

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

FINANCIAL REPORT

For the Year Ended June 30, 2017

FANNIN COUNTY WATER AUTHORITY
TABLE OF CONTENTS
June 30, 2017

	<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	6-16
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>	17-18
Schedule of Findings and Responses	19
STATE SECTION	
Schedule of Projects Constructed with Special Purpose Local Option Sales Tax	20

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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 year ended June 30, 2017, 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, 2017, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 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 November 17, 2017, 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.

R.L. Jennings + Associates, PC

Ellijay, Georgia
November 17, 2017

BASIC FINANCIAL STATEMENTS

FANNIN COUNTY WATER AUTHORITY
STATEMENT OF NET POSITION
June 30, 2017

ASSETS

Current Assets:

Unrestricted cash	\$ 83,286
Restricted cash	675,420
Accounts receivable, net	18,376
Receivable from Primary Government	85,923
Inventories	23,961
Prepaid expenses	7,212
Total current assets	<u>894,178</u>

Capital Assets:

Construction in progress	3,540
Land and land rights	75,517
Other capital assets, net	4,723,892
Total capital assets, net	<u>4,802,949</u>

Other Assets:

Land held for sale	147,300
Total assets	<u>5,844,427</u>

LIABILITIES

Current Liabilities:

Accounts payable	141,091
Accrued expenses	4,460
Construction loan	310,399
Revenue Bond - Series A, current portion	21,824
Payable to Primary Government	115,370
Customer deposits	6,500
Total current liabilities	<u>599,644</u>

Long-term Debt:

Revenue Bond - Series A, less current portion	1,835,256
Total long-term debt	<u>1,835,256</u>
Total liabilities	<u>2,434,900</u>

NET POSITION

Net investment in capital assets	2,448,000
Restricted for capital projects	812,883
Restricted for bond reserves	3,337
Unrestricted	145,307
Total net position	<u>\$ 3,409,527</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 Year Ended June 30, 2017

OPERATING REVENUES

Water sales and penalties	\$ 163,974
Tap fees	10,162
Other fees	20,920
Other income	9,151
Total operating revenues	<u>204,207</u>

OPERATING EXPENSES

Personal services	129,474
Professional fees: Legal and audit	53,575
Insurance	6,861
Office and other administrative expenses	6,078
Professional fees: Engineering	24,619
Water purchases	32,080
System repairs and maintenance	9,738
Truck repairs, maintenance and fuel	2,209
Water testing	3,094
Electricity	3,384
Small tools and job materials	2,682
Other operating expenses	1,686
Depreciation	144,091
Total operating expenses	<u>419,571</u>
Operating income (loss)	<u>(215,364)</u>

NON-OPERATING REVENUES AND (EXPENSES)

Intergovernmental SPLOST revenues	491,761
Capital grant revenues	206,932
Interest income	1,150
Construction loan issuance costs	(9,050)
Interest expense	(55,595)
Total non-operating revenues (expenses)	<u>635,198</u>
Change in net position	419,834
Net position, beginning	<u>2,989,693</u>
Net position, ending	<u><u>\$ 3,409,527</u></u>

The accompanying notes are an integral part of this statement.

FANNIN COUNTY WATER AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 242,594
Payments to suppliers	(167,837)
Payments to employees	(115,291)
Net cash provided by (used in) operating activities	<u>(40,534)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from construction loan	310,399
Loan issuance costs	(9,050)
Proceeds from capital grant	206,932
Intergovernmental SPLOST revenues	486,832
Purchases of capital assets	(542,292)
Repayment of borrowings from Primary Government	(100,000)
Repayment of long-term debt	(4,920)
Interest payments	(55,595)
Net cash provided by (used in) capital and related financing activities	<u>292,306</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	1,150
Cash provided by (used in) investing activities	<u>1,150</u>

Net increase in cash	252,922
Cash, beginning	505,784
Cash, ending	<u><u>\$ 758,706</u></u>

Cash, as shown on the Statement of Net Position:

Cash, unrestricted	\$ 83,286
Cash, restricted	675,420
Total cash	<u><u>\$ 758,706</u></u>

