CITY OF YOUNG HARRIS, GEORGIA
FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2019

CITY OF YOUNG HARRIS, GEORGIA
FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2019

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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 the City of Young Harris, Georgia, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City of Young Harris, Georgia'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 *Governmental 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 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, and each major fund of the City of Young Harris, Georgia, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the 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 the Official Code of Georgia Annotated 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 11, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Young Harris, Georgia's 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 the City of Young Harris, Georgia's internal control over financial reporting and compliance.

RL Jennings + Associates, PC

Ellijay, Georgia
May 11, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL REPORT
CITY OF YOUNG HARRIS, GEORGIA
DECEMBER 31, 2019

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, 2019. 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 Governmental Activities was **$2,832,162** compared to **$2,628,692** in 2018 and Net Position of Business-type Activities was **$2,206,652** to **$2,465,146** in 2018.

- The current year's governmental activities expenses totaled **$393,859** as compared to **$315,921** in 2018. The City generated **$597,330** in revenues for governmental activities compared to **$509,933** in the previous year.

- For business-type activities, revenues were **$819,719** compared to **$757,800** in 2018, an increase resulting from an increase in fees and grant income. Expenses were **$1,106,870** compared to **$929,362** in 2018, in which the increase was related to engineering fees for relocation of lines due to a state road project. Of these revenues, **$402,428** was generated by water department operations and **$404,761** was generated by sewer department operations.

- The yearly cost for all city functions/programs was **$1,500,729** compared to **$1,244,283** in 2018.

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: 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 ANALYSIS

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 **$5,747,062** compared to **$5,853,314** in 2018.

The City's combined net position is **$5,038,814** compared to **$5,093,838** 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.

The City's net position for Governmental Activities was **$2,832,162** this year compared to **$2,628,692** last year. Unrestricted net position was **$983,151** this year, compared to **$948,227** 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 **$2,206,652** this year compared to **$2,465,146** last year. Unrestricted Net Position was **$615,990** compared to **$668,618** last year.

Total revenues for the current year were **$1,422,790** compared to **$1,279,950** last year. The total yearly cost of all programs and services were **$1,500,729** compared to **$1,244,283** 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 1: NET POSITION

	Governmental Activities		Business Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Current and Other Assets	$ 1,183,256	$ 1,192,247	$ 978,089	$ 1,001,049	$ 2,161,345	$ 2,193,296
Capital Assets	1,668,856	1,441,533	7,063,605	7,418,586	8,732,461	8,860,119
TOTAL ASSETS	**$ 2,852,112**	**$ 2,633,780**	**$ 8,041,694**	**$ 8,419,635**	**$ 10,893,806**	**$ 11,053,415**
Current Liabilities	$ 12,207	$ 5,088	$ 217,466	$ 208,117	$ 229,673	$ 213,205
Long-Term Liabilities	7,743	-	5,617,576	5,723,457	5,625,319	5,723,457
TOTAL LIABILITIES	**19,950**	**5,088**	**5,835,042**	**5,931,574**	**5,854,992**	**5,936,662**
Net investment in capital assets	1,657,895	1,441,533	1,316,543	1,565,272	2,974,438	3,006,805
Restricted	191,116	238,932	274,119	215,507	465,235	454,439
Unrestricted	983,151	948,227	615,990	707,282	1,599,141	1,655,509
TOTAL NET POSITION	**$ 2,832,162**	**$ 2,628,692**	**$ 2,206,652**	**$ 2,488,061**	**$ 5,038,814**	**$ 5,116,753**

TABLE 2 - CHANGES IN NET POSITION

	Governmental Activities		Business Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Program Revenues:						
Charges for Services	$ 7,917	$ 10,056	$ 807,189	$ 757,800	$ 815,106	$ 767,856
Operating grants	-	101,137	-	-	-	101,137
Capital Grants/Contributions	200,865	48,548	12,560	-	213,425	48,548
General Revenues						
Property Taxes	67,974	75,387	-	-	67,974	75,387
Other Taxes	263,519	271,406	-	-	263,519	271,406
Other General	57,054	3,399	5,712	217	62,766	3,616
Total Revenues	**597,329**	**509,933**	**825,461**	**758,017**	**1,422,790**	**1,267,950**
Program Expenses:						
General Government	251,552	206,263	-	-	251,552	206,263
Public Works	94,053	90,906	-	-	94,053	90,906
Culture and Recreation	17,532	15,531	-	-	17,532	15,531
Public Safety	7,829	1,071	-	-	7,829	1,071
Housing and Development	22,038	1,150	-	-	22,038	1,150
Interest on long-term debt	855	-	-	-	855	-
Water and Sewer	-	-	1,106,870	929,362	1,106,870	929,362
Total Expenses	**393,859**	**314,921**	**1,106,870**	**929,362**	**1,500,729**	**1,244,283**
Change in Net Position	203,470	195,012	(281,409)	(171,345)	(77,939)	54,231
NET POSITION, BEGINNING	2,628,692	2,433,680	2,636,491	2,636,491	5,265,183	5,070,171
NET POSITION, ENDING	**$ 2,832,162**	**$ 2,628,692**	**$ 2,355,082**	**$ 2,465,146**	**$ 5,187,244**	**$ 5,124,402**

Table 3

Governmental Activities

	Total Cost of Services		Net Cost (Revenue) of Services	
	2019	2018	2019	2018
General Government	$ 251,552	$ 206,263	$ 244,285	$ (97,455)
Public Works	94,053	90,906	(106,612)	(42,358)
Culture & Recreation	17,532	15,531	17,532	(15,531)
Public Safety	7,829	1,071	7,829	(1,071)
Housing & Development	22,038	1,150	21,188	1,235
Interest on long-term debt	855	-	855	-
TOTALS	$ 393,859	$ 314,921	$ 185,077	$ (155,180)

GOVERNMENTAL FUNDS

This year the governmental fund revenues were **$476,903** compared to **$410,296** last year. This year's governmental fund expenditures were **$625,693** compared to **$397,483** last year, resulting from increased capital outlay costs. Fund balance was **$1,073,880** as compared to **$1,158,771** last year.

BUSINESS-TYPE ACTIVITIES

This year's Business-type activities operating revenues (see Table 2) were **$812,120** compared to **$757,800** last year. This year's operating expenses were **$970,594** compared to **$777,357** last year.

