

FANNIN COUNTY WATER AUTHORITY
(A Component Unit of Fannin County, Georgia)

FINANCIAL REPORT

For the 13 Months Ended June 30, 2015

FANNIN COUNTY WATER AUTHORITY
TABLE OF CONTENTS
June 30, 2015

	<u>PAGE</u>
FINANCIAL SECTION	
INDEPENDENT AUDITOR'S REPORT	1-2
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	3
Statement of Revenues, Expenses, and Changes in Net Position	4
Statement of Cash Flows	5
Notes to Financial Statements	6-17
 INTERNAL CONTROL AND COMPLIANCE SECTION	
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 <i>Government Auditing Standards</i>	18-19
 STATE SECTION	
Schedule of Projects Constructed with Special Purpose Local Option Sales Tax	20
 FEDERAL COMPLIANCE SECTION	
Schedule of Expenditures of Federal Awards	21
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	22-23
Schedule of Findings and Questioned Costs	24-25

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fannin County Water Authority
Blue Ridge, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Fannin County Water Authority, as of and for the 13 months ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Fannin County Water Authority'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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Fannin County Water Authority, as of June 30, 2015, and the respective changes in financial position, and cash flows thereof for the 13 months then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Fannin County Water Authority'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 48-8-121, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015, on our consideration of Fannin County Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fannin County Water Authority's internal control over financial reporting and compliance.



Ellijay, Georgia
October 30, 2015

BASIC FINANCIAL STATEMENTS

FANNIN COUNTY WATER AUTHORITY
STATEMENT OF NET POSITION
June 30, 2015

ASSETS

Current Assets:

Unrestricted cash	\$ 53,413
Restricted cash	291,507
Accounts receivable, net	14,190
Receivable from Primary Government	76,706
Inventories	11,318
Prepaid expenses	7,249
Total current assets	<u>454,383</u>

Capital Assets:

Construction in progress	79,476
Land and land rights	52,280
Other capital assets, net	4,220,735
Total capital assets, net	<u>4,352,491</u>

Other Assets:

Land	<u>147,300</u>
Total assets	<u>4,954,174</u>

LIABILITIES

Current Liabilities:

Accounts payable	35,118
Accrued expenses	1,660
Payable to Primary Government, current portion	200,000
Total current liabilities	<u>236,778</u>

Long-term Debt:

Payable to Primary Government, less current portion	144,506
Revenue Bond - Series A	1,862,000
Total long-term debt	<u>2,006,506</u>
Total liabilities	<u>2,243,284</u>

NET POSITION

Net investment in capital assets	2,145,985
Restricted for capital projects	291,507
Unrestricted	273,398
Total net position	<u>\$ 2,710,890</u>

The accompanying notes are an integral part of this statement.

FANNIN COUNTY WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the 13 Months Ended June 30, 2015

OPERATING REVENUES

Water sales and penalties	\$ 106,950
Other fees	461
Total operating revenues	<u>107,411</u>

OPERATING EXPENSES

Personal services	28,085
Professional fees	64,220
Insurance	3,237
Bad debts	800
Office supplies and other	1,903
Water purchases	18,922
Electricity	1,781
Small tools and job materials	3,196
Auto and truck	1,741
Other operating expenses	3,662
Depreciation	63,346
Total operating expenses	<u>190,893</u>
Operating income (loss)	<u>(83,482)</u>

NON-OPERATING REVENUES AND (EXPENSES)

Intergovernmental SPLOST revenues	253,957
Grant revenues	1,439,269
Start up and feasibility costs	(349,885)
Loss on impairment of capital assets	(267,460)
Interest expense	(1,660)
Total non-operating revenues (expenses)	<u>1,074,221</u>
Income before assets contributed by Primary Government	990,739
Assets contributed by Primary Government	<u>1,720,151</u>
Change in net position	2,710,890
Net position, beginning	-
Net position, ending	<u><u>\$ 2,710,890</u></u>

The accompanying notes are an integral part of this statement.

