

WALTON COUNTY
WATER AND SEWERAGE AUTHORITY
LOGANVILLE, GEORGIA
A COMPONENT UNIT OF WALTON COUNTY, GEORGIA

FINANCIAL STATEMENTS
(WITH INDEPENDENT AUDITORS' REPORT)

Year Ended

June 30, 2005

WALTON COUNTY WATER AND SEWERAGE AUTHORITY

LOGANVILLE, GEORGIA

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INDEPENDENT AUDITORS' REPORT

January 11, 2006

To the Members of the Board
Walton County Water and Sewerage Authority
Loganville, Georgia

We have audited the accompanying financial statements of the business-type activities of WALTON COUNTY WATER AND SEWERAGE AUTHORITY, a component unit of WALTON COUNTY, GEORGIA, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of WALTON COUNTY WATER AND SEWERAGE AUTHORITY management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of WALTON COUNTY WATER AND SEWERAGE AUTHORITY as of October 31, 2004, were audited by other auditors whose report dated January 28, 2005 expressed an unqualified opinion on those statements. As discussed in Note 5 to the financial statements, the Authority has restated its October 31, 2004 financial statements during the current year to adjust interest capitalized during construction of system assets and adjust depreciation expense, in conformity with accounting principles generally accepted in the United States of America. The other auditors reported on the October 31, 2004 financial statements before the restatement.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 as of June 30, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2006, on our consideration of WALTON COUNTY WATER AND SEWERAGE 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 the

internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

WALTON COUNTY WATER AND SEWERAGE AUTHORITY has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined it is necessary to supplement, although not required to be part of, the basic financial statements.

Bates, Carter & Co, P.C.

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
A Component Unit of Walton County, Georgia
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2005
(with comparative data for October 31, 2004)

	BUSINESS-TYPE ACTIVITIES	
	ENTERPRISE FUND	
	2005	2004
ASSETS		
Current Assets		
Cash	\$ 3,424,723	\$ 2,834,693
Investments	1,189,180	1,165,168
Receivables - trade, net	399,450	325,704
Unbilled revenue	214,623	162,842
Accrued interest receivable	-	8,100
Prepaid expenses	144,889	78,180
Restricted:		
Cash restricted for construction	6,350,194	4,479,607
Cash restricted for debt service	681,521	663,745
Total Current Assets	12,404,580	9,718,039
Capital Assets:		
Capital assets, non-depreciable, net	11,832,257	14,104,171
Capital assets, depreciable, net	35,649,316	30,405,242
Total Capital Assets, net	47,481,573	44,509,413
Other Assets		
Cash restricted for debt service	875,146	864,947
Investments restricted for debt service	655,411	645,526
Bond issuance costs, net	496,621	513,032
Bond deferred charges, net	123,661	131,973
Total Other Assets	2,150,839	2,155,478
Total Noncurrent Assets	49,632,412	46,664,891
TOTAL ASSETS	\$ 62,036,992	\$ 56,382,930

See Accountants' Report

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
A Component Unit of Walton County, Georgia
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2005
(with comparative data for October 31, 2004)

	BUSINESS-TYPE ACTIVITIES	
	ENTERPRISE FUND	
	2005	2004
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 263,259	\$ 210,857
Accrued payroll withholdings	811	1,052
Accrued salaries payable	94,290	61,403
Capital lease payable	-	10,026
Current liabilities payable from restricted assets		
Accounts payable - construction	99,107	363,400
Accrued interest payable	410,121	248,130
Customer deposits	610,122	586,650
Notes payable - current portion	3,611,990	152,754
Revenue bonds payable	500,485	495,000
Total Current Liabilities	5,599,185	2,129,272
Long-Term Debt		
Revenue bonds payable	19,817,958	20,308,928
Notes payable	7,641,603	7,737,500
Total Long-term Liabilities	27,459,561	28,046,428
TOTAL LIABILITIES	33,058,746	30,175,700
NET ASSETS		
Invested in capital assets, net of related debt	21,607,278	19,639,809
Restricted for:		
Debt service	2,185,546	2,159,233
Unrestricted net assets	5,185,422	4,408,188
TOTAL NET ASSETS	\$ 28,978,246	\$ 26,207,230

