

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



Annual Financial Report

For the fiscal year ended June 30, 2018

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FANNIN COUNTY WATER AUTHORITY
ANNUAL FINANCIAL REPORT
For the fiscal year ended June 30, 2018

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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 Fannin County Water Authority, a component unit of Fannin County, Georgia, as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise the Authority's 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 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 the 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 Fannin County Water Authority, as of June 30, 2018 and the respective changes in financial position and cash flows thereof for the year then ended in conformity 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 financial statements. The accompanying schedule of projects financed with special purpose local option sales tax is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of projects financed 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 financed 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 April 10, 2019, on our consideration of Fannin County Water Authority's internal control over financial reporting and our tests of 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 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.

Rushton & Company, LLC

Certified Public Accountants

Gainesville, Georgia
April 10, 2019

BASIC FINANCIAL STATEMENTS

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FANNIN COUNTY WATER AUTHORITY
STATEMENT OF NET POSITION
June 30, 2018

ASSETS

Current assets

Cash and cash equivalents	\$ 112,804
Accounts receivable (net)	18,968
Restricted assets	
Cash and cash equivalents	960,614
Due from primary government	67,459
Inventories	24,357
Total current assets	<u>1,184,202</u>

Noncurrent assets

Property held for resale	3,300
Capital assets	
Non-depreciable	505,199
Depreciable, net	4,585,184
Total noncurrent assets	<u>5,093,683</u>

Total assets

6,277,885

LIABILITIES

Current liabilities

Payables	
Accounts	192,166
Retainage	18,617
Due to primary government	404
Unearned revenue	4,836
Current liabilities payable from restricted assets	
Customer deposits payable	8,627
Interest	2,315
Bonds payable	27,458
Notes payable	16,572
Total current liabilities	<u>270,995</u>

Non-current liabilities

Bonds payable	1,807,798
Notes payable	375,983
Total non-current liabilities	<u>2,183,781</u>

Total liabilities

2,454,776

NET POSITION

Net investment in capital assets	2,658,088
Restricted for capital outlay	893,499
Restricted for debt service	123,632
Unrestricted	147,890
Total net position	<u>\$ 3,823,109</u>

The accompanying notes are an integral part of these financial statements.

FANNIN COUNTY WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
For the fiscal year ended June 30, 2018

OPERATING REVENUES

Charges for sales and services	
Water sales	\$ 190,256
Tap fees	5,860
Other charges for services	<u>5,017</u>
Total operating revenues	<u>201,133</u>

OPERATING EXPENSES

Cost of sales and services	141,486
Personal services	29,585
Depreciation	<u>160,686</u>
Total operating expenses	<u>331,757</u>

Operating income (loss)	<u>(130,624)</u>
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Non-operating revenues (expenses)

Interest revenue	1,543
Interest expense	(71,033)
Investment revenue	<u>134,000</u>

Total non-operating revenues (expenses)	<u>64,510</u>
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Net income (loss) before capital contributions	<u>(66,114)</u>
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Capital contributions

Intergovernmental	<u>479,696</u>
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Change in net position	413,582
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Net position, July 1	<u>3,409,527</u>
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Net position, June 30	<u><u>\$ 3,823,109</u></u>
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FANNIN COUNTY WATER AUTHORITY
STATEMENT OF CASH FLOWS
For the fiscal year ended June 30, 2018

Cash flows from operating activities:

Receipts from customers	\$ 189,040
Payments to suppliers	(158,757)
Payments to employees	<u>(126,087)</u>
Net cash provided (used) by operating activities	<u>(95,804)</u>

Cash flows from capital and related financing activities:

Receipts from other governments	498,160
Payments for acquisitions of capital assets	(243,636)
Payment of capital related accounts payable	(113,505)
Interest paid	(70,378)
Principal payments on bonds payable	(21,824)
Proceeds from promissory notes	93,137
Principal payments on promissory notes	<u>(10,981)</u>
Net cash provided (used) by capital and related financing activities	<u>130,973</u>