FANNIN COUNTY WATER AUTHORITY
STATEMENT OF CASH FLOWS
For the 13 Months Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 93,221
Payments to suppliers	(72,463)
Payments to employees	-
Net cash provided by operating activities	<u>20,758</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from issuance of revenue bonds	1,862,000
Proceeds from grant	1,439,269
Contribution of SPLOST cash from Primary Government	422,756
Intergovernmental SPLOST revenues	177,251
Purchases of capital assets	(3,077,114)
Repayment of borrowings from Primary Government	(500,000)
Net cash provided by capital and related financing activities	<u>324,162</u>

Net increase in cash 344,920

Cash, beginning -

Cash, ending \$ 344,920

Cash, as shown on the Statement of Net Position:

Cash, unrestricted \$ 53,413

Cash, restricted 291,507

Total cash \$ 344,920

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating income (loss)	\$ (83,482)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation expense	63,346
Bad debt expense	800
(Increase) in accounts receivable	(14,990)
(Increase) in inventories	(11,318)
(Increase) in prepaid expenses	(7,249)
Increase in accounts payable	35,118
Increase in payable to Primary Government	38,533
Net cash provided by operating activities	<u>\$ 20,758</u>

Non Cash Capital and Related Financing Activities

Construction in progress, land and equipment purchased by the County and transferred to the Authority were recorded as contributed assets or payable to Primary Government:	
Contributed capital assets	\$ 1,165,129
Payable to Primary Government	490,857
Total transferred	<u>\$ 1,655,986</u>

SPLOST funds designed for water purposes were used by County to pay down the Authority's payable to Primary Government \$ 132,266

Two parcels of land and related water assets were reclassified to other assets \$ 414,760

Capitalized payroll recorded by increasing payable to Primary Government \$ 97,497

SPLOST revenues recorded by increasing receivable to Primary Government \$ 76,706

Interest expense recorded by increasing accrued expenses \$ 1,660

The accompanying notes are an integral part of this statement.

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the 13 Months Ended June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Fannin County Water Authority (the “Authority”) 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 reporting principles. The more significant of the Authority’s accounting policies are described below.

A. Reporting Entity

The Authority, a corporate and politic body, was created on April 7, 2010, by an Act of the General Assembly of Georgia by the provisions of Article 3 of Chapter 82 of Title 36 of the Official Code of Georgia Annotated. The Authority is a component unit of Fannin County, Georgia.

The Authority operates under the direction of a seven-member board. Board members are appointed by members of the Fannin County Board of Commissioners to three-year, rotating terms. Any member of the Board of Commissioners may appoint themselves to the Authority. The purposes of the Authority are to acquire, construct, equip, maintain and operate adequate water supply, treatment, and distribution facilities and sewerage collection, treatment and distribution facilities, making such facilities and services available to public and private consumers and users located in Fannin County, Georgia; and extending and improving such facilities as necessary. The Authority receives revenues from water sales, grants and SPLOST taxes allocated for water purposes by Fannin County, Georgia and disbursed to the Authority as the designated entity to carry out such purpose.

Board members of the Authority have decision-making authority, the power to designate management to accomplish the purposes of the Authority, the ability to significantly influence operations and have primary accountability for fiscal matters. The Board determines its annual operating budget subject to approval by the Fannin County Board of Commissioners.

These financial statements present the Authority as a component unit of Fannin County, Georgia (the primary government). As required by generally accepted accounting principles, the Authority will be included in the primary government’s reporting entity based on 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.

Operations of the Authority began in June 2014 following the completion of a water system in the Fannin County development known as Hidden Valley and coinciding with the delivery of water to users in the development. The accompanying financials are the first statements reported by the Authority since its inception and include operating results of the Authority for the 13 months ended June 30, 2015. See also Note 9.

B. Basic Financial Statements

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the 13 Months Ended June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The Authority's basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position and a Statement of Cash Flows. Because the Authority is a special-purpose government engaged only in business-type activities, it is not required to present a statement of activities in order to comply with the provisions of GASB Statement No. 34.

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. Proprietary funds' financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this measurement focus, all assets and liabilities associated with operations are included on the Statement of Net Position.

The financial records are maintained on the *accrual basis of accounting*. Accordingly, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred, regardless of the timing of the related cash flows. The allowance method is used to estimate uncollectible accounts receivable. Unbilled user charges (revenues) are recorded at year-end when material to the financial statements

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for water sales and services. Operating expenses include the costs to provide a water supply and operate the delivery system, 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 Cash Equivalents

For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments, including restricted assets, with an original maturity of three months or less when purchased to be cash equivalents. At June 30, 2015, unrestricted and restricted cash on the Statement of Net Position consists of cash on hand and demand deposits with financial institutions. The Authority had no cash equivalents.

Restricted cash includes demand deposits set aside as required by the Authority's Revenue Bond, Series A and related bond resolution. Restricted cash also includes SPLOST funds received from the County and held for use on water capital projects as specified in Exhibit A of the SPLOST Intergovernmental Agreement with the County.