See Accountants' Report

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
A Component Unit of Walton County, Georgia
STATEMENT OF REVENUES, EXPENSES AND FUND NET ASSETS
PROPRIETARY FUND
Eight Months Ended June 30, 2005
(with comparative data for year ended October 31, 2004)

	2005	2004
Operating revenues		
Charges for water service	\$ 3,841,557	\$ 5,626,563
Charges for sewer service	12,222	17,026
Tap on fees	151,120	99,947
Total operating revenues	4,004,899	5,743,536
Operating expenses		
Depreciation	704,525	911,927
Engineering	40,349	60,733
Insurance	110,816	146,873
Meetings and public relations expense	54,789	6,915
Meter installation expenses	-	99,947
Other service and charges	143,941	194,952
Professional fees	169,159	70,307
Purchase of water	1,011,615	1,557,306
Purchase of sewer services	5,688	8,242
Repairs and maintenance	149,729	279,206
Salaries and benefits	1,017,115	1,215,252
Utilities	119,359	185,107
Total operating expenses	3,536,084	4,735,767
Operating income	468,815	1,007,769
Non-operating revenues (expenses)		
Interest income	78,730	126,212
Interest expense	(418,498)	(680,984)
Gain (loss) on disposal of assets	(360)	(33,902)
Total non-operating revenues (expenses)	(340,128)	(588,674)
Income (loss) before contributions	128,687	419,095
Contributions		
Capital contributions	19,330	33,440
Donated waterlines	1,679,494	1,790,100
Tap fees in excess of cost	943,505	872,293
Total contributions	2,642,329	2,695,833
Change in net assets	2,771,016	3,114,928
Total Net Assets, Beginning of Year, as previously reported	26,229,291	23,066,637
Prior period adjustment	(22,061)	25,665
Total net assets, Beginning of year, as restated	26,207,230	23,092,302
Total Net Assets, End of Year	\$ 28,978,246	\$ 26,207,230

The accompanying notes are an integral part of this statement.

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
A Component Unit of Walton County, Georgia
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Eight Months Ended June 30, 2005
(with comparative data for the year ended October 31, 2004)

	2005	2004
Cash flows from operating activities		
Receipts from customers and users	\$ 3,902,843	\$ 5,781,681
Payments to suppliers	(1,828,748)	(2,875,316)
Payments to employees	(984,471)	(1,191,918)
	1,089,624	1,714,447
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(1,870,923)	(6,750,762)
Proceeds (costs) from sale of assets	-	(2,977)
Interest paid	(604,100)	(1,180,196)
Proceeds from issuance of long-term debt	3,454,326	-
Principal payments on long-term debt	(585,988)	(633,775)
Principal payments under capital lease obligations	(10,026)	(34,633)
Capital contributions	19,330	33,440
Tap fees in excess of costs	943,505	872,293
	1,346,036	(7,696,610)
Cash flows from investing activities		
Purchase of investments	(33,898)	(20,870)
Interest income	86,830	122,268
	52,932	101,398
Net increase (decrease) in cash and cash equivalents	2,488,592	(5,880,765)
Cash and cash equivalents at beginning of year	8,842,992	14,723,757
Cash and cash equivalents at end of year	\$ 11,331,584	\$ 8,842,992

CONTINUED...

The accompanying notes are an integral part of this statement.

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
A Component Unit of Walton County, Georgia
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Eight Months Ended June 30, 2005
(with comparative data for the year ended October 31, 2004)

	2005	2004
...CONTINUED		
Cash and cash equivalents shown on Statement of Net Assets		
Cash	\$ 3,424,723	\$ 2,834,693
Cash restricted for construction	6,350,194	4,479,607
Cash restricted for debt service	681,521	663,745
Cash restricted for debt service	875,146	864,947
	\$ 11,331,584	\$ 8,842,992
Reconciliation of Operating Income (Loss) to Net cash provided by (used in) operating activities		
Operating income	\$ 468,815	\$ 1,007,769
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:		
Depreciation	704,525	911,927
(Increase) decrease in accounts receivable	(125,527)	(11,692)
(Increase) decrease in prepaid expense	(66,709)	(30,708)
Increase (decrease) in accounts payable	52,402	(236,021)
Increase (decrease) in accrued expenses	32,646	23,336
Increase (decrease) in customer deposits	23,472	49,836
	620,809	706,678
Total Adjustments		
Net cash provided by (used in) operating activities	\$ 1,089,624	\$ 1,714,447
Supplemental Information:		
Non-cash additions to capital assets:		
Interest capitalized	\$ 390,923	\$ 538,397
Cornish Creek project financed by debt	-	4,780,000
Donated waterlines	1,679,494	1,790,100
Increase (decrease) in construction payables	(264,293)	363,400
	\$ 1,806,124	\$ 7,471,897
Total non-cash additions to capital assets	\$ 1,806,124	\$ 7,471,897

The accompanying notes are an integral part of this statement.