Cash flows from investing activities:

Interest received	1,543
Proceeds from sale of property held for resale	<u>278,000</u>
Net cash provided (used) by investing activities	<u>279,543</u>

Net increase (decrease) in cash and cash equivalents	314,712
Cash and cash equivalents, July 1	<u>758,706</u>
Cash and cash equivalents, June 30	<u><u>\$ 1,073,418</u></u>

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

Operating income (loss)	\$ <u>(130,624)</u>
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Adjustments to reconcile operating income to net cash provided by operating activities:

Depreciation expense	160,686
(Increase) decrease in accounts receivable	(592)
(Increase) decrease in inventory	(396)
(Increase) decrease in prepaid items	7,212
Increase (decrease) in accounts payable	(24,087)
Increase (decrease) in due to primary government	(114,966)
Increase (decrease) in unearned revenue	4,836
Increase (decrease) in deposits payable	<u>2,127</u>

Total adjustments	<u>34,820</u>
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Net cash provided (used) by operating activities	<u><u>\$ (95,804)</u></u>
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Cash and cash equivalents reconciliation:

Cash and cash equivalents	\$ 112,804
Restricted cash and cash equivalents	<u>960,614</u>
Total cash and cash equivalents	<u><u>\$ 1,073,418</u></u>

Noncash investing, capital and financing activities:

Acquisition of capital assets through accounts payable	\$ 185,867
Acquisition of capital assets through retainage payable	18,617

The accompanying notes are an integral part of these financial statements.

FANNIN COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

1. Description of Authority

The Fannin County Water Authority (the Authority), a political subdivision of the State of Georgia and a public corporation, 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. The Authority is a component unit of Fannin County, Georgia (the County and the Primary Government). The Authority is governed under a seven-member board that is appointed by the Fannin County Board of Commissioners. Board members are appointed to three-year rotating terms. Any member of the Board of Commissioners may appoint themselves to the Authority's board of directors. The board of directors has decision making authority, the power to designate management, the ability to significantly influence operations, and have primary accountability on the fiscal matters of the Authority. The board determines the Authority's annual operating budget. The annual operating budget is subject to the approval by the Fannin County Board of Commissioners.

The purpose of the Authority is to acquire, construct, equip, maintain and operate adequate water supply, treatment, and distribution facilities and sewerage collection, treatment and distribution facilities, and 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 Tax (SPLOST) allocated for water purposes by Fannin County, Georgia and disbursed to the Authority as the entity designated to carry out such purposes.

The accompanying financial statements present the Authority as a component unit of Fannin County, Georgia. As required by generally accepted accounting principles, the Authority will be included in the Primary Government's reporting 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 in Fannin County and coinciding with the delivery of water to users in the Hidden Valley area.

FANNIN COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

1. Description of Authority (continued)

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Authority are described below.

2. Summary of Significant Accounting Policies

A. Basis of Presentation

The statement of net position and the statement of revenues, expenses and changes in net position display information in the format of a business type activity. Such activities are financed through exchange transactions in whole or in part by fees charged to each participant. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues and expenses, such as subsidies, intergovernmental revenues, investment earnings, and interest expense, result from non-exchange transactions or ancillary activities.

B. Reporting Entity

The financial statements present the Authority as a business-type activity in accordance with Governmental Accounting Standards Board Statement No. 34.

C. Fund Financial Statements

The Authority is accounted for as an enterprise fund on a flow of economic resource measurement focus. The accounting objective is a determination of net income, financial position and changes in cash flow. All assets and liabilities associated with the Authority's activities are included in its statement of net position.

Enterprise funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods and services to the general public on a continuing basis are to be financed or recovered primarily through user charges.

FANNIN COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

2. Summary of Significant Accounting Policies (continued)

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

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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 a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Cash and Investments

Cash and cash equivalents, as reported in the statement of cash flows, includes amounts in demand deposits, amounts with fiscal agents and investments with an original maturity at three months or less.

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value and Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

The Authority measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs.