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

Operating income (loss)	\$ (215,364)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation expense	144,091
(Increase) decrease in accounts receivable	33,137
(Increase) decrease in inventories	(12,806)
(Increase) decrease in prepaid expenses	(351)
Increase (decrease) in accounts payable	33,658
Increase (decrease) in customer deposits	5,250
Increase (decrease) in payable to Primary Government for payroll services	(28,149)
Net cash provided by (used in) operating activities	<u><u>\$ (40,534)</u></u>

Non Cash Capital and Related Financing Activities

Increase in receivable from Primary Government for SPLOST revenues	\$ 4,929
Increase in accounts payable for construction activities	<u><u>\$ 76,711</u></u>

The accompanying notes are an integral part of this statement.

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2017

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 and fees, grants and Special Purpose Local Option Sales Taxes (SPLOST) allocated for water purposes by Fannin County, Georgia and disbursed to the Authority as the entity designated to carry out such purposes.

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.

The accompanying 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 completion of its first water system in the Hidden Valley area of Fannin County and coinciding with the delivery of water to users in that area. The initial reporting period of the Authority was the 13 months ended June 30, 2015. See Note 10.

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 Year Ended June 30, 2017

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, 2017, 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 SPLOST funds received from Fannin County and held for use on water capital projects as specified by the 2011 SPLOST Intergovernmental Agreement. Restricted cash also includes funds held in connection with the Authority's loan agreement with the Georgia Environmental Finance Authority (GEFA) for development and construction of a water system in the River Walk area of Fannin County. Additional restricted cash includes funds set aside in connection with the Authority's USDA loan agreement and for customer deposits. See Note 3.

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

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

"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, which is based on quoted market prices. The Authority had no investments at June 30, 2017.

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, 2017, are recorded as prepaid items when material to the financial statements.

H. Customer Deposits

Beginning January 2016, customer deposits have been required for new customers joining the system. Deposits are collected when new service is initially established and refunded when the customer leaves the system.

I. Project Start-Up and Feasibility Costs

Project start-up, feasibility and similar costs, which primarily include legal, engineering and other professional fees, are expensed when incurred 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 Year Ended June 30, 2017

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, 2017, 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 Year Ended June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net position restricted for capital projects in the accompanying financial statements represents cash deposits restricted to water projects under terms of a loan facility from GEFA and in accordance with terms of Fannin County's 2011 SPLOST referendum. Net position restricted for capital projects also includes land held for sale that was purchased by Fannin County with SPLOST funds and contributed to the Authority in July 2014. Net position restricted for loan reserves includes cash deposits set aside and restricted under terms of the Authority's Revenue Bond – Series A with USDA. See Notes 6 and 11. 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, 2017.

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, 2017, the Authority had cash deposits totaling \$259,071 that were exposed to custodial credit risk because they were uninsured and collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the Authority's name.

NOTE 3 – RESTRICTED CASH

Cash is restricted at June 30, 2017, as follows:

SPLOST checking account	\$ 439,131
GEFA loan checking account	226,452
USDA loan reserve funds	3,337
Customer deposits	<u>6,500</u>
Total restricted cash	<u>\$ 675,420</u>

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 4 – ACCOUNTS RECEIVABLE, NET

Accounts receivable, net at June 30, 2017, consists of the following:

Receivables from customers –	
water services	\$ 19,176
Less: bad debt allowance	<u>(800)</u>
Total accounts receivable, net	<u><u>\$ 18,376</u></u>

Included in receivables from customers are unbilled amounts of approximately \$7,000.