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of WALTON COUNTY WATER AND SEWERAGE 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 of the government's accounting policies are described below.

A. Reporting Entity

The WALTON COUNTY WATER AND SEWERAGE AUTHORITY is the basic level of government which has oversight responsibility and control over all activities related to water and sewerage systems in Walton County, Georgia. The authority receives most of its operating revenues from sales of water service and connection fees. The Authority is also included as a component unit within the Walton County, Georgia governmental "reporting entity" as defined by GASB pronouncement 14, because the Walton County Board of Commissioners appoints all members of the Authority's board, must ratify the decisions taken by the Authority board, and can, therefore, impose its will upon the Authority.

B. Government Wide and Fund Financial Statements

Because the Authority is a special-purpose government engaged only in business type activities, it is not required to present a statement of activities to comply with the provisions of GASB Statement 34.

C. Fund Accounting

The Authority uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts.

The Authority has one fund which is a proprietary (enterprise) fund.

Proprietary funds are used to account for operations (a) that are financed and operated in a manner similar to the private sector - where the intent of the governing body is that the 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.

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fiscal Year End

At the request of the Water Authority's Board of Commissioners, the Authority's fiscal year has been changed from October 31 to June 30. This was requested so that the Authority's financial information could be included in the financial statements for Walton County, Georgia.

For comparative presentation purposes only, some of the amounts from the October 31, 2004 year end have been reclassified.

E. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Proprietary funds are accounted for on a flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Authority applies all applicable FASB pronouncements up to November 1989 and all GASB pronouncements thereafter.

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. The principal operating revenues for the Authority are charges to customers for sales and services. Operating expenses for the Authority 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.

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

F. Budgets

The Authority is not legally required to adopt a budget. However, the Board of Directors has approved an annual operating budget for planning, control, and evaluation purposes.

G. Cash, Cash Equivalents, and Investments

Cash includes amounts in demand deposits. Cash equivalents include those investments that have an

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

initial maturity of three months or less.

State statutes authorize the government to invest in obligations of the U.S. Treasury and of its agencies and instrumentalities; bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; certificates of deposits of banks insured by FDIC.

Investments are reported at fair value as of the balance sheet date. Increases or decreases in fair value during the year are recognized as part of investment income.

H. Restricted Assets

Certain proceeds of the Authority's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

I. Inventory

Inventory of materials are not maintained on the books; therefore, disbursements for inventory are considered expenses at the time of purchase rather than at the time of use.

J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items.

K. Bond and Loan Issuance Costs, Premiums and Discounts

Bond and loan issuance costs, premiums and discount are deferred and amortized over the lives of the bonds and loans on a straight-line basis, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

Amortization costs for the period were \$34,241 of which \$14,058 of these costs were capitalized.

L. Compensated Absences

Vested or accumulated annual leave of the proprietary fund is recorded as an expense and liability of that fund as the benefits accrued to employees. In accordance with the provisions of Statement of Governmental Accounting Standards No. 16, "Accounting for Compensated Absences", no liability

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

is recorded for nonvesting accumulating rights to receive sick pay benefits. It is the policy of the Authority that any unused annual leave not exceeding 240 hours may be carried over into the next calendar year.

M. Use of 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 those estimates.

N. Capital Assets

Capital assets, which include property, plant and equipment, in the proprietary fund of the Authority are recorded at cost. Capital assets are defined by the Authority as assets with an initial, individual cost of \$2,500 and an estimated useful life in excess of two years. The Authority has no assets that would be classified as infrastructure. Since the Authority has records of actual cost, estimates of historical cost of capital assets have not been necessary. Capital assets donated to these proprietary fund type operations are recorded at their estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets are depreciated in the proprietary funds of the government using the straight line method over the following estimated useful lives:

Water System	40-45 Years
System Equipment	5 Years
Office Equipment	5 Years
Office Furniture	5-10 Years
Office Building	30 Years

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2 – DEPOSITS AND INVESTMENTS

The goal of the Authority in investing is to obtain a reasonable return on investments with a minimum exposure to potential loss of capital due to market fluctuations.