FANNIN COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

2. Summary of Significant Accounting Policies (continued)

F. Receivables and Payables

Receivables and payables are recorded as revenue and expenses for the period that they are earned and incurred.

G. 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.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond reporting year are recorded as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expense in the year in which services are consumed.

I. Customer Deposits

Customer deposits are required to receive services from the Authority. Deposits are collected when new service is established and refunded when a customer leaves the system.

J. Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at acquisition value. The Authority's infrastructure consists of water lines, wells and water tanks. All infrastructure since inception of the Authority has been capitalized. Improvements to capital assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. All reported capital assets are depreciated except for land, rights-of-way and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets.

FANNIN COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

2. Summary of Significant Accounting Policies (continued)

J. Capital Assets, continued

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets ranging as follows:

	Useful Life	Capitalization
	in Years	Threshold
Land improvements	20	\$ 500
Infrastructure – wells and tanks	20	\$ 500
Infrastructure – water systems	40	\$ 500
Machinery and equipment	5-20	\$ 500
Buildings and improvements	5-20	\$ 500

K. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets also represent cash and cash equivalents and investments set aside for repayment of deposits to utility customers and capital improvements. All SPLOST funds are restricted for capital improvement projects and are listed under the caption “cash and cash equivalents” under the subtitle restricted assets.

FANNIN COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

2. Summary of Significant Accounting Policies (continued)

L. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other components of net position are reported as unrestricted.

The Authority applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

M. Capital Contributions

Federal, state, and local government assistance in the form of grants that are permanent in nature and restricted for the construction or acquisition of specific property and equipment is recorded as an asset and as non-operating revenue.

N. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

FANNIN COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

3. Deposit and Investment Risk

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned. The Authority's investment policy follows the State of Georgia requirement that all deposits be federally insured or fully collateralized. At the end of the current fiscal year, the Authority had no uninsured or uncollateralized deposits.

Interest Rate Risk

The Authority's does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State of Georgia law limits investments to include certificates of deposit, repurchase agreements, direct and agency obligations of the United States, obligations of the State of Georgia or other states, obligations of other political subdivisions of the State of Georgia, and pooled investment programs of the State of Georgia. The Authority has not adopted a formal credit risk policy.

Concentration of Credit Risk

The Authority's policy does not limit the amount the Authority may invest in any one issuer.

Foreign currency risk

The Authority has no investments denominated in a foreign currency.

4. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents at the end of the current fiscal year consist of the following:

Special Purpose Local Option Sales Tax	\$ 826,040
Debt Service - USDA Revenue Bonds	125,947
Customer deposits	<u>8,627</u>
Total	<u><u>\$ 960,614</u></u>

FANNIN COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

5. Accounts Receivable

Accounts receivable at the end of the current fiscal year consists of the following:

Receivables	\$ 25,337
Less allowance for uncollectible accounts	<u>(6,369)</u>
Total	<u>\$ 18,968</u>

6. Due from Primary Government

Due from the primary government totaled \$67,459 and consists of SPLOST revenues due to the Authority but not received at the end of the current fiscal year.

7. Property Held for Resale

Land was contributed to the Authority by Fannin County in July 2014. The land consisted of two properties, the Quarry and the Blue Bird Well. Both were purchased with SPLOST funds by the County for future water sources for the Authority. The Authority's board has decided that using these properties for water sources is not economically feasible in the foreseeable future. The properties are classified as property held for resale on the statement of net position.

On November 15, 2017, the Authority sold the Quarry property for a total of \$276,000, resulting in a total net profit of \$134,000 on the sale. The proceeds from the sale are restricted for future capital outlay.

The Blue Bird Well property is an investment held for resale valued within the fair value measurement hierarchy using level 2 inputs. Level 2 inputs are significant other observable inputs other than quoted market prices. The property is included under the caption Property Held for Resale on the statement of net position.