NOTE 5 – CAPITAL ASSETS

Activity in capital assets for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Increases	Reclassi- fications	Balance June 30, 2017
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 169,425	\$ 595,766	\$ (761,651)	\$ 3,540
Land and land rights	52,280	23,237	-	75,517
Total capital assets not being depreciated	<u>221,705</u>	<u>619,003</u>	<u>(761,651)</u>	<u>79,057</u>
Capital assets being depreciated:				
Land improvements	83,822	-	-	83,822
Wells and tanks	413,742	-	-	413,742
Water systems	3,398,047	-	761,651	4,159,698
Buildings and improvements	37,041	-	-	37,041
Machinery and equipment	376,496	-	-	376,496
Total capital assets being depreciated	<u>4,309,148</u>	<u>-</u>	<u>761,651</u>	<u>5,070,799</u>
Less accumulated depreciation for:				
Land improvements	(5,588)	(4,191)	-	(9,779)
Wells and tanks	(15,241)	(11,431)	-	(26,672)
Water systems	(126,273)	(88,317)	-	(214,590)
Buildings and improvements	(1,568)	(1,852)	-	(3,420)
Machinery and equipment	(54,146)	(38,300)	-	(92,446)
Total accumulated depreciation	<u>(202,816)</u>	<u>(144,091)</u>	<u>-</u>	<u>(346,907)</u>
Total capital assets being depreciated -net	<u>4,106,332</u>	<u>(144,091)</u>	<u>761,651</u>	<u>4,723,892</u>
Business-type activities capital assets -net	<u><u>\$ 4,328,037</u></u>	<u><u>\$ 474,912</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,802,949</u></u>

Depreciation expense on capital assets of \$144,091 was charged to operations during the year ended June 30, 2017.

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 6 – LONG-TERM DEBT

Activity in long-term debt for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017	Due Within One Year
Payable to Primary Government	\$ 243,519	\$ 147,099	\$ (275,248)	\$ 115,370	\$ 115,370
Revenue Bond - Series A	1,862,000	-	(4,920)	1,857,080	21,824
Total	<u>\$ 2,105,519</u>	<u>\$ 147,099</u>	<u>\$ (280,168)</u>	<u>\$ 1,972,450</u>	<u>\$ 137,194</u>

Interest expense of \$55,595 was incurred and paid on long-term debt during the year ended June 30, 2017.

Payable to Primary Government

Payable to Primary Government is non-interest bearing and primarily represents water system start up, development and related capital expenditures paid by Fannin County on behalf of the Authority using reserves in the County's General Fund. Increases in Payable to Primary Government during the year represent payroll and employee benefit costs of the Authority which are also paid by the County's General Fund and reimbursed by the Authority on a quarterly basis. See Note 10.

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

Year Ending June 30,	Principal	Interest	Total Debt Requirements
2018	<u>\$ 115,370</u>	<u>\$ -</u>	<u>\$ 115,370</u>

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 repayment of the indebtedness incurred with the USDA for the My Mountain water system. There is currently no such intergovernmental contract.

The Bond Resolution also provides for the establishment, beginning in June 2017, of a debt service and certain other 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.

The Revenue Bond, Series A, which bears interest at an annual rate of 3.25%, required 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 continuing through June 2054.

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 6 – LONG-TERM DEBT (Continued)

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

Year Ending June 30,	Principal	Interest	Total Debt Requirements
2018	\$ 21,824	\$ 64,876	\$ 86,700
2019	27,458	59,242	86,700
2020	28,204	58,496	86,700
2021	29,295	57,405	86,700
2022	30,261	56,439	86,700
2023 - 2027	166,790	266,710	433,500
2028 - 2032	196,062	237,438	433,500
2033 - 2037	230,776	202,724	433,500
2038 - 2042	271,452	162,048	433,500
2043 - 2047	319,299	114,201	433,500
2048 - 2052	375,564	57,936	433,500
Thereafter	160,095	5,234	165,329
Total	<u>\$ 1,857,080</u>	<u>\$ 1,342,749</u>	<u>\$ 3,199,829</u>

In addition to Revenue Bond funding, the USDA also provided a grant in the amount of \$1,453,650 as additional financing of the My Mountain water system. Final amounts due under the grant were received and reported by the Authority during fiscal year ending 2016.