Interest rate risk. The Authority 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 law allows investments in bonds, debentures, notes or other evidences of indebtedness of any solvent corporation subject to certain conditions. The Authority has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Authority places no limit on the amount it may invest in any one issuer.

Custodial credit risk - deposits. In case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority may exceed the FDIC insured limit in making deposits in commercial banks and savings and loans institutions, if the funds are otherwise adequately secured. As of June 30, 2005, the Authority had \$13,175,834 in cash or cash equivalents.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

NOTE 3 – CUSTOMER DEPOSITS

Customer deposits are amounts paid by customers to guarantee their payment of water bills. The amounts shown consist of estimates made as of December 31, 1983 on available data from prior years plus customer deposits paid into the system since that time.

NOTE 4 – ACCOUNTS RECEIVABLE – TRADE

Accounts receivable - trade is shown net of the allowance for doubtful accounts of \$114,085.

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the period ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Business-type activities:					
Non-depreciable assets:					
Land	\$ 118,050	\$ -	\$ -	\$ -	118,050
Land-Row & Easements	48,934	-	-	-	48,934
Construction in progress	13,938,187	1,731,168	-	(4,004,082)	11,665,273
Total non-depreciable capital assets	<u>14,105,171</u>	<u>1,731,168</u>	<u>-</u>	<u>(4,004,082)</u>	<u>11,832,257</u>
Depreciable assets:					
Water System	22,001,398	151,120	-	4,004,082	26,156,600
Water System-Contributed	13,072,466	1,690,805	-	-	14,763,271
Wells	47,225	-	-	-	47,225
System Equipment	1,486,020	96,795	(120,323)	-	1,462,492
Construction-New Office	554,812	-	-	(1,010)	553,802
Office Equipment	205,299	6,156	(127,979)	1,010	84,486
Total depreciable capital assets	<u>37,367,220</u>	<u>1,944,876</u>	<u>(248,302)</u>	<u>4,004,082</u>	<u>43,067,876</u>
Less accumulated depreciation for:					
Water System	(4,106,285)	(365,578)	-	-	(4,471,863)
Water System-Contributed	(1,413,896)	(198,173)	-	-	(1,612,069)
Wells	(14,355)	(699)	-	-	(15,054)
System Equipment	(1,058,012)	(113,135)	119,963	-	(1,051,184)
Construction-New Office	(196,215)	(18,508)	-	-	(214,723)
Office Equipment	(173,215)	(8,431)	127,979	-	(53,667)
Total accumulated depreciation	<u>(6,961,978)</u>	<u>(704,524)</u>	<u>247,942</u>	<u>-</u>	<u>(7,418,560)</u>
Total depreciable capital assets, net	30,405,242	1,240,352	(360)	4,004,082	35,649,316
Business-type capital assets, net	<u>\$ 44,510,413</u>	<u>\$ 2,971,520</u>	<u>\$ (360)</u>	<u>\$ -</u>	<u>47,481,573</u>

A summary of the prior period adjustments reflected in the financial statements is below:

	2005	2004
Error on interest capitalized	\$ 254,786	\$ 221,686
Depreciation not recorded on Cornish Creek Project	(210,533)	(175,925)
Depreciation expense that should have been incurred on various projects that were placed into service	(45,197)	(12,389)
Remove repairs and maintenance on tanks from Construction in Process accounts	(21,117)	(7,707)
Net effect of prior period adjustments	<u>\$ (22,061)</u>	<u>\$ 25,665</u>

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 6 - NOTES PAYABLE/LONG-TERM DEBT