BUDGETARY HIGHLIGHTS:

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

TABLE 4

2019 BUDGET

	ORIGINAL	AMENDED	O/A VARIANCE*	2019 ACTUAL EXPENSES
General Fund	$ 326,214	$ 578,592	$ 252,378	$ 577,643
Water Fund	406,604	403,604	(3,000)	401,663
Sewer Fund	461,840	454,382	(7,458)	568,931
Total	$ 1,194,658	$ 1,436,578	$ 241,920	$ 1,548,237

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

As a whole, the City operated under budget by **$47,368** in expenditures. The General Fund revenues were **$84,251** over actual expenditures, due to the increase in Local Option Sales Tax Collections and additional Local Government Improvement Grant. The Water Fund revenues were **$2,774** over actual expenses, results of increased fees and lower engineering expenses. The Sewer Fund revenues were **$(161,248)** under expenses due to increase in engineering cost related to line relocation due to state highway project and increase in operating cost..

CITY FUNDS

At year end, the City reported cash balances of **$1,891,374** compared to **$2,063,513** last year. Included in cash balances are accounts restricted for debt service in the amount of **$247,119.**

CAPITAL ASSETS

At the close of the year, the City had invested **$14,141,992** in Capital Assets such as land, buildings, and improvements, equipment and infrastructure. These figures are before depreciation. Last year Capital Assets before depreciation were **$13,880,514.** After accumulated depreciation of **$5,409,531** the end of year total was **$8,732,461** (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 **$32,885** and revenue bonds in the amount of **$5,725,138** for water and sewer system improvements for a total of **$5,758,023** 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	Additions	Reductions	End of Year	Amount Due in One Year
Notes	$ 5,843,301	$ -	$ (118,163)	$ $5,725,138	$ 119,844
Capital lease	10,013	43,798	(20,926)	32,885	9,654
Total	$ 5,853,314	$ 43,798	$ (139,089)	$ 5,758,023	$ 129,498

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. The bonds issued in 2016 were for the sewer line expansion.

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:

City Clerk/Financial Officer
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Young Harris, GA. 30582

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cityofyh@windstream.net

Basic Financial Statements

CITY OF YOUNG HARRIS, GEORGIA
STATEMENT OF NET POSITION
DECEMBER 31, 2019

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	$ 470,798	$ 530,034	$ 1,000,832
Restricted cash	545,493	335,594	881,087
Certificate of deposit	3,378	-	3,378
Restricted certificate of deposit	-	6,077	6,077
Property taxes receivable	18,684	-	18,684
Other taxes receivable	1,507	-	1,507
Accounts receivable, net	-	84,205	84,205
Due from other governments	87,478	70,933	158,411
Internal balances	53,530	(53,530)	-
Prepaid items	2,388	4,776	7,164
Capital assets:			
Land and land rights	160,629	-	160,629
Other capital assets, net of depreciation	1,508,227	7,063,605	8,571,832
Intangible assets, net of amortization	-	-	-
Total assets	2,852,112	8,041,694	10,893,806
LIABILITIES			
Accounts payable and accrued liabilities	6,474	20,428	26,902
Unearned revenue	2,515	-	2,515
Customer deposits	-	67,552	67,552
Long-term liabilities:			
Due within one year	3,218	129,486	132,704
Due in more than one year	7,743	5,617,576	5,625,319
Total liabilities	19,950	5,835,042	5,854,992
NET POSITION			
Net investment in capital assets	1,657,895	1,316,543	2,974,438
Restricted for:			
Debt service	-	274,119	274,119
Capital projects	191,116	-	191,116
Unrestricted	983,151	615,990	1,599,141
Total net position	$ 2,832,162	$ 2,206,652	$ 5,038,814

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, 2019

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	$ 251,552	$ 7,067	$ -	$ 200	$ (244,285)	$ -	$ (244,285)
Public safety	7,829	-	-	-	(7,829)	-	(7,829)
Public works	94,053	-	-	200,665	106,612	-	106,612
Culture and recreation	17,532	-	-	-	(17,532)	-	(17,532)
Housing and development	22,038	850	-	-	(21,188)	-	(21,188)
Interest on long-term debt	855	-	-	-	(855)	-	(855)
Total governmental activities	393,859	7,917	-	200,865	(185,077)	-	(185,077)
Business-type activities:							
Water	454,145	402,428	-	-	-	(51,717)	(51,717)
Sewer	652,725	404,761	-	12,560	-	(235,404)	(235,404)
Total business-type activities	1,106,870	807,189	-	12,560	-	(287,121)	(287,121)
Total	$ 1,500,729	$ 815,106	$ -	$ 213,425	(185,077)	(287,121)	(472,198)
General revenues:							
Property taxes					67,974	-	67,974
Sales taxes					193,355	-	193,355
Franchise and miscellaneous taxes					4,668	-	4,668
Business taxes					65,496	-	65,496
Unrestricted investment earnings					2,714	781	3,495
Miscellaneous					5,913	4,931	10,844
Gain on sale of capital asset					48,427	-	48,427
Total general revenues and gain on sale of capital asset					388,547	5,712	394,259
Change in net position					203,470	(281,409)	(77,939)
Net position, beginning of year (as restated)					2,628,692	2,488,061	5,116,753
Net position, end of year					$ 2,832,162	$ 2,206,652	$ 5,038,814

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

CITY OF YOUNG HARRIS, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	General	SPLOST Fund	Total
ASSETS			
Cash	$ 825,000	$ 191,291	$ 1,016,291
Certificate of deposit	3,378	-	3,378
Property taxes receivable	18,684	-	18,684
Other taxes receivable	1,507	-	1,507
Due from other governments	87,478	-	87,478
Due from other funds	61,254	-	61,254
Prepaid items	2,388	-	2,388
Total assets	$ 999,689	$ 191,291	$ 1,190,980
LIABILITIES			
Accounts payable and accrued liabilities	$ 6,474	$ -	$ 6,474
Due to other funds	7,549	175	7,724
Unearned revenue	2,515	-	2,515
Total liabilities	16,538	175	16,713
DEFERRED INFLOWS OF RESOURCES			
Deferred property taxes	28,763	-	28,763
Unavilable grant revenue	71,624	-	71,624
Total deferred inflows of resources	100,387	-	100,387
FUND BALANCES			
Nonspendable	2,388	-	2,388
Restricted	-	191,116	191,116
Assigned	354,202	-	354,202
Unassigned	526,174	-	526,174
Total fund balances	882,764	191,116	1,073,880
Total liabilities, deferred inflows of resources and fund balances	$ 999,689	$ 191,291	$ 1,190,980