Construction Loan

On May 2, 2016, the Authority entered into an agreement with Georgia Environmental Finance Authority ("GEFA") to borrow an amount, not to exceed \$905,000. Borrowings under the agreement were for the purpose of acquiring, constructing, equipping and installing water systems to service areas in Fannin County known as River Walk and Bear Tracts. The systems had a combined budget of \$1,000,000, with the balance of construction funding provided by SPLOST. The River Walk system was completed during April 2017 at a total cost of approximately \$711,000.

The GEFA loan is a "take down" commitment that includes a 40% forgiveness clause at completion of the project. The loan agreement provides for interest at 2.03% and requires repayment over 20 years. Through June 30, 2017, construction funding provided by GEFA amounted to \$517,331. The Authority received its final construction draw on the River Walk system in September 2017, bringing total funding for the system to \$672,559. GEFA has granted principal forgiveness totaling \$269,024 and converted \$403,535 to a fixed monthly amortization of \$2,047 for 20 years beginning October 1, 2017. See Note 9.

Loan borrowings are guaranteed by the Primary Government, and loan covenants include a minimum fixed charges coverage ratio, among other requirements.

The balance of \$232,441 in undisbursed construction funds has been returned to GEFA. The Bear Tracts system will not be constructed.

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 within the Hidden Valley and My Mountain

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 7 – CONTRACTS (Continued)

service areas. The agreement for water supply to Hidden Valley was signed on January 10, 2013, with the City of Morganton, Georgia. 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, Georgia. 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.

Water supply for new customers in the River Walk area is provided by the City of Blue Ridge.

In January 2017 the rate per thousand gallons charged by the City of Blue Ridge was increased to \$3.25. The agreement with City of Morganton remained unchanged. During the year ended June 30, 2017, water purchases from the City of Morganton and the City of Blue Ridge were as follows:

<u>Water Purchases</u>	<u>Gallons</u>	<u>Cost</u>
City of Morganton, Georgia	3,397,000	\$ 12,345
City of Blue Ridge, Georgia	5,944,480	19,735
Total	<u>9,341,480</u>	<u>\$ 32,080</u>

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 county governments in Georgia. 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.

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 8 – RISK MANAGEMENT (Continued)

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. Management of 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, 2017.

NOTE 9 – GRANT INCOME

As discussed in Note 6 above, the Authority entered into an agreement with GEFA in May 2016 for purposes of funding the construction of water systems in the Fannin County developments known as River Walk and Bear Tracts. The GEFA loan is a "take down" commitment that includes a 40% forgiveness clause at completion of the project. At June 30, 2017, total funding provided by GEFA under the agreement amounted to \$517,331. Accordingly, loan forgiveness in the amount of \$206,932 was recognized as capital grant income as of June 30, 2017. Grant revenues amounting to \$62,092 and representing 40% of draws received subsequent to June 30, 2017, will be recognized as income during fiscal year 2018.

NOTE 10 – HISTORY 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 service area of existing municipal owned systems. All activities beginning with project start up and feasibility were performed under the direction of the County. Once project feasibility was established in approximately December 2010, 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"). All costs and activities during these beginning years were financed using reserves in the County's General Fund.

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 a water system in the Hidden Valley area. Also during 2011, the Water Authority applied for funds from Rural Development, USDA to finance heavy construction and installation of a second water system in the My Mountain area. The USDA subsequently committed to funding in the form of a \$1,862,000 Revenue Bond and a \$1,453,650 grant. See Note 6. Additional financing also became available through the County's 2011 SPLOST referendum which designated 10% of all taxes collected be used for water projects. With funding from SPLOST beginning in October 2011, the CDBG beginning in 2013 and the USDA in 2014, the County was able to end its use of General Fund reserves for project financing.

Construction of the Hidden Valley water system was completed in April 2014. The Authority began operating activities in June 2014, and the My Mountain water system was completed in June 2015.

In January and February 2015, the County turned over to the Authority the balance on hand at December 31, 2014, of all SPLOST cash designated for water projects, and also began monthly distributions to the Authority of 10% of its SPLOST collections each month as provided for by the 2011 SPLOST 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 as of June 30, 2017, represents SPLOST collections due the Authority for May and June 2017.