E. Investments

State of Georgia statutes authorize the Authority to invest in (1) U.S. Government obligations; (2) U.S. Government agency obligations; (3) State of Georgia obligations; (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

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the 13 Months Ended June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, which is based on quoted market prices. The Authority had no investments at June 30, 2015.

F. Inventories

Inventories consist of materials and supplies and are stated at the lower of cost or market. Cost is determined on the first-in, first-out (FIFO) basis. Materials and supplies are recorded as inventory when purchased and as an expense when used.

G. Prepaid Expenses

Any payments made to vendors for services that will benefit periods beyond June 30, 2015, are recorded as prepaid items when material to the financial statements. Prepaid expenses on the accompanying Statement of Net Position consist primarily of prepaid insurance premiums through July 1, 2016.

H. Customer Deposits

Customer deposits are not required for new customers joining the system. Accordingly, there is no liability for customer deposits recorded on the accompanying Statement of Net Position.

I. Organization, Start-Up and Feasibility Costs

Organization, start-up and feasibility costs of approximately \$350,000, incurred primarily for legal, engineering and other professional fees, have been expensed as required by generally accepted accounting principles.

J. Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Purchased or constructed capital assets are capitalized and recorded at historical cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. Major additions are capitalized while the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its estimated useful life are expensed as incurred.

Upon disposal, the cost and related accumulated depreciation of capital assets are relieved from the accounts, and resulting gains or losses are reflected in income.

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances.

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the 13 Months Ended June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land, land rights and construction in progress are not depreciated. Other capital assets are depreciated using the straight-line method over the estimated useful lives of the related assets as follows:

<u>Asset Class</u>	<u>Years</u>
Land improvements	20
Wells and tanks	10-40
Water systems	40
Buildings and improvements	20
Machinery and equipment	5-20

K. Compensated Absences

The Authority 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-half day per month, or six days per year. 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.

L. Deferred Outflows / Inflows of Resources

In addition to assets, a 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) until then.

In addition to liabilities, a 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.

At June 30, 2015, the Authority had no transactions that met the criteria for classification as deferred outflows or inflows of resources.

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 borrowings used for the acquisition, construction or improvement of those assets.

Net position is reported as restricted when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the 13 Months Ended June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net position restricted for capital projects in the accompanying financial statements represents cash on deposit restricted to water projects under terms of a loan facility from the USDA and in accordance with terms of the 2011 SPLOST referendum approved by voters of Fannin County, Georgia. See Notes 6 and 9. The remaining portion of net position is reported as unrestricted.

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

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

O. Budgets

The Authority is not legally required to adopt a budget.

NOTE 2 – CASH AND INVESTMENTS

Cash on the accompanying Statement of Net Position consists of cash on hand and on deposit with banking financial institutions. These amounts are classified on the Statement of Net Position as unrestricted and restricted cash. The Authority had no investments at June 30, 2015.

Custodial credit risk for deposits and investments is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. State of Georgia statutes require all financial institution deposits and investments (other than federal and state government instruments) in excess of the federal depository insured amount to be fully collateralized by an equivalent amount of obligations of a state or the U.S. government, or bonds of public authorities, counties, or municipalities. At June 30, 2015, the Authority had no cash deposits that were exposed to custodial credit risk.

NOTE 3 – RESTRICTED CASH

Cash is restricted at June 30, 2015, as follows:

SPLOST checking account	\$ 290,618
USDA checking account	<u>889</u>
Total restricted cash	<u>\$ 291,507</u>

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the 13 Months Ended June 30, 2015

NOTE 4 – ACCOUNTS RECEIVABLE, NET

Accounts receivable, net at June 30, 2015, consists of the following:

Receivables from customers –	
water services	\$ 14,990
Less: bad debt allowance	(800)
Total accounts receivable, net	<u>\$ 14,190</u>

Included in receivables from customers are unbilled amounts of approximately \$4,000.

NOTE 5 – CAPITAL ASSETS

Changes in capital assets by major classes for the 13 months ended June 30, 2015, are as follows:

	Balance June 1, 2014	Transfers from Primary Government	Increases	Reclassi- fications	Balance June 30, 2015
Business-type activities:					
Capital assets not being depreciated:					
Construction in progress	\$ -	\$ 1,196,921	\$ 2,544,922	\$ (3,662,367)	\$ 79,476
Land and land rights	-	407,734	-	(355,454)	52,280
Total capital assets not being depreciated	-	1,604,655	2,544,922	(4,017,821)	131,756
Capital assets being depreciated:					
Land improvements	-	-	9,771	74,051	83,822
Wells and tanks	-	-	413,742	-	413,742
Water systems	-	-	144,456	3,253,591	3,398,047
Buildings and improvements	-	-	-	20,400	20,400
Machinery and equipment	-	51,331	61,720	255,019	368,070
Total capital assets being depreciated	-	51,331	629,689	3,603,061	4,284,081
Less accumulated depreciation for:					
Land improvements	-	-	(1,397)	-	(1,397)
Wells and tanks	-	-	(3,810)	-	(3,810)
Water systems	-	-	(41,322)	-	(41,322)
Buildings and improvements	-	-	(340)	-	(340)
Machinery and equipment	-	-	(16,477)	-	(16,477)
Total accumulated depreciation	-	-	(63,346)	-	(63,346)
Total capital assets being depreciated -net	-	51,331	566,343	3,603,061	4,220,735
Business-type activities capital assets -net	\$ -	\$ 1,655,986	\$ 3,111,265	\$ (414,760)	\$ 4,352,491

In connection with the development of water systems for Fannin County, capital asset costs totaling \$1,655,986, which were incurred and paid for by the Primary Government, were transferred to the Authority in January 2015. Two parcels of land and related water assets purchased by the Primary Government at a total cost of \$414,760 have been reclassified to other assets on the accompanying Statement of Net Position and written down to net realizable value. See Note 9.

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the 13 Months Ended June 30, 2015

NOTE 5 – CAPITAL ASSETS (Continued)

Depreciation expense of \$63,346 was charged to operations for the 13 months ended June 30, 2015.

NOTE 6 – LONG-TERM DEBT

Changes in long-term debt for the 13 months ended June 30, 2015, are as follows:

	Balance June 1, 2014	Increases	Decreases	Balance June 30, 2015	Due Within One Year
Payable to Primary Government	\$ -	\$ 976,772	\$ (632,266)	\$ 344,506	\$ 200,000
Revenue Bond - Series A	-	1,862,000	-	1,862,000	-
Total	<u>\$ -</u>	<u>\$ 2,838,772</u>	<u>\$ (632,266)</u>	<u>\$ 2,206,506</u>	<u>\$ 200,000</u>

Interest expense incurred on long-term debt during the 13 months ended June 30, 2015, amounted to \$56,850 and included \$55,190 capitalized to construction in progress.

Payable to Primary Government

The Authority has non-interest bearing borrowings from the Primary Government which are outstanding at June 30, 2015, in the amount of \$344,506. Increases in payable to Primary Government in the above table are comprised of \$851,190, representing start up, feasibility and development costs incurred by the County's General Fund which are to be reimbursed, and \$125,582, representing payroll costs to be reimbursed by the Authority. Decreases in payable to Primary Government are comprised of \$132,266 paid by the County from its 2011 SPLOST collections on behalf of the Authority and \$500,000 paid by the Authority in two payments, one for \$400,000 and another for \$100,000.

The Board of Directors of the Authority have committed to repayment terms as follows:

Year Ending June 30,	Principal	Interest	Total Debt Requirements
2016	\$ 200,000	\$ -	\$ 200,000
2017	144,506	-	144,506
Total	<u>\$ 344,506</u>	<u>\$ -</u>	<u>\$ 344,506</u>

For additional details concerning these borrowings from the Primary Government, see Note 9.

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the 13 Months Ended June 30, 2015

NOTE 6 – LONG-TERM DEBT (Continued)

Revenue Bond – Series A

On June 20, 2014, the Authority entered into an agreement with Rural Development, United States Department of Agriculture ("USDA") to borrow an amount, not to exceed \$1,862,000. Borrowings under the agreement, evidenced by a Revenue Bond, Series A, were for the purpose of acquiring, constructing, equipping and installing a water system to service the area known as My Mountain in Fannin County, Georgia. The system was completed in June 2015. Under terms of the Bond Resolution, repayment is provided for from a first lien on revenues derived from the system and payments received by the Authority from Fannin County pursuant to any intergovernmental contract providing for such payments in support of payment of indebtedness incurred for the project. There is currently no such intergovernmental contract.

The Revenue Bond, Series A bears interest at an annual rate of 3.25% and requires annual payments of interest only for the first three years through June 2017. Thereafter, monthly payments of principal and interest in the amount of \$7,225 are due beginning July 2017 and continue through June 2054.

The Bond Resolution also provides for the establishment of certain operating and reserve accounts, as well as the flow of funds among the accounts. It additionally provides for certain covenants and events of default, among other matters.