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, 2019

Total fund balances - governmental funds			$ 1,073,880
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 governmental funds financial statements, but are reported in the governmental activities column of the Statement of Net Position.			
	Cost of capital assets	$ 2,546,322	
	Accumulated depreciation	(877,466)	1,668,856
Some liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position. These liabilities include the following:			
	Capital lease payable		(10,961)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activites when earned.			
	Deferred property taxes	28,763	
	Unavailable grant revenue	71,624	100,387
Total net position - governmental activities			$ 2,832,162

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, 2019

	General	SPLOST Fund	Total
Revenues			
Property taxes	$ 67,599	$ -	$ 67,599
Sales taxes	193,355	-	193,355
Franchise taxes	4,668	-	4,668
Business taxes	65,496	-	65,496
Licenses and permits	7,752	-	7,752
Intergovernmental	128,807	-	128,807
Charges for services	165	-	165
Interest	2,714	234	2,948
Other revenues	6,113	-	6,113
Total revenues	476,669	234	476,903
Expenditures			
Current:			
General government	215,326	-	215,326
Public safety	6,775	-	6,775
Public works	47,030	-	47,030
Culture and recreation	5,052	-	5,052
Housing and development	22,038	-	22,038
Capital outlay:			
General government	12,082	-	12,082
Public works	264,205	48,050	312,255
Culture and recreation	642	-	642
Debt service:			
Principal	3,638	-	3,638
Interest	855	-	855
Total expenditures	577,643	48,050	625,693
Excess (deficiency) of revenues over expenditures	(100,974)	(47,816)	(148,790)
Other financing sources (uses)			
Sale of capital assets	49,300	-	49,300
Proceeds from capital lease	14,599	-	14,599
Total other financing sources (uses)	63,899	-	63,899
Net change in fund balances	(37,075)	(47,816)	(84,891)
Fund balances, beginning of year	919,839	238,932	1,158,771
Fund balances, end of year	$ 882,764	$ 191,116	$ 1,073,880

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, 2019

Net change in fund balances - total governmental funds			$ (84,891)
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. This is the amount by which reported revenues in the Statement of Activities exceeded revenues considered available by the governmental funds.			
	Deferred property taxes	$ 375	
	Unavailable grant revenues	71,624	71,999
Governmental funds report capital outlays to purchase or construct capital assets as expenditures. However, in the Statement of Activities, the cost of capitalizable assets 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 year.			
	Capital outlays	311,332	
	Depreciation expense	(83,136)	228,196
Proceeds from the disposal of capital assets provide current financial resources to governmental funds; however, these proceeds are offset by the cost and accumulated depreciation of such assets and the resulting gain or loss on disposal is recorded in the Statement of Activities. This is the amount by which governmental funds proceeds exceeded the resulting gain.			(873)
The issuance of long-term debt provides current financial resources to governmental funds. Similarly, the repayment of debt principal consumes current financial resources. However, the issuance and repayment of debt is not reported in the Statement of Activities and has no affect on changes in net position of governmental activities.			
	Debt issued	(14,599)	
	Principal payments	3,638	(10,961)
Change in net position - governmental activities			$ 203,470

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, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Over (Under)
Revenues				
Property taxes	$ 72,053	$ 67,505	$ 67,599	$ 94
Sales taxes	155,700	193,000	193,355	355
Franchise taxes	8,630	4,630	4,668	38
Business taxes	65,000	65,488	65,496	8
Licenses and permits	6,433	7,713	7,752	39
Intergovernmental	14,500	128,806	128,807	1
Charges for services	15	15	165	150
Interest	-	2,713	2,714	1
Other revenues	3,883	5,150	6,113	963
Total revenues	326,214	475,020	476,669	1,649
Expenditures				
General Government:				
Executive	12,900	14,900	14,816	(84)
Legislative	15,000	12,000	12,000	-
General administration	190,474	200,820	200,592	(228)
Public Safety:				
Speed signs	-	6,775	6,775	-
Public Works:				
Highways and streets	98,715	311,784	311,235	(549)
Culture and Recreation:				
Parks	7,625	5,717	5,694	(23)
Housing and Development:				
Engineering services	1,500	1,250	1,025	(225)
Economic development	-	20,846	21,013	167
Debt Service.				
Principal	-	3,640	3,638	(2)
Interest	-	860	855	(5)
Total expenditures	326,214	578,592	577,643	(949)
Excess (deficiency) of revenues over expenditures	-	(103,572)	(100,974)	2,598
Other financing sources (uses)				
Sale of capital asset	-	49,300	49,300	-
Proceeds from capital lease	-	14,600	14,599	(1)
Assigned fund balance		39,672	-	(39,672)
Total other financing sources (uses)	-	103,572	63,899	(39,673)
Net change in fund balance	-	-	(37,075)	(37,075)
Fund balance, beginning of year	919,839	919,839	919,839	-
Fund balance, end of year	$ 919,839	$ 919,839	$ 882,764	$ (37,075)

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

CITY OF YOUNG HARRIS, GEORGIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2019

	Enterprise Funds		
ASSETS	**Water Fund**	**Sewer Fund**	**Total**
Current assets:			
Cash	$ 22,146	$ 507,888	$ 530,034
Restricted cash	203,847	131,747	335,594
Restricted certificate of deposit	6,077	-	6,077
Accounts receivable - net	52,260	31,945	84,205
Due from other funds	-	96,420	96,420
Due from other governments	-	70,933	70,933
Prepaid items	2,388	2,388	4,776
Total current assets	286,718	841,321	1,128,039
Noncurrent assets:			
Capital assets:			
Other capital assets, net of depreciation	1,435,787	5,627,818	7,063,605
Intangible assets, net of amortization	-	-	-
Total noncurrent assets	1,435,787	5,627,818	7,063,605
Total assets	1,722,505	6,469,139	8,191,644
LIABILITIES			
Current liabilities:			
Accounts payable	4,552	5,783	10,335
Accrued liabilities	3,093	7,000	10,093
Due to other funds	149,950	-	149,950
Customer deposits	55,402	12,150	67,552
Capital lease payable - current portion	3,218	3,218	6,436
Revenue bonds payable - current portion	35,706	87,344	123,050
Total current liabilities	251,921	115,495	367,416
Long-term liabilities:			
Capital lease payable - less current portion	7,744	7,744	15,488
Revenue bonds payable - less current portion	1,174,130	4,427,958	5,602,088
Total long-term liabilities	1,181,874	4,435,702	5,617,576
Total liabilities	1,433,795	4,551,197	5,984,992
NET POSITION			
Net investment in capital assets	214,989	1,101,554	1,316,543
Restricted for debt service	154,522	119,597	274,119
Unrestricted	(80,801)	696,791	615,990
Total net position	$ 288,710	$ 1,917,942	$ 2,206,652