FANNIN COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

8. Capital Assets

Capital asset activity for the current fiscal year was as follows:

	<u>Balance Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance Ending</u>
Non-depreciable assets				
Land	\$ 44,000	\$ 0	\$ 0	\$ 44,000
Land rights and easements	31,517	0	0	31,517
Construction in progress	3,540	434,143	(8,001)	429,682
Total non-depreciable assets	<u>79,057</u>	<u>434,143</u>	<u>(8,001)</u>	<u>505,199</u>
Depreciable assets				
Buildings	37,041	0	0	37,041
Land improvements	83,822	0	0	83,822
Infrastructure	4,573,440	12,427	0	4,585,867
Machinery and equipment	376,496	9,551	0	386,047
Total depreciable assets	<u>5,070,799</u>	<u>21,978</u>	<u>0</u>	<u>5,092,777</u>
Less accumulated depreciation				
Buildings	(3,420)	(1,852)	0	(5,272)
Land improvements	(9,779)	(4,191)	0	(13,970)
Infrastructure	(241,262)	(115,579)	0	(356,841)
Machinery and equipment	(92,446)	(39,064)	0	(131,510)
Total accumulated depreciation	<u>(346,907)</u>	<u>(160,686)</u>	<u>0</u>	<u>(507,593)</u>
Total depreciable assets, net	<u>4,723,892</u>	<u>(138,708)</u>	<u>0</u>	<u>4,585,184</u>
Capital assets, net	<u>\$ 4,802,949</u>	<u>\$ 295,435</u>	<u>\$ (8,001)</u>	<u>\$ 5,090,383</u>

FANNIN COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

9. Long-Term Debt

Revenue Bonds

The Authority entered into a loan agreement with Rural Development, United States Department of Agriculture (the 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 My Mountain area in Fannin County. The water system was completed in June 2015. Under the terms of the agreement, 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 intergovernmental agreement contract between Fannin County and the Authority. The USDA provided \$1,453,650 in grant funding to assist with financing the project.

The bond resolution also provides for the establishment, beginning in June 2017, of a debt service account and certain other reserve accounts. It additionally provides for certain covenants and events of default.

The Series A Revenue Bonds bear interest at an annual rate of 3.25%. The bonds 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. The total principal outstanding at the end of the current fiscal year was \$1,835,256.

FANNIN COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

9. Long-Term Debt (continued)

Revenue Bonds (continued)

Annual debt service requirements for bonds payable are as follows:

<u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 27,458	\$ 59,242	\$ 86,700
2020	28,367	58,333	86,700
2021	29,302	57,398	86,700
2022	30,269	56,431	86,700
2023	31,268	55,432	86,700
2024-2028	172,506	260,992	433,498
2029-2033	202,902	230,596	433,498
2034-2038	238,651	194,847	433,498
2039-2043	280,698	152,800	433,498
2044-2048	330,157	103,341	433,498
2049-2053	388,326	45,172	433,498
2054	75,352	1,187	76,539
Totals	<u>\$ 1,835,256</u>	<u>\$ 1,275,771</u>	<u>\$ 3,111,027</u>

Notes Payable

On May 2, 2016, the Authority entered into a loan agreement with the Georgia Environmental Finance Authority (GEFA) in the amount, not to exceed \$905,000. Borrowings under the agreement were for the purpose of acquiring, constructing, equipping, and installing water systems in River Walk service area in Fannin County. The Authority has drawn \$672,560 and recognized \$269,024 in principal forgiveness. Principal and interest are payable in 240 consecutive monthly installments in the amount of \$2,047, interest at 2.03% (\$392,555 outstanding).