FANNIN COUNTY WATER AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 10 – HISTORY AND RELATIONSHIP WITH PRIMARY GOVERNMENT (Continued)

In addition, all costs incurred by the County, beginning with initial project start up and continuing through December 31, 2014, including construction and capital expenditures for land and equipment, that were paid for with General Fund reserves or with later collections from SPLOST and the CDBG grant, were transferred to the Authority in July 2014 and January 2015. Accordingly, for the 13 month reporting period ended June 30, 2015, all costs paid by the County's General Fund were recorded by the Authority as a payable to the Primary Government. All remaining costs paid by the County with collections from SPLOST and the CDBG grant were recorded by the Authority as contributions from the Primary Government. See Note 6.

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 where the Authority reimburses the County quarterly for payroll, payroll taxes and related benefits paid its employees in the previous calendar quarter. See Note 6.

NOTE 11 – LAND HELD FOR SALE

Land that was contributed by Fannin County to the Authority in July 2014, as discussed in Note 10 above, included two properties, one known as the quarry and the other as the Blue Bird well. Both were purchased by the County with SPLOST funds as possible future water sources for the Authority. Water provided by these two sources will require treatment before use as a water supply. The Authority's Board of Directors has considered development costs as well as water treatment costs and concluded that use of these two properties as water sources is not economically feasible in the foreseeable future. Accordingly, as non producing assets, and based on independent appraisals, these two properties have been written down to fair value (determined using a market approach with level two inputs) and are reported as land held for sale in the accompanying Statement of Net Position.

On November 15, 2017, the Board of Directors accepted a cash offer for the purchase of the quarry property in the amount of \$276,000. At closing of this transaction, which is scheduled for December 2017, this pending sale will result in a gain of approximately \$130,000 after expenses. Proceeds from the sale will become restricted cash.

NOTE 12 – RELATED PARTY TRANSACTIONS

As described in Note 7 above, the Authority provides water to the My Mountain and River Walk service areas through a water purchase contract with the City of Blue Ridge, Georgia. During the year, the Authority and the mayor of the City of Blue Ridge entered into an agreement for \$16,000 for the installation of a water line extension, including four taps, to property privately owned by the mayor.

In addition to work completed under the agreement with the mayor, the Authority further extended the water line and installed three more taps for other potential customers nearby. Fees collected for the three additional taps will provide an additional \$4,395 in revenues to the Authority. One of the three additional tap fees has already been collected.

All work under the agreement with the mayor, plus the added water line and three additional taps, was completed in September 2016 at a total cost to the Authority of \$22,244.

Office space, equipment and payroll services provided by the County to the Authority are described in Note 10 above.

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 year ended June 30, 2017, 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 November 17, 2017.

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 responses 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 responses. 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 blue ink that reads "R. L. Jennings + Associates, PC". The signature is fluid and cursive.

Ellijay, Georgia
November 17, 2017

**FANNIN COUNTY WATER AUTHORITY
Schedule of Findings and Responses
For the Year Ended June 30, 2017**

We consider the following finding to be a significant deficiency in internal control.

Repeat finding from prior year:

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.

STATE SECTION

FANNIN COUNTY WATER AUTHORITY
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
For the Year Ended June 30, 2017

	Original Estimated Cost	Current Estimated Cost	EXPENDITURES			Estimated % of Completion
			Prior Years	Current Year	Total	
Special Purpose Local Option Sales Tax - 2011						
Water Projects	\$ 2,500,000	\$ 2,500,000	\$ 1,471,563	\$ 215,803	\$ 1,687,366	67%

Notes to Schedule:

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

In January and February 2015 all SPLOST cash held by Fannin County for water projects was turned over to the Authority. Also in January 2015 Fannin County began remitting to the Authority monthly SPLOST collections designated for water projects under its 2011 SPLOST referendum.

Accordingly, expenditures in prior years reported above include \$850,219, representing amounts paid for water projects on behalf of the Authority by Fannin County, GA through December 31, 2014.

The remaining expenditures reported above totaling \$837,147 occurred subsequent to December 31, 2014, and were paid by the Authority.