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, 2019

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenues:			
Water	$ 382,926	$ -	$ 382,926
Sewer	-	402,529	402,529
Connection fees	12,150	-	12,150
Service charges	7,352	2,232	9,584
Miscellaneous income	2,009	2,922	4,931
Total operating revenues	404,437	407,683	812,120
Operating expenses:			
Personal services	129,592	114,106	243,698
Contractual services	83,409	80,858	164,267
Supplies	27,868	39,445	67,313
Repairs and maintenance	13,466	30,965	44,431
Utilities	37,187	33,390	70,577
Other operating expenses	15,983	50,979	66,962
Depreciation and amortization	94,158	219,188	313,346
Total operating expenses	401,663	568,931	970,594
Operating income (loss)	2,774	(161,248)	(158,474)
Nonoperating revenues (expenses):			
USDA grant revenue	-	12,560	12,560
Interest income	241	540	781
Interest expense	(52,482)	(83,794)	(136,276)
Total nonoperating revenues (expenses)	(52,241)	(70,694)	(122,935)
Change in net position	(49,467)	(231,942)	(281,409)
Net position, beginning of year (as restated)	338,177	2,149,884	2,488,061
Net position, end of year	$ 288,710	$ 1,917,942	$ 2,206,652

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, 2019

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows From Operating Activities			
Receipts from customers	$ 395,612	$ 412,847	$ 808,459
Payments to suppliers and service providers	(173,539)	(230,032)	(403,571)
Payments to employees	(131,567)	(114,497)	(246,064)
Net cash provided by (used in) operating activities	90,506	68,318	158,824
Cash Flows From Capital and Related Financing Activities			
Purchase and construction of capital assets	-	-	-
Proceeds from grants	-	12,560	12,560
Principal paid on debt	(44,712)	(90,739)	(135,451)
Interest and other charges	(52,482)	(83,794)	(136,276)
Net cash provided by (used in) capital financing activities	(97,194)	(161,973)	(259,167)
Cash Flows From Noncapital Financing Activities			
Interfund loans received or (paid)	20,351	(79,604)	(59,253)
Net cash provided by (used in) noncapital financing activities	20,351	(79,604)	(59,253)
Cash Flows From Investing Activities			
Interest revenue	241	540	781
Net cash provided by investing activities	241	540	781
Net increase (decrease) in cash	13,904	(172,719)	(158,815)
Cash, beginning of year	218,166	812,354	1,030,520
Cash, end of year	$ 232,070	$ 639,635	$ 871,705
Reconciliation of Cash to Statement of Net Position:			
Cash	$ 22,146	$ 507,888	$ 530,034
Restricted cash	203,847	131,747	335,594
Restricted certificate of deposit	6,077	-	6,077
	$ 232,070	$ 639,635	$ 871,705
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	$ 2,774	$ (161,248)	$ (158,474)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:			
Depreciation and amortization	94,158	219,188	313,346
Provision for uncollectible accounts	-	4,350	4,350
Change in assets and liabilities:			
Accounts receivable	(9,775)	14	(9,761)
Prepaid items	(178)	(178)	(356)
Accounts payable and accrued liabilities	2,577	5,392	7,969
Customer deposits	950	800	1,750
Net cash provided by (used in) operating activities	$ 90,506	$ 68,318	$ 158,824
Noncash Capital and Related Financing Activity:			
Purchase of truck and related capital lease obligation	$ 14,599	$ 14,600	$ 29,199

During the year, the City purchased a Ford truck for $43,798 and financed the purchase with a capital lease. The truck and lease obligation are shared equally between the General Fund, Water Fund and Sewer Fund. Accordingly, the Water and Sewer Funds recorded $14,599 and $14,600, respectively, as their one-third share of the truck and lease obligation. See also Note 6B.

Subsequent to year end, the City collected a refund of sales tax which had been paid and capitalized in connection with a 2016 sewer expansion project. The refund amount of $70,933 has been recorded by the City as a Due from Other Governments with an offset to reduce the capitalized amount of the 2016 project.

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 accounting principles generally accepted in the United States of America (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

The City was incorporated on December 5, 1895, and took its name from Young Harris College which had its start in 1886 as a school for students living in the area of Towns County known as Brasstown Valley. The City operates under a city council/mayor form of government. Policy making and legislative authority are vested in the mayor and a six-member City Council elected at large. The City Clerk is responsible for the daily operations of the City. The City provides basic services which include general government, public works, culture and recreation, and housing and development. Water and sewer services are also provided to City and County residents within the City's service area. Public safety and judicial services are provided to the City by Towns County.

In defining the reporting entity for financial reporting purposes and as required by accounting principles generally accepted in the United States of America, management has considered all potential component units. The criterion used for including an organization within the City's reporting entity as a component unit is financial accountability. Financial accountability is defined as appointment of a voting majority of the organization's board and either the ability to impose will by the primary government or the possibility that the organization will provide a financial benefit or impose a financial burden on the primary government. As a result of applying these criteria, the City has no component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all activities of the City. For the most part, the effect of inter-fund activity has been removed from the government-wide statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities reports the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to those who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. The comparison of direct expenses and program revenues identifies the extent to which each program is self-financing or draws from the general revenues of the City.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City's 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 three generic fund types for financial statement presentation purposes. Governmental funds include the general fund and a capital projects fund. Proprietary funds include enterprise funds. At present, the City operates a Special Purpose Local Option Sales Tax ("SPLOST") fund, its only capital projects fund. A water fund and a sewer fund are its only two enterprise funds.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for the City's governmental funds and proprietary funds.

The fund financial statements report detailed information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The focus of fund financial statements is on major governmental and enterprise funds rather than on fund types. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major funds:

- 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 used to account for revenues provided by a 2011 referendum authorizing a one percent Special Purpose Local Option Sales Tax for Towns County, to be shared with the City. SPLOST proceeds received by the City are to be used for parks and recreation improvements; road, street and bridge purposes; and water and sewer improvements.

- Enterprise funds – The Water Fund and Sewer Fund are used to account for revenues from user charges and the costs of providing water and sewer services to residents and others within the City's service area.