FANNIN COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

9. Long-Term Debt (continued)

Notes Payable (continued)

Annual debt service requirements for notes payable are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 16,572	\$ 250,346	\$ 266,918
2020	17,096	237,428	254,524
2021	17,446	223,947	241,393
2022	17,803	209,876	227,679
2023	18,168	195,188	213,356
2024-2028	96,579	731,879	828,458
2029-2033	106,887	256,968	363,855
2034-2038	102,004	25,817	127,821
Totals	\$ 392,555	\$ 2,131,449	\$ 2,524,004

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the current fiscal year:

	Balance Beginning	Additions	Deductions	Balance Ending	Due Within One Year
Revenue bonds payable	\$ 1,857,080	\$ 0	\$ (21,824)	\$ 1,835,256	\$ 27,458
Notes payable	310,399	93,137	(10,981)	392,555	16,572
Total	\$ 2,167,479	\$ 93,137	\$ (32,805)	\$ 2,227,811	\$ 44,030

FANNIN COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

10. Restricted Net Position

Restricted net position consisted of the following at the end of the current fiscal year:

Restricted for:	
Capital outlay	\$ 893,499
Debt service	123,632
Total	<u>\$ 1,017,131</u>

11. Net Investment in Capital Assets

The net investment in capital assets reported on the statement of net position is calculated as follows at the end of the current fiscal year:

Cost of capital assets	\$ 5,597,976
Accumulated depreciation	<u>(507,593)</u>
Book value	5,090,383
Capital-related accounts payable	(185,867)
Retainage payable	(18,617)
Notes payable	(392,555)
Bonds payable	<u>(1,835,256)</u>
Net investment in capital assets	<u>\$ 2,658,088</u>

12. Contracts

The Authority has entered into water purchase agreements with the City of Morganton, Georgia and the City of Blue Ridge, Georgia in order to provide a water supply to residents within the Hidden Valley and My Mountain service areas. The agreement for the Hidden Valley service area was signed on January 10, 2013 with the City of Morganton, Georgia. The term of the agreement is for a 10 year period and includes the purchase of up to a maximum daily amount of 40,000 gallons at a rate of \$3.75 per thousand gallons. The City of Morganton may sell water to the Authority in excess of the daily maximum of 40,000 gallons at its sole discretion. The per thousand-gallon rate is subject to an annual review and modification by the City of Morganton, including 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.

FANNIN COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

12. Contracts (continued)

The agreement for the My Mountain service area was signed on November 21, 2012 with the City of Blue Ridge, Georgia. The term of the agreement is for a 40 year period and includes the purchase of up to a maximum daily amount of 150,000 gallons at a rate of \$2.25 per thousand gallons, with a minimum purchase amount of 20,000 gallons per day. The City of Blue Ridge may sell water to the Authority in excess of the daily maximum of 150,000 gallons at its sole discretion. The per thousand-gallon rate 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 months' notice.

Water supply to 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 the City of Morganton remained unchanged.

During the current fiscal year, water purchases from the City of Morganton and the City of Blue Ridge were as follows:

Water Purchases	Gallons	Cost
City of Blue Ridge, Georgia	7,008,671	\$ 22,279
City of Morganton, Georgia	2,802,581	10,510
Total	<u>9,811,252</u>	<u>\$ 32,789</u>

13. Risk Management

Material estimates have been made by management about the life of depreciated capital assets. Management has used a conservative approach on these estimates.

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Authority has elected to manage its risk financing activities through the purchase of commercial insurance.

FANNIN COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

13. Risk Management (continued)

The Authority participates in the Georgia Interlocal Risk Management Agency Fund provided by the Association of County Commissioners of Georgia. A public entity risk pool currently operating as a common risk management and insurance program for member local governments and authorities.

As part of the risk pool, the Authority is obligated to pay all contributions and assessments as prescribed by the pool, to cooperate with the pool's agents and attorneys, to follow loss reduction procedures established by the funds, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss. The Authority is also to allow the pool's agents and attorneys to represent the Authority in investigation, settlement discussions and all levels of litigation arising out of any claim made against the Authority within the scope of loss protection furnished by the funds.

The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member government contract. The funds are to pay all costs taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

There have been no insurance settlements exceeding insurance coverage for any of the past three fiscal years.

Management estimates liabilities for unpaid claims based on the probability of losses exceeding the occurrence limits and the reasonableness of estimating those losses. At the end of the current fiscal year, the Authority has no losses that are probable or estimable and accordingly has not recognized any liability.