Annual debt service requirements to maturity, including interest, on the Revenue Bond are as follows:

Year Ending June 30,	Principal	Interest	Total Debt Requirements
2016	\$ -	\$ 60,515	\$ 60,515
2017	-	60,515	60,515
2018	26,579	60,121	86,700
2019	27,455	59,245	86,700
2020	28,361	58,339	86,700
2021 - 2025	156,472	277,028	433,500
2026 - 2030	184,041	249,459	433,500
2031 - 2035	216,467	217,033	433,500
2036 - 2040	254,606	178,894	433,500
2041 - 2045	299,465	134,035	433,500
2046 - 2050	352,228	81,272	433,500
2051 - 2054	316,326	20,840	337,166
Total	<u>\$ 1,862,000</u>	<u>\$ 1,457,296</u>	<u>\$ 3,319,296</u>

In addition to Revenue Bond funding, the USDA also provided a grant in the amount of \$1,453,650 for purposes of the My Mountain water system as noted above. See also Note 10.

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the 13 Months Ended June 30, 2015

NOTE 7 – CONTRACTS

The Authority has entered into water purchase agreements with the City of Morganton and the City of Blue Ridge in order to provide a water supply to residents in the Hidden Valley and My Mountain areas of Fannin County, respectively. The agreement for water supply to Hidden Valley was signed on January 10, 2013, with the City of Morganton. The term of the agreement is for a period of ten (10) years and includes the purchase of up to a maximum daily amount of 40,000 gallons. In the event the Authority finds it necessary to purchase water in excess of the daily maximum of 40,000 gallons, Morganton may, at its sole discretion, sell any additional gallons requested by the Authority subject to the terms and conditions set forth in the agreement which provides for a base rate of \$3.75 per thousand gallons, with no minimum purchase per day. The per-thousand gallon cost is subject to an annual review and modification by the City of Morganton, including a surcharge for increases in electric rates and cost of chemicals as defined in the agreement. In addition to other terms, the agreement provides that the Authority shall maintain its own distribution and delivery system to service its customers and shall be responsible for billing and collecting water service charges from its customers. The agreement may be terminated by either party with a one year's notice.

The agreement for water supply to My Mountain was signed on November 21, 2012, with the City of Blue Ridge. The term of the agreement is for a period of forty (40) years and includes the purchase of up to a maximum daily amount of 150,000 gallons. In the event the Authority finds it necessary to purchase water in excess of the daily maximum of 150,000 gallons, Blue Ridge may, at its own discretion, sell any additional gallons requested by the Authority subject to the terms and conditions set forth in the agreement which provides for a base rate of \$2.25 per thousand gallons, with a minimum purchase of 20,000 gallons per day. The per-thousand gallon cost is subject to an annual review and modification by the City of Blue Ridge. In addition to other terms, the agreement provides that the Authority shall maintain its own distribution and delivery system to service its customers and shall be responsible for billing and collecting water service charges from its customers. The agreement may be terminated by either party with a twelve (12) month notice.

During the 13 months ended June 30, 2015, the cost of purchased water from the City of Morganton and the City of Blue Ridge was \$10,423 and \$8,499, respectively. The terms of each agreement remain unchanged.

NOTE 8 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees, natural disasters and cyber crimes for which the Authority carries commercial insurance to cover such risks. The Authority's commercial insurance coverage is with the Association of County Commissioners of Georgia ("ACCG") Interlocal Risk Management Agency ("IRMA"), a risk sharing arrangement among Georgia County Governments. Insurance coverage and deductible options for property, casualty and crime under the policy are selected by the Authority's management based on anticipated needs. The Authority is required to pay all premiums, applicable deductibles and assessments billed by the IRMA, as well as follow loss reduction and prevention procedures established by the ACCG.

ACCG's responsibility includes paying claims and representing the Authority in defense and settlement of claims. ACCG's basis for establishing the liabilities for unpaid claims, if any, is established by an actuary. The Authority is unaware of any claims for which the Authority is liable (up to the applicable deductible) which were outstanding and unpaid at June 30, 2015.

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the 13 Months Ended June 30, 2015

NOTE 9 – TRANSACTIONS AND RELATIONSHIP WITH PRIMARY GOVERNMENT

Prior to the formation of the Authority in April, 2010 and the availability of lender or other project financing, Fannin County, Georgia (the Primary Government and hereinafter referred to as the "County") initiated activities to determine the feasibility of a water system for County residents not currently living within the boundaries of any existing municipal owned system. All activities in connection with project start up and feasibility, including costs for a water expansion feasibility study, service area mapping and business plan, systems design and engineering, environmental evaluation, a quarry study and water testing, were performed under the direction of the County and were financed by the County with General Fund reserves. Project feasibility was established in approximately December 2010. Thereafter, the development of water systems for two areas of the County known as Hidden Valley and My Mountain continued under the direction of the County and Board of Directors of the newly formed Fannin County Water Authority (the "Authority"), using reserves in the County's General Fund to finance design and engineering, legal fees and other development costs.