Additionally, the City has available a Grant Fund which has previously been reported as a nonmajor capital projects fund. The purpose of this fund is to account for financial resources used to acquire, construct, and maintain capital projects for use by the City. At December 31, 2019, the Grant Fund had no assets or liabilities and no activity during the year then ended.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Sales taxes are recognized when the underlying transaction occurs. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government-wide net position should be reported as restricted when constraints placed on net position 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. Net position restricted for capital projects reflect the restrictions of their use.

Governmental fund financial statements, on the other hand, are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Expenditures generally are recorded in the accounting period in which a fund liability is incurred, as under accrual accounting. 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.

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes, sales taxes, franchise taxes, licenses and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, and producing and delivering such services in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the City's water and sewer enterprise funds are charges for water, sewer and sanitation services provided to residents and others within the

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

City's service area. Operating expenses of the enterprise funds include the costs of providing these services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Cash and Investments

Amounts reported as cash by the City in the accompanying financial statements include cash on hand and on deposit with financial institutions.

State of Georgia statutes require all financial institution deposits and investments in excess of the federal depository insured amount to be fully collateralized by an equivalent amount of state or U.S. obligations. State of Georgia statutes authorize the City to invest in (1) U.S. Government obligations; (2) U.S. Government agency obligations; (3) obligations of the State of Georgia; (4) obligations of other counties, municipal corporations and political subdivisions of the State of Georgia which are rated "AA" or better by Moody's Investor's Service, Inc.; (5) negotiable certificates of deposit issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association; (6) repurchase agreements when collateralized by U.S. Government or agency obligations; and (7) pooled investment programs sponsored by the State of Georgia for the investment of local government funds.

Investments are reported at fair value as determined by quoted market prices. For purposes of the statement of cash flows, all highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

E. Prepaid Items

Certain payments to vendors for services that will benefit future accounting periods are recorded as prepaid items in both government-wide and governmental fund financial statements. Prepaid items reported by governmental funds are also equally offset by fund balance classified as non-spendable, which indicates they do not constitute "available, spendable financial resources" even though they are a component of net current assets.

F. Capital Assets

Capital assets, which include land and improvements, infrastructure (e.g., roads, bridges, sidewalks, and similar items), buildings and improvements, vehicles and equipment, and water and sewer systems, are reported in the applicable governmental or business-type activities column in the government-wide financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reported infrastructure assets include such assets acquired subsequent to January 1, 2004. Capital assets are defined by the City as assets with an initial, individual cost of $1,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their acquisition value as of the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' useful lives are expensed as incurred.

Land and construction in progress are not depreciated. Other capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Years
Land improvements	15 to 30
Infrastructure	20
Buildings	20 to 50
Building improvements	10 to 20
Vehicles and equipment	5 to 20
Water and sewer systems	40

G. Intangible Assets

Intangible assets, consisting of system maps, studies, and master plans in the Sewer Fund, have been fully amortized over an estimated useful life of 5 years.

H. Compensated Absences

The City offers full-time employees compensated time off for vacation and sickness. Vacation leave is determined by the years of service and sick leave is accrued at one day per month, or twelve days per year, up to a maximum of 20 days. Vacation leave is forfeited if not taken by December 31st of each calendar year; therefore, it is expensed as incurred. Accrued and unpaid sick leave at year end is not recorded as a liability as it is contingent upon employees' future illness and is not paid upon separation of service.

I. Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities column of the Statement of Net Position.

In the fund financial statements, governmental fund types report the issuance of debt as other financing sources and the repayment of debt as debt service expenditures.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Interfund Transactions and Balances

Quasi-external transactions are accounted for as revenues and expenditures and are not eliminated. The City had no quasi-external transactions during the year.

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Outstanding interfund balances at year end related to such reimbursements, as well as activity between funds representative of lending/borrowing arrangements, are reported as "due to/from other funds" in the governmental fund financial statements. All other interfund transactions are reported as transfers. At year end, all interfund balances outstanding and all transfers among governmental funds are eliminated in the government-wide statements.

Receipts and/or payments to or from other governmental units, not included in the reporting entity of the City, are not reported as transfers, but rather according to the purpose for which the receipt or payment is made.

K. Deferred Outflows / Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has no items which qualify for reporting in this category.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Items which qualify to be reported as deferred inflows of resources include property taxes levied in 2019 for the 2020 budget and certain unavailable revenues under the *current financial resources measurement focus*. Accordingly, such items appear in the governmental funds balance sheet as deferred inflows of resources and will be recognized as an inflow of resources in 2020 or the period in which the amounts become available.

L. Fund Balance

Fund balances of governmental funds are presented in various classifications that comprise a hierarchy which is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. Descriptions and the City's policies with respect to these classifications are as follows:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified prepaid items as nonspendable as these items are not resources in spendable form.

Restricted – includes amounts that are restricted to specific purposes by external sources (creditors, grantors, contributors or laws or regulations of other governments) or by law through constitutional provision or enabling legislation. The City's capital projects funds are legally restricted to expenditures for specific purposes.

Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to resolutions passed by the City Council, the City's highest level of decision-making authority. Commitments may be modified or rescinded only through adoption of a subsequent resolution.

Assigned – includes amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. The City Council has retained, for itself, the authority to assign or earmark funds for specific use. However, unlike commitments, assignments do not require formal action and generally only exist temporarily. This classification also includes all remaining positive fund balance for all governmental funds other than the General Fund. As a result of intent expressed by the City Council, certain funds have been earmarked for capital replacement purposes; therefore, a portion of fund balance in the General Fund is reported as assigned.

Unassigned – includes amounts that do not fall into one of the above four categories. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

The City's policy would be to use restricted fund balances first when expenditures are made for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Otherwise, it is the City's policy to reduce committed amounts first, followed by assigned amounts, and then unassigned amounts when expenditures are made for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

M. Net Position

Net position in financial reporting is based on the *economic resources measurement focus* and represents the difference between (a) total assets and deferred outflows of resources and (b) total liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted using the same definition as used for restricted fund balance as described in the section above. The remaining portion of net position is reported as unrestricted.

The City's policy would be to use restricted net position first when expenditures are made for purposes for which both restricted and unrestricted net position is available.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

N. Use of Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

The City's annual budgets are prepared on anticipated revenues and appropriated expenditures. Revenue anticipation, generally conservative, is designed to help ensure fiscal responsibility and maintain a balanced budget. The operating budget includes proposed expenditures and the means of financing them are based on prior year results and estimated current needs.

The legal level of control (the level at which expenditures may not legally exceed appropriations) for each legally adopted annual operating budget is at the department level.