FANNIN COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

14. History and Relationship with Primary Government

Prior to the formation of the Authority, Fannin County, Georgia initiated activities to determine the feasibility of a water system for the citizens of Fannin County not currently living in the service areas of existing municipal water systems. All activities were performed under the direction of the County. Once feasibility was established, the Authority was established by the Georgia General Assembly in April 2010. The development of water systems for two areas of the County known as Hidden Valley and My Mountain began under the direction of the County and the Board of Directors of the Authority. All start up and feasibility costs were financed with the County's General Fund operating reserves.

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 construction and installation of a water system in the Hidden Valley area. Also, in 2011, the Authority applied for funds from Rural Development, USDA to finance the construction and installation of a water system in the My Mountain area. The USDA subsequently committed to funding the My Mountain project with a grant in the amount of \$1,453,650 and a revenue bond in the amount of \$1,862,000. See Note 9 for additional details. The Hidden Valley water system project was completed in April 2014. The My Mountain water system was completed in June 2015.

Additional financing for the future projects became available when the County's 2011 SPLOST referendum designated 10% of all SPLOST revenues collected to water projects. The 2011 SPLOST collections began in October 2011.

The Authority began operations in June 2014. In 2015, the County contributed all SPLOST monies designated for water projects to the Authority. The County also contributed all water system infrastructure and related equipment to the Authority. The County began making monthly distributions to the Authority for its portion of the SPLOST collections. SPLOST distributions are recorded as intergovernmental revenue.

The County currently provides office space and access to various office equipment owned by the County at no cost to the Authority. The County also provides monthly payroll and payroll related services to the Authority. Under the agreement, the Authority reimburses the County for these services each month. The amount under the caption "Due to primary government" on the statement of net position are for payroll related services.

FANNIN COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

15. Commitments and Contingencies

Commitments

The Authority has active construction projects at the end of the current fiscal year. The Authority is committed to spending an additional \$1,715,611 on several construction projects currently in progress.

Contingencies

The Authority's legal counsel has stated that there are presently no determinable lawsuits.

16. New Accounting Standards

The Authority early implemented GASB Statement No. 89, *Accounting for Interest Cost incurred before the End of a Construction Period*, effective for the Authority's current fiscal year.

OTHER REPORTING 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 Fannin County Water Authority, a component unit of Fannin County, Georgia, as of and for the year ended June 30, 2018, 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 April 10, 2019.

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 opinions 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 over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies to be material weaknesses:

2018-001

Condition: The Authority lacks adequate segregation of financial duties. The General Manager currently maintains the checkbook, prepares cash deposits, makes cash deposits, prepares all bank reconciliations, posts all journal entries, and adjusts utility customer accounts for the Authority.

Criteria: The duties of disbursements, receipts, preparing bank reconciliations, journal entries, and utility customer account adjustments should be separated and assigned to different personnel whenever possible.

Effect: Failure to maintain adequate separation of duties subjects the Authority to greater risk of loss due to employee fraud.

2018-001, continued

Cause: The Authority currently has one employee. It is not possible to segregate financial duties with only one employee.

Recommendation: The Authority should create policies that mitigate the risk of inadequate segregation of financial duties.

Management Response: Management concurs with this finding. Management will implement procedures to mitigate risk to the extent possible with available resources.

2018-002

Condition: While performing audit procedures over cash disbursements, we noted that supporting documentation did not have evidence of approval and that management could not locate supporting documentation for all disbursements selected for testing. All cash disbursements tested appeared appropriate.

Criteria: Proper internal control procedures require that cash disbursements have evidence of approval and supporting documentation for all disbursements be maintained by the Authority.

Effect: Failure to maintain evidence of authorization and supporting documentation for disbursements exposes the Authority to a greater risk of loss due to fraud.

Cause: A disgruntled former employee destroyed some of the Authority's disbursement documentation during the fiscal year.

Recommendation: The Authority should institute a formal policy for approval of disbursements and maintain records of supporting documentation for each disbursement.