In 2011, the County applied for and was awarded a CDBG grant by the Georgia Department of Community Affairs in the amount of \$500,000 to finance heavy construction and installation of the Hidden Valley water system. Also during 2011, the Water Authority applied for funds from Rural Development, USDA to finance heavy construction and installation costs of the My Mountain water system. The USDA subsequently committed to funding in the form of a Revenue Bond and a grant. See Notes 6 and 10. In addition, collections under the County's 2011 SPLOST referendum became available beginning in 2012. The referendum provided that 10% of all taxes collected were to be used for water projects. As CDBG grant funds and SPLOST funds were collected, the County was able to end its commitment to project financing with General Fund reserves during 2013.

Heavy construction of the Hidden Valley water system began in the latter part of 2013 financed with the CDBG grant and was completed in April 2014. Heavy construction of the My Mountain water system began in June 2014 with financing provided by the USDA and continued until final completion in June 2015. Operations of the Authority began in June 2014 with billing and collecting water charges to customers in Hidden Valley and coinciding with receipt of the first draw on the USDA loan for My Mountain construction.

In January and February of 2015, the County turned over to the Authority cash totaling \$422,757, representing the unspent balance of all SPLOST funds collected through December 31, 2014, and restricted to water projects under the 2011 SPLOST referendum. These funds were recorded by the Authority as contributed assets. Also in January 2015, the County began monthly distributions to the Authority of 10% of its SPLOST collections each month as provided for under the referendum. These monthly distributions of SPLOST are recorded by the Authority as intergovernmental revenues. Receivable from Primary Government on the accompanying Statement of Net Position represents SPLOST collections due the Authority for May and June 2015.

In addition, all costs incurred by the County since inception through December 31, 2014, for project start up, feasibility, development and construction, and paid for with General Fund reserves or with later collections from CDBG and SPLOST, were transferred to the Authority in January 2015. In connection with this transfer, the Authority agreed to assume responsibility for repaying the County's General Fund the outstanding amounts due for its part in financing start up and other project costs through 2013 as noted in the table below.

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the 13 Months Ended June 30, 2015

NOTE 9 – TRANSACTIONS AND RELATIONSHIP WITH PRIMARY GOVERNMENT (Continued)

The total of all start up, feasibility, development and construction costs incurred by the County for water purposes and transferred to the Authority through December 31, 2014, amounted to \$1,578,731. These costs were financed by the County with funds provided as follows:

<u>Start up, Construction and Related Costs Financed with</u>	
General Fund reserves	\$ 851,190
CDBG grant proceeds	500,000
SPLOST collections for water projects	<u>227,541</u>
Total costs transferred to the Authority	<u>\$ 1,578,731</u>

In recording these costs on the Authority's books, costs paid by the County's General Fund amounting to \$851,190 were recorded as a payable to the County by the Authority (see Note 6); amounts paid with proceeds from the CDBG grant amounting to \$500,000 and with 2011 SPLOST funds amounting to \$227,541 were recorded as contributed assets in the accompanying financial statements.

Included in above amounts transferred to the Authority and financed with the County's General Fund reserves were start up and feasibility costs, plus other professional services and expenses amounting to \$360,333. These costs have been expensed in the accompanying financial statements.

In addition to financing the above start up, construction and related costs, the County also purchased a truck and 4 parcels of land at various times for use by the Authority. These purchases were either paid for with SPLOST funds or with General Fund reserves, which were later reimbursed by the County with SPLOST funds in July 2014. Capital assets purchased for the Authority by the County include the following:

<u>Capital Assets Purchased by the County</u>	
Truck	\$ 29,854
My Mountain land for water tank site	40,000
My Mountain land for pump station site	4,000
Quarry land	353,734
Blue Bird well land	<u>10,000</u>
Total capital assets purchased	<u>\$ 437,588</u>

The above truck was purchased by the County in September 2014 with SPLOST funds and donated to the Authority. The My Mountain land for water tank site was purchased in 2012 also with SPLOST funds and donated to the Authority. The remaining three parcels of land were purchased between 2010 and 2013 with General Fund reserves. In July 2014 the County transferred \$500,000 from its SPLOST Water Fund to its General Fund. This transfer included \$367,734 to reimburse the General Fund for the cost of these three properties and \$132,266 to pay down the Authority's payable to the County. See Note 6. Simultaneously, the County transferred title to these three properties to the Authority. The Authority recorded the truck, the four parcels of land and the pay down of its liability to the County as contributed assets in the accompanying financial statements.