The applicable statutes of the State of Georgia require the City to operate under an annual balanced budget adopted by resolution for all governmental funds. A budget is defined as being balanced when the sum of estimated net revenues and appropriated fund balance is equal to appropriations. Appropriated budgets are adopted on a modified accrual basis which is consistent with generally accepted accounting principles for governmental funds. Annual budgets are adopted for the General Fund. Capital project funds have project length budgets. Budget amounts are as originally adopted, or as amended by City Council.

Budget revisions at the department level are subject to final review and approval by the City Council. Budget amendments for supplemental appropriations during the year were not made. All annual appropriations lapse at year end.

Although not required by state law, an operating budget is also adopted for the City's two enterprise funds (i.e. the Water Fund and the Sewer Fund) for administrative control purposes.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not employed by the City.

B. Excess of Expenditures over Appropriations

As shown in the accompanying budgetary comparison statement for the General Fund, departmental expenditures did not exceed appropriated budget amounts during the year, except as follows:

NOTE 3. CASH DEPOSITS AND INVESTMENTS

Cash on the accompanying financial statements includes cash on hand, demand deposits and savings accounts with financial institutions. 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. At December 31, 2019, the City had no cash deposits that were exposed to custodial credit risk.

Investments at December 31, 2019, consist of certificates of deposit with FDIC insured financial institutions. The General Fund and Water Fund certificates bear interest at 0.35% and 0.2%, respectively. All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

NOTE 4. RECEIVABLES

Receivables at December 31, 2019, for the City's individual funds in the aggregate are as follows:

Receivables:	General Fund	SPLOST Fund	Water Fund	Sewer Fund	Total
Property taxes	$ 18,684	$ -	$ -	$ -	$ 18,684
Other taxes	1,507	-	-	-	1,507
Due from other governments	87,478	-	-	-	87,478
Accounts receivable	-	-	52,260	36,295	88,555
Gross receivables	107,669	-	52,260	36,295	196,224
Less allowance for uncollectibles	-	-	-	(4,350)	(4,350)
Net receivables	$ 107,669	$ -	$ 52,260	$ 31,945	$ 191,874

The City bills and collects its own property taxes. Property taxes were levied by the City on November 1, 2019, and are due on or before February 28, 2020, after which the account is assessed penalties and interest, or the property is subject to a lien, as applicable. The assessment date for penalties and interest is May 28, 2020. Property taxes receivable at year end is estimated based on the tax levy, less amounts collected prior to December 31, 2019. The property taxes levied in November 2019 were intended for use in the 2020 budget year. Therefore, the entire 2019 digest levy of $25,823 is included in deferred property taxes on the accompanying governmental funds' balance sheet. Prior year levies were recorded using substantially the same principles, and remaining receivables are re-evaluated annually for collectability.

The City has not established a lien date for unpaid property taxes.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019, was as follows:

Governmental Activities:	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	$ 153,009	$ 8,120	$ (500)	$ -	$ 160,629
Construction in progress	48,605	252,508	-	(301,113)	-
Total capital assets, not being depreciated	201,614	260,628	(500)	(301,113)	160,629
Capital assets, being depreciated:					
Land improvements	330,579	-	-	-	330,579
Infrastructure	808,266	36,105	-	301,113	1,145,484
Buildings and improvements	676,416	-	(1,017)	-	675,399
Machinery and equipment	160,850	-	-	-	160,850
Vehicles	58,782	14,599	-	-	73,381
Total capital assets, being depreciated	2,034,893	50,704	(1,017)	301,113	2,385,693
Less accumulated depreciation for:					
Land improvements	247,063	7,603	-	-	254,666
Infrastructure	109,757	44,117	-	-	153,874
Buildings and improvements	244,019	22,053	(644)	-	265,428
Machinery and equipment	135,353	6,443	-	-	141,796
Vehicles	58,782	2,920	-	-	61,702
Total accumulated depreciation	794,974	83,136	(644)	-	877,466
Total capital assets, being depreciated, net	1,239,919	(32,432)	(373)	301,113	1,508,227
Governmental activities capital assets, net	$ 1,441,533	$ 228,196	$ (873)	$ -	$ 1,668,856

NOTE 5. CAPITAL ASSETS (CONTINUED)

Business-type activities:		Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets, not being depreciated:						
Construction in progress		$ 108,398	$ -	$	$ (108,398)	$ -
Total capital assets, not being depreciated		108,398	-	-	(108,398)	-
Capital assets, being depreciated:						
Water infrastructure		2,764,989	-	-	-	2,764,989
Sewer infrastructure	(1)	8,132,320	-	-	98,398	8,230,718
Buildings		8,972	-	-	-	8,972
Machinery and equipment	(2)	540,492	-	-	10,000	550,492
Vehicle		11,300	29,199	-	-	40,499
Total capital assets, being depreciated		11,458,073	29,199	-	108,398	11,595,670
Less accumulated depreciation for:						
Water infrastructure		1,297,645	73,180	-	-	1,370,825
Sewer infrastructure		2,438,708	208,119	-	-	2,646,827
Buildings		5,054	319	-	-	5,373
Machinery and equipment		466,012	25,888	-	-	491,900
Vehicle		11,300	5,840	-	-	17,140
Total accumulated depreciation		4,218,719	313,346	-	-	4,532,065
Total capital assets being depreciated, net		7,239,354	(284,147)	-	108,398	7,063,605
Business-type activities capital assets, net		$ 7,347,752	$ (284,147)	$ -	$ -	$ 7,063,605
Intangible assets:						
Mapping, studies, and plans		$ 46,225	$ -	$ -	$ -	$ 46,225
Accumulated amortization		46,225	-	-	-	46,225
Net intangible assets		$ -	$ -	$ -	$ -	$ -

(1) The reported balance for sewer infrastructure at December 31, 2018, has been reduced by $70,933 to reflect the collection in 2020 of an outstanding refund claim for sales taxes which the City had paid on a sewer project completed in 2016. The claim was not previously recorded as a due from other governments. See Note 15.

(2) The reported balance for machinery and equipment at December 31, 2018, has been increased by $22,915 to reflect the cost of additional equipment purchased in 2017 by the Sewer Fund, but not previously capitalized. See Note 15.