Management Response: Management concurs with this finding. The Authority will institute a formal approval process for disbursements. This action was taken immediately upon receipt of the comment from our auditors.

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. We consider the following deficiencies to be significant deficiencies:

2018-003

Condition: Authority personnel may require additional training in the application of generally accepted accounting principles and the preparation of financial statements. Currently, the Authority relies on the external auditors for technical assistance in applying generally accepted accounting principles and the preparation of the financial statements. This is common for governments of similar size and structure to the Authority. Under current auditing standards, providing technical assistance does not impair the independence of the external auditor. However, future changes to auditing standards by standards setting boards could state that providing technical assistance would impair the independence of the external auditor. This does not indicate that the General Manager is not trained to perform the daily accounting functions, but that the Authority has elected as a cost benefit to outsource this expertise to their auditors. As required, we have indicated this as a significant deficiency in our letter on Internal Control and Compliance.

Criteria: Effective internal control requires that the Authority accept responsibility and understanding of the audited financial report.

Effect: Failure to understand the financial statements may lead to material misstatements.

2018-003, continued

Cause: The Authority's employees are unable to prepare the Authority's financial statements because they lack the required training and experience in the application of generally accepted accounting principles.

Recommendation: Authority personnel should continue to receive training in the identification and application of generally accepted accounting principles and the preparation of the Authority's financial statements.

Management Response: Management concurs with this finding. The General Manager will continue to seek training in the application of generally accepted accounting principles and in the preparation of the Authority's financial statements. Until such time it is financially feasible for the General Manager to prepare the Authority's financial statements, the Authority will continue to rely on the independent auditor to prepare them.

2018-004

Condition: While performing audit procedures on utility billing receipts, we noted instances where we were unable to locate supporting documentation for receipts that were selected for testing. We were unable to trace the corresponding receipts to the deposit on the bank statement.

Criteria: Proper internal controls require that all receipts be properly supported by appropriate documentation.

Effect: Failure to maintain proper supporting documentation for receipts subjects the assets of the Authority to greater risk of misappropriation.

Cause: A disgruntled former employee destroyed some of the Authority's cash receipt documentation during the fiscal year.

Recommendation: Adequate detail of supporting documentation should be maintained for all transactions to provide an audit trail to the deposit.

Management Response: Management concurs with this finding. Management will implement the recommendation to ensure that adequate supporting documentation is maintained for all transactions. This action was taken immediately upon receipt of the comment from our auditors.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fannin County Water Authority financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 that are required to be reported under *Government Auditing Standards*.

Fannin County Water Authority's Responses to Findings

Fannin County Water Authority's responses to the findings identified in our audit are described previously. Fannin County Water Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rushton & Company, LLC

Certified Public Accountants

Gainesville, Georgia
April 10, 2019

STATE REPORTING SECTION

This section contains additional reports required by the State of Georgia.

FANNIN COUNTY WATER AUTHORITY
SCHEDULE OF PROJECTS FINANCED WITH SPECIAL
PURPOSE LOCAL OPTION SALES TAX
For the fiscal year ended June 30, 2018

<u>Project</u>	<u>Estimated Cost *</u>		<u>Expenditures</u>		
	<u>Original</u>	<u>Current</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
<u>2011 SPLOST</u>					
Water Projects	\$ 2,500,000	\$ 2,500,000	\$ 1,687,366	\$ 491,117	\$ 2,178,483

* Estimated cost represents the portion of these projects to be financed with Special Purpose Local Option Sales Tax. Actual costs that are in excess of these amounts have been financed through alternative funds.

<u>Project</u>	<u>Estimated Cost *</u>		<u>Expenditures</u>		
	<u>Original</u>	<u>Current</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
<u>2017 SPLOST</u>					
Water Projects	\$ 2,100,000	\$ 2,100,000	\$ 0	\$ 0	\$ 0

* Estimated cost represents the portion of these projects to be financed with Special Purpose Local Option Sales Tax. Actual costs that are in excess of these amounts have been financed through alternative funds.