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the 13 Months Ended June 30, 2015

NOTE 9 – TRANSACTIONS AND RELATIONSHIP WITH PRIMARY GOVERNMENT (Continued)

The individual amounts discussed above and included in assets contributed by the County to the Authority are summarized in the table below:

Assets Contributed by the County	Cash	Contributed Capital Assets	Pay Down Liability to County	Total
SPLOST cash on hand at December 31, 2014	\$ 422,756	\$ -	\$ -	\$ 422,756
Construction and related costs financed with:				
CDBG grant proceeds	-	500,000	-	500,000
SPLOST collections designated for water projects	-	227,541	-	227,541
Total capital assets purchased by the County	-	437,588	-	437,588
SPLOST funds used to pay down liability to County	-	-	132,266	132,266
	<u>\$ 422,756</u>	<u>\$ 1,165,129</u>	<u>\$ 132,266</u>	<u>\$ 1,720,151</u>

The quarry and Blue Bird well properties were purchased by the County as possible future water sources for the Authority. Water provided by each of these two sources will require treatment before either can be used as a water supply source. The Authority's Board of Directors have considered the cost of treating the water and developing these properties into water sources versus the benefit and have concluded that using these properties as water sources is not economically feasible in the foreseeable future; however, final disposition of these two properties has not been determined. As non producing assets, appraisals were requested in September 2015 of the quarry and Blue Bird well land. As a result, these two properties have been written down by \$216,434 to net realizable value, and the \$51,026 paid for Blue Bird well water rights and the well's distribution system has been written off. These write downs are recorded as an impairment loss of \$267,460 and the two properties are reported as other assets in the accompanying financial statements.

The County currently provides, at no cost to the Authority, furnished office space and access to various office equipment owned by the County. Additionally, the County provides payroll services to the Authority under an agreement whereby the Authority is required to reimburse the County annually in March for payroll, payroll taxes and related benefits paid its employees in the previous calendar year.

NOTE 10 – GRANT INCOME

As discussed in Note 6 above, the Authority entered into an agreement with Rural Development, USDA to borrow \$1,862,000 for the purpose of developing and constructing a water system to service the area known as My Mountain in Fannin County, Georgia. In connection with this agreement, the USDA simultaneously provided a grant of \$1,453,650 to be used for the same purpose. During the 13 months ended June 30, 2015, revenues received under this grant amounted to \$1,439,269. At June 30, 2015, grant proceeds of \$889 remained unspent and are reported as restricted cash.

NOTE 11 – COMMITMENTS

The Authority is currently incurring costs in connection with the development of a water system in the area of Fannin County known as Riverwalk. Through June 30, 2015, such costs amounted to \$79,476 and are reported as construction in progress in the accompanying financial statements.

Financing for the Riverwalk project will be provided by the Georgia Environmental Finance Authority ("GEFA") in the amount of \$905,000. This is a "take down" loan commitment that includes a 40% forgiveness clause at the conclusion of the project. The final loan amount will incur interest at 2.03% and require repayment over 20 years. The loan will be guaranteed by the County.

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 Board of Directors
Fannin County Water Authority
Blue Ridge, 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 business-type activities of Fannin County Water Authority, as of and for the 13 months ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Fannin County Water Authority's basic financial statements and have issued our report thereon dated October 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Fannin County Water Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fannin County Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Fannin County Water Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency and which is described as Finding 2015-01.

Compliance and Other Matters

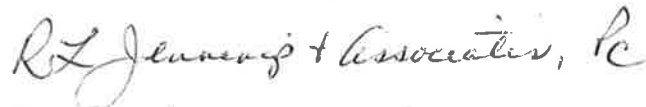
As part of obtaining reasonable assurance about whether Fannin County Water Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 *Government Auditing Standards*.

Fannin County Water Authority's Response to Finding

Fannin County Water Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Fannin County Water Authority'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

The 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 an 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.

A handwritten signature in cursive script that reads "RZ Jennings + Associates, PC".

Ellijay, Georgia
October 30, 2015

STATE SECTION

FANNIN COUNTY WATER AUTHORITY
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
For the 13 Months Ended June 30, 2015

	<u>Original Estimated Cost</u>	<u>Current Estimated Cost</u>	<u>EXPENDITURES</u>			<u>Estimated % of Completion</u>
			<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>	
Special Purpose Local Option Sales Tax - 2011						
Water Projects	<u>\$ 2,500,000</u>	<u>\$ 2,500,000</u>	<u>\$ 850,219</u>	<u>\$ 311,744</u>	<u>\$ 1,161,963</u>	46%

The above schedule has been prepared using the accrual basis of accounting.