NOTE 5. CAPITAL ASSETS (CONCLUDED)

Depreciation and amortization expense for the year ended December 31, 2019, was charged to functions/programs of the primary government as follows:

Governmental Activities:	Depreciation Expense	Amortization Expense
General government	$ 24,144	
Public safety	1,054	
Public works	46,100	
Culture and recreation	11,838	
Total expense - Governmental activities	$ 83,136	
Business-type Activities:		
Water	$ 94,158	$ -
Sewer	219,188	-
Total expense - Business-type activities	$ 313,346	$ -

NOTE 6. LONG-TERM DEBT

A. Revenue Bonds

Business-type Activities

Revenue Bonds outstanding at December 31, 2019, consist of the following:

Water Fund - Series 1994 Revenue Bonds were issued in the amount of $596,200 at 5.625%, with monthly principal and interest payments of $3,148 until maturity in 2035, for the construction of water line extensions.	$ 386,019
Less current portion	(16,497)
	$ 369,522
Water Fund - Series 2009 Revenue Bonds were issued in the amount of $1,025,100 at 3.75%, with monthly principal and interest payments of $4,132 until maturity in 2050, for the construction of water line improvements.	$ 823,817
Less current portion	(19,209)
	$ 804,608
Sewer Fund - Series 2016 Revenue Bonds were issued in the amount of $4,771,000 at 1.875%, with monthly principal and interest payments of $14,170 until maturity in 2056, for the construction of sewer improvements.	$ 4,515,302
Less current portion	(87,344)
	$ 4,427,958

NOTE 6. LONG-TERM DEBT (CONTINUED)

B. Capital Lease

During 2019, the City entered into a Ford Motor Credit Lease Purchase Agreement in the original amount of $43,798 payable in 48 monthly installments of $1.037, including interest at 6.7%, through December 2022. The acquired Ford truck and lease obligation are shared equally as follows:

	Governmental Activities	Business-type Activities		Total Lease Obligation
		Water Fund	Sewer Fund	
Lease obligation outstanding at December 31, 2019	$ 10,961	$ 10,962	$ 10,962	$ 32,885
Less current portion	(3,218)	(3,218)	(3,218)	(9,654)
	$ 7,743	$ 7,744	$ 7,744	$ 23,231

Likewise, the cost and related accumulated depreciation of the above truck in the amount of $43,798 and $8,760, respectively, have been recorded equally by the General Fund, Water Fund and the Sewer Fund. Accordingly, capital assets of governmental and business-type activities at December 31, 2019, recorded under the above lease include net book value of $11,679 and $23,359, respectively. Current year depreciation expense recorded in governmental and business-type activities on such truck amounted to $2,920 and $5,840, respectively.

C. Business-type Activities

The following is a summary of long-term debt activity for the year ended December 31, 2019:

Business-type Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable	$ 5,843,301	$ -	$ (118,163)	$ 5,725,138	$ 123,050
Capital Lease - meter system	10,013	-	(10,013)	-	-
Capital Lease - Ford truck	-	29,199	(7,275)	21,924	6,436
Total	$ 5,853,314	$ 29,199	$ (135,451)	$ 5,747,062	$ 129,486
Governmental Activities					
Capital Lease - Ford truck	$ -	$ 14,599	$ (3,638)	$ 10,961	$ 3,218

NOTE 6. LONG-TERM DEBT (CONCLUDED)

Future payments of principal and interest on the outstanding revenue bonds are due as follows:

	Business-Type Activities Revenue Bonds		
Year	Principal	Interest	Total
2020	$ 123,050	$ 134,350	$ 257,400
2021	126,364	131,036	257,400
2022	129,791	127,609	257,400
2023	133,337	124,063	257,400
2024	137,005	120,395	257,400
2024-2028	744,753	542,247	1,287,000
2029-2033	858,314	428,686	1,287,000
2034-2038	788,508	318,318	1,106,826
2039-2043	875,193	222,927	1,098,120
2044-2048	762,966	139,086	902,052
2049-2053	789,148	61,052	850,200
2054-2056	256,709	3,431	260,140
Total	$ 5,725,138	$ 2,353,200	$ 8,078,338

Future minimum payments under the capital lease at December 31, 2019, are due as follows:

	Governmental	Business-type Activities		Total Lease
Year	Activities	Water Fund	Sewer Fund	Obligation
2020	$ 3,802	$ 3,802	$ 3,802	$ 11,406
2021	4,148	4,148	4,148	12,444
2022	4,147	4,147	4,147	12,441
Less imputed interest	(1,136)	(1,135)	(1,135)	(3,406)
Net present value	$ 10,961	$ 10,962	$ 10,962	$ 32,885

NOTE 7. INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances as of December 31, 2019, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water Fund	$ 61,079
General Fund	SPLOST Fund	175
Sewer Fund	General Fund	7,549
Sewer Fund	Water Fund	88,871
		$ 157,674

NOTE 7. INTERFUND BALANCES AND TRANSFERS (CONCLUDED)

The outstanding balances between funds primarily result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances are expected to be repaid within one year from the date of the financial statements.

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

NOTE 8. FUND BALANCE

Fund balances of governmental funds at December 31, 2019, as presented in the accompanying balance sheet - governmental funds, are classified as follows:

Nonspendable - The General Fund has fund balances that are nonspendable because they are allocated to prepaid items in the amount of $2,388.

Assigned – The General Fund has fund balances in the amount of $354,202 that are constrained by the City Council's intent to use these funds for capital replacement purposes.

Unassigned – The General Fund's residual fund balance of $526,174, which does not fall into one of the other fund categories, is classified as unassigned fund balance.

Restricted - The SPLOST Fund has fund balances in the amount of $191,116 that are restricted for legally authorized and approved capital projects in accordance with the City's 2011 SPLOST referendum. (See Note 1B.)

NOTE 9. DEFINED CONTRIBUTION PLAN

The City offers employees the opportunity to participate in the City of Young Harris SIMPLE Retirement Plan (the "Plan"), a defined contribution plan established in accordance with Section 408(p) of the Internal Revenue Code. The Plan is administered by South State Bank and all full-time employees are eligible to participate. Employee contributions are based on a percentage of salary which the City will match at a rate of 100% of the employee's contribution up to 4% of salary as determined by the City Council. Plan provisions were established and may be amended by the City Council. Employee and City contributions for the year ended December 31, 2019, were $26,410 and $11,710, respectively.

NOTE 10. JOINT VENTURE

The City, in conjunction with other cities and counties in the thirteen (13) county Northeast Georgia area, is a member of the Georgia Mountain Regional Commission (GMRC). Membership in the GMRC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the GMRC.

NOTE 10. JOINT VENTURE (CONCLUDED)

The GMRC Board membership includes the chief elected official of each county and appointed mayors from municipalities in the area. Georgia law also provides that member governments are liable for any debts or obligations of the GMRC (O.C.G.A. 50-8-39.1). Separate financial statements can be provided by contacting the GMRC directly at:

Georgia Mountain Regional Commission
1310 West Ridge Road
Gainesville, Georgia 30501

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; injuries to employees; and natural disasters for which the City carries insurance coverage.

