,300
Buildings	8,972	-	-	8,972
Total capital assets, being depreciated	6,355,199	9,719	-	6,364,918
Less accumulated depreciation for:				
Machinery and equipment	271,201	39,561	-	310,762
Sewer infrastructure	1,783,834	77,479	-	1,861,313
Water infrastructure	930,212	76,532	-	1,006,744
Vehicle	3,767	2,260	-	6,027
Buildings	3,460	319	-	3,779
Total accumulated depreciation	2,992,474	196,151	-	3,188,625
Total capital assets being depreciated, net	3,362,725	(186,432)	-	3,176,293
Business-type activities capital assets, net	$ 3,546,101	$ (132,214)	$ -	$ 3,413,887
Intangible assets:				
Mapping, studies, and plans	$ 46,225	$ -	$ -	$ 46,225
Accumulated amortization	(15,360)	(9,245)	-	(24,605)
Net intangible assets	$ 30,865	$ (9,245)	$ -	$ 21,620

Depreciation and amortization expense was charged to functions/programs as follows:

	Depreciation	Amortization
Governmental activities:		
General government	$ 24,014	
Public safety	3,091	
Public works	6,829	
Culture and recreation	10,380	
Total - governmental activities	$ 44,314	
Business-type activities:		
Water	$ 101,752	$ -
Sewerage	94,391	9,245
Total - business-type activities	$ 196,143	$ 9,245

NOTE 6. LONG-TERM DEBT

BUSINESS-TYPE ACTIVITIES – REVENUE BONDS

Water Fund

Revenue bonds payable in the Water Fund consisted of the following at December 31, 2014:

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.	$ 453,603
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.	908,907
	$ 1,362,510

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.	$ 114,260

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

Equipment	$ 225,143
Accumulated depreciation	(127,690)
Net value	$ 97,453

Current year amortization expense related to the capital lease is $22,717.

The following is a summary of long-term debt activity for the year ended December 31, 2014:

	Beginning of Year	Additions	Reductions	End of Year	Due Within One Year
Business-type activities:					
Bonds payable	$ 1,387,715	$ -	$ 25,205	$ 1,362,510	$ 28,391
Capital lease	132,300	-	18,040	114,260	23,746
Total	$ 1,520,015	$ -	$ 43,245	$ 1,476,770	$ 52,137

NOTE 6. LONG-TERM DEBT (concluded)

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
2015	$ 58,970	$ 28,390	$ 87,360
2016	57,643	29,717	87,360
2017	56,251	31,109	87,360
2018	54,792	32,568	87,360
2019	53,260	34,100	87,360
2020-2024	240,568	196,232	436,800
2025-2029	189,242	247,558	436,800
2030-2034	123,808	312,992	436,800
2035-2039	66,226	188,060	254,286
2040-2044	28,730	219,190	247,920
2045	613	42,594	43,207
Total	$ 930,103	$ 1,362,510	$ 2,292,613

Future minimum payments under the capital lease consist of the following at December 31, 2014:

Year	
2015	31,515
2016	31,515
2017	31,515
2018	31,515
2019	6,036
	132,096
Imputed interest	(17,836)
Net Present Value	$ 114,260

NOTE 7. INTERFUND BALANCES AND ACTIVITY

Balances due to/from other funds consisted of the following at December 31, 2014:

$	221,306	Due to the General Fund from the Water Fund for project costs
	13,829	Due to the General Fund from the Sewer Fund for project costs
	175	Due to the General Fund from the SPLOST Fund for project costs
	15,203	Due to the nonmajor governmental fund from General Fund for vendor payments
	47,707	Due to the Sewer Fund from the Water Fund for water deposits
$	38,912	Due to the Sewer Fund from the Water Fund for vendor payments

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

NOTE 8. FUND EQUITY

Nonspendable - **The General Fund has fund balances that are nonspendable because they are allocated to prepaid items in the amount of $4,870.**

Restricted - **The SPLOST Fund has fund balances in the amount of $405,708 restricted for capital projects.**

NOTE 9. DEFINED CONTRIBUTION PLAN

The City offers employees the opportunity for participation in a SIMPLE contributory retirement plan through Park Sterling Bank, 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, 2014 were $6,351 and $10,751, respectively.

NOTE 10. 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

NOTE 10. JOINT VENTURE (concluded)

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 11. 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, 2014. No provisions have been made in the financial statements for the year ended December 31, 2014 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.

NOTE 11. RISK MANAGEMENT (concluded)

No amount has been recorded in the financial statements for this contingency, as management believes the likelihood for assessment is remote.

NOTE 12. 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, 2014 was $81,522. The current portion of bonds payable and accrued interest are payable from those restricted assets in the amount of $30,777.

NOTE 13. COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

There are no suits pending on unasserted claims that would result in material liabilities to the City. The City has entered into various agreements and contracts in the normal course of business. There were no such agreements which give rise to assets or liabilities that are considered to be material at June 1, 2015.

NOTE 14. PRIOR PERIOD RESTATEMENT

A restatement of beginning fund balance was necessary to adjust for the over accrual of the financial institution tax in the prior year. The restatement affected net position as follows:

General Fund	
Net Position, December 31, 2013, as originally reported	$ 610,979
To adjust for the over accrual of financial institution tax	(4,762)
Net Position, December 31, 2013, as restated	$ 606,217

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, 2014

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	71,530	-	71,530	89%
Mayor's Park equipment and improvements	29,000	24,123	-	24,123	83%
Improvements to Community Center	50,000	28,178	-	28,178	56%
Street and sidewalk improvements - pedestrian crossings	250,000	1,600	-	1,600	1%
Maple Street improvements	200,000	-	-	-	0%
Fire hydrants	100,000	-	-	-	0%
Total SPLOST	**$ 834,000**	**$ 125,431**	**$ -**	**$ 125,431**	

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

Internal Control and Compliance Section

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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, each major fund, and remaining fund information of City of Young Harris, Georgia, as of and for the year ended December 31, 2014, 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 June 1, 2015.

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
June 1, 2015

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 many 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 (1) reclassifying expenses in the Sewer Fund as capital assets, and (2) the recording of significant journal entries to correct beginning balances to the prior year audited financial statements.In addition, adjustment for the accrual of revenues in the General Fund and 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.