Expenditures in the amount of \$850,219 reported in prior years represent expenditures made by Fannin County for water purposes through December 31, 2014. In January and February of 2015, the County turned over to the Authority the unspent balance of all SPLOST funds collected through December 31, 2014, and restricted to water projects under the referendum. Also in January of 2015, the County began monthly distributions to the Authority of 10% of its SPLOST collections each month as provided for under the referendum. Current year expenditures reported above in the amount of \$311, 744 represent expenditures of SPLOST funds by the Authority subsequent to December 31, 2014.

FEDERAL COMPLIANCE SECTION

FANNIN COUNTY WATER AUTHORITY
Schedule of Expenditures of Federal Awards
For the 13 Months Ended June 30, 2015

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Pass-through Entity Identifying Number</i>	<i>Federal Expenditures</i>
Other Programs			
United States Department of Agriculture Pass-Through Programs			
Passed-through Agricultural Water Enhancement Program			
Agricultural Water Enhancement Program Water and Waste Disposal Systems for Rural Communities	10.760		<u>\$ 1,439,269</u>
<i>Total Water and Waste Disposal Systems for Rural Communities</i>			<u>1,439,269</u>
<i>Total Passed-through Agricultural Water Enhancement Program</i>			<u>1,439,269</u>
<i>Total United States Department of Agriculture</i>			<u>1,439,269</u>
Total Other Programs			<u>1,439,269</u>
Total Expenditures of Federal Awards			<u>\$ 1,439,269</u>

The above schedule has been prepared using the *accrual basis of accounting*.

RL Jennings & Associates, PC

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Fannin County Water Authority
Blue Ridge, Georgia

Report on Compliance for Each Major Federal Program

We have audited Fannin County Water Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of Fannin County Water Authority's major federal programs for the 13 months ended June 30, 2015. Fannin County Water Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Fannin County Water Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fannin County Water Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Fannin County Water Authority's compliance.

Opinion on Each of the Major Federal Programs

In our opinion, Fannin County Water Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the 13 months ended June 30, 2015.

Report on Internal Control over Compliance

Management of Fannin County Water Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Fannin County Water Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Fannin County Water Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

R L Jennings & Associates, PC

Ellijay, Georgia
October 30, 2015

FANNIN COUNTY WATER AUTHORITY
Schedule of Findings and Questioned Costs
For the 13 Months Ended June 30, 2015

Section I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Reportable condition(s) identified not considered to be material weaknesses? X Yes _____ No

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ Yes X No

Reportable condition(s) identified not considered to be material weaknesses? _____ Yes X No

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? _____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities

FANNIN COUNTY WATER AUTHORITY
Schedule of Findings and Questioned Costs
For the 13 Months Ended June 30, 2015

Dollar threshold used to distinguish between Type A and Type B \$ 500,000

Auditee qualified as low-risk auditee? Yes X No

Section II—Financial Statement Findings

Finding 2015-01 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 proper segregation of certain duties.

Condition/Context: During our audit, we noted that segregation of duties could be improved within the office of the Fannin County Water Authority (a component unit of Fannin County, Georgia). Segregation of duties issues identified primarily involve conflicts between handling (or having access to) cash within the cash receipt process, recording user billings and cash collections in the accounting records, and reconciling cash accounts to bank statements. When the same employee performs two or more of these duties, weaknesses exist. We noted that the employee who handles or receives cash is also the employee who records user billings and cash collections in the accounting records and prepares bank reconciliations.

Effect: A lack of segregation of duties within these responsibilities can increase the exposure of cash to misappropriation or to errors in recording billings and cash transactions.

Cause: The Fannin County Water Authority has one employee. Without a sufficient number of employees, segregation of duties is difficult to achieve.

Recommendation: We recommend that management continually evaluate employee responsibilities and the design of an effective accounting system looking for opportunities to improve segregation of duties. Changes that improve segregation of duties will reduce the potential for errors or misappropriation of the Authority's assets.

Response: Due to the limited number of employees in the office of the Fannin County Water Authority, it is difficult to accomplish complete segregation of duties. Nevertheless, management will continue to review daily procedures and responsibilities in an effort to identify ways to increase segregation of duties and improve oversight where necessary in order to reduce risk.

Section III - Federal Award Findings and Questioned Costs

None reported.