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 follow 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, 2019. No provisions have been made in the financial statements for the year ended December 31, 2019, for any estimate of potential unpaid claims.

The City has also 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.

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 years.

NOTE 12. RESTRICTED ASSETS

Restrictions on cash and investments in the government-wide Statement of Net Position at December 31, 2019, are as follows:

Restrictions:	Governmental Activities	Business-type Activities
Restricted cash:		
General Fund - for capital replacement	$ 354,202	$ -
SPLOST Fund - for legally authorized purposes under the 2011 SPLOST referendum (see Note 1B)	191,291	-
Water Fund - for customer deposits	-	55,402
Water Fund - for purposes required by revenue bond resolution	-	148,445
Sewer Fund - for purposes required by revenue bond resolution		119,597
Sewer Fund - for customer deposits		12,150
Total restricted cash	$ 545,493	$ 335,594
Restricted certificate of deposit -Water Fund- for purposes required by revenue bond resolution	$ -	$ 6,077

NOTE 13. COMMITMENTS AND CONTINGENCIES

Effective January 2, 2019, the City entered into an intergovernmental agreement with the City of Hiawassee, Georgia and Towns County, Georgia. Under terms of the agreement, the Economic Development Director, who is an employee of City of Hiawassee, shall devote approximately forty (40) hours per month at the direction of the Young Harris Mayor, approximately forty (40) hours per month at the direction of the Towns County Commissioner and approximately eighty (80) hours per month at the direction of the Hiawassee Mayor. The cities and county understand that these hours are approximate based on work flow and project deadlines, but the Director is expected to devote a minimum of twenty (20) hours per month to each of Young Harris and Towns County and a minimum of forty (40) hours per month to Hiawassee.

The City of Young Harris and Towns County are each required to pay $20,000 annually in twelve (12) monthly installments of $1,667 to the City of Hiawassee. The agreement expires at the end of the initial twelve months, but automatically renews annually thereafter unless cancelled with a minimum 60-day notice.

NOTE 13. COMMITMENTS AND CONTINGENCIES (CONCLUDED)

The City routinely enters into various other contracts and agreements in the ordinary course of business. Such commitments are typically not material to the accompanying financial statements. Management and legal counsel are unaware of pending, threatened or unasserted legal actions against the City.

NOTE 14. REVENUE CONCENTRATION RISK

As stated in Note 1 above, the City's Water Fund and Sewer Fund are used to account for revenues from user charges and the costs of supplying water and sewer services to residents and others within the City's service area. Charges to certain customers for these services are significant in comparison to total charges to all customers. As shown below, Customer A is a user of both water and sewer services. Customer B uses sewer services only. At December 31, 2019, revenue concentration percentages are as follows:

Customer	Water Revenues	Sewer Revenues
Customer A	18 %	50 %
Customer B	Not Applicable	19 %

NOTE 15. PRIOR PERIOD RESTATEMENTS

The following restatement of beginning fund balance is necessary to recognize the capitalization of assets purchased in 2017 by the City's Water Fund.

	Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds -- Water Fund	Government Wide Statement of Activities -- Business-type Activities
Net Position, December 31, 2018, as originally reported	$ 315,262	$ 2,465,146
Equipment capitalized	22,915	22,915
Net Position, December 31, 2018, as restated	$ 338,177	$ 2,488,061

In 2020, the City collected $70,933 from the Georgia Department of Revenue in connection with a claim for refund of sales taxes previously paid by the City on a sewer project completed in 2016. The reported balance for sewer infrastructure at December 31, 2018, has been reduced by $70,933 to reflect the collection of this outstanding refund claim. A corresponding entry has been recorded to the Sewer Fund's due from other governments. Recording the collection of this claim has no effect on beginning net position of the Sewer Fund or business-type activities in the Statement of Activities.

Other Supplementary Information

CITY OF YOUNG HARRIS, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
FOR THE YEAR ENDED DECEMBER 31, 2019

Project	Estimated Cost		Expenditures			Estimated % of Completion
	Original	Current	Prior Years	Current Year	Total	
SPLOST 2011						
Water and sewer facilities and equipment	$ 125,000	$ 125,000	$ -	$ -	$ -	0%
Cupid Falls Park improvements	80,000	80,000	87,575	-	87,575	109%
Mayor's Park equipment and improvements	29,000	29,000	26,362	-	26,362	91%
Improvements to Community Center	50,000	50,000	48,946	-	48,946	98%
Street and sidewalk improvements - pedestrian crossings	250,000	250,000	207,885	48,050	255,935	102%
Maple Street improvements	200,000	200,000	344,294	-	344,294	172%
Fire hydrants	100,000	100,000	-	-	-	0%
	$ 834,000	$ 834,000	$ 715,062	$ 48,050	$ 763,112	

Notes to Schedule:

The above schedule has been prepared using 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
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 the City of Young Harris, Georgia, as of and for the year ended December 31, 2018, 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 11, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. (See findings 2004-1 and 2008-1)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Young Harris, Georgia's financial statements are free from 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.

RL Jennings + Associates, PC

Ellijay, Georgia
May 11, 2020

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 required were primarily (1) reclassifying certain costs in the Water Fund and Sewer Fund between expense accounts, various long-term debt accounts and capital asset accounts, (2) recording significant journal entries for unrecorded liabilities in the all City funds, (3) correcting for the improper netting of grant revenues against job costs, (4) correcting property taxes and other taxes receivable and due from other governments for accurate reporting of receivables, (5) correcting out of balances in the due from and due to accounts of all funds, (6) adjusting bonds payable and related interest to agree with balances reported by USDA, and (7) correcting accrued liabilities of all funds.

Additionally, bank accounts were not reconciled on a timely basis for each month throughout the year.

Effect: Failure to properly record general ledger transactions and to periodically analyze and balance accounts throughout the year has resulted in significant time by the City's newly hired Finance Director and significant inefficiencies and time spent by our firm conducting our annual audit. Failure to timely reconcile cash and other accounts could also result in critical financial decisions being made on erroneous data.

Cause: Routine analysis of detailed information and reconcilement of general ledger account balances is not being performed on a periodic and timely basis.

2008-01 Material Adjustments and Maintenance of General Ledger (Concluded)

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

Response: The City agrees with this finding and has already initiated improvements to improve general ledger maintenance and year.