	Balance Oct 31, 2004	Increase	Decrease	Balance June 30, 2005	Due within one year
Revenue Bonds -1989	\$ 25,000	\$ -	\$ -	\$ 25,000	\$ -
Revenue Bonds -1996	6,760,000	-	250,000	6,510,000	265,000
Revenue Bonds -2002	14,310,000	-	245,000	14,065,000	245,000
Less deferred amounts:					
For issuance discounts	(291,072)	-	(9,515)	(281,557)	(9,515)
Total Revenue bonds payable	<u>20,803,928</u>	<u>-</u>	<u>485,485</u>	<u>20,318,443</u>	<u>500,485</u>
GEFA Notes	768,494	-	29,414	739,080	60,976
Newton County Notes	2,341,760	-	61,573	2,280,187	96,688
Cornish Creek Expansion	4,780,000	-	-	4,780,000	-
Note payable	-	3,454,326	-	3,454,326	3,454,326
Total notes payable	<u>7,890,254</u>	<u>3,454,326</u>	<u>90,987</u>	<u>11,253,593</u>	<u>3,611,990</u>
Capital leases	10,026	-	10,026	-	-
Total	<u>\$ 28,704,208</u>	<u>\$ 3,454,326</u>	<u>\$ 586,498</u>	<u>\$ 31,572,036</u>	<u>\$ 4,112,475</u>

Bond Indebtedness. The Authority currently has three bond indentures outstanding as of June 30, 2005 which are:

1989 Series - First mortgage revenue bonds for acquisition of water system assets payable to the bondholders in the original amount of \$2,785,000 bearing interest at the rate of 7.5 to 8.25%, interest payable each February and August through 2015. Of the original amount of the bonds, only \$25,000 remains outstanding due to an advance refunding in 1996, see below. The remaining principal balance will be paid out in 2015.

1996 Series - Revenue bonds for acquisition of water system assets payable to the bondholders in the original amount of \$8,070,000 bearing interest at the rate of 4.3 to 6.00%, principal payable each February through 2021 with accrued interest to date.

The revenue bonds are a lien on the net revenues generated by the water system of the Authority, and the bond ordinances require, among other things, that the rates for water shall be set at an amount sufficient to pay all of the operating costs of the system, and to provide the amounts necessary to pay the bond principal and interest due each year, and to create a reserve fund of \$645,526, which was fully funded at year end. The ordinance also requires the Authority to maintain rates to produce earnings at least equal to 1.2 times the debt service requirements of its revenue bonds.

On June 1, 1996, the Authority issued \$8,070,000 in Revenue Bonds with an average interest rate of 5.89% to advance refund part of the outstanding 1989 Series bonds, provide funds for future construction, prepay existing GEFA debt, and set up necessary reserve accounts.

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 6 - NOTES PAYABLE/LONG-TERM DEBT (CONTINUED)

The amount deposited in an escrow fund was deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1989 Series bonds. As a result, \$2,045,000 of the 1989 Series bonds are considered to be deceased and the liability for those bonds has been removed.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of (\$207,111). This difference, reported in the accompanying financial statements as an asset, is being charged to operations through the year 2015 using the straight-line method. The Authority completed the advance refunding to reduce its debt service payments on the old debt and to acquire new funds for future improvements and expansion. The net effect of the defeasance was an economic gain of \$106,495.

2002 Series: Revenue bonds payable to the bondholders in the original amount of \$14,550,000 bearing interest at the rate of 2.0 to 4.5%, principal payable each February and August through 2028 with accrued interest to date.

The revenue bonds are a lien on the net revenues generated by the water system of the Authority, and the bond ordinances require, among other things, that the rates shall be set at an amount sufficient to pay all of the operating costs of the system, and to provide the amounts necessary to pay the bond principal and interest due each year, and to create a reserve fund of \$855,924, which was fully funded at year end. The ordinance also requires the Authority to maintain rates to provide earnings at least equal to 1.2 times the debt service requirements of its revenue bonds.

The Authority issued \$14,550,000 in revenue bonds with an average interest rate of 3.25% with yields ranging from 1.52 to 4.67% to provide funds for future construction of additions, extensions and improvements to the water — related facilities, to fully fund a reserve account to service the 2002 Series bonds, and pay the costs of issuance of the Series 2002 bonds.

Notes Payable. Notes payable at June 30, 2005 are comprised of the following obligations:

GEFA: 4.0% construction loan payable to Georgia Environmental Facilities Authority (GEFA 1993); total amount available under loan is \$ 1,180,000; due in quarterly installments over 20 years at 4.8%; includes capitalized interest of \$30,076 payable through 10/31/14.

Newton County: The Authority has agreed to pay Newton County, Georgia for certain costs pertaining to the Cornish Creek reservoir and treatment plant, which the Authority has a 25% interest. The Authority has agreed to pay 25% of the treatment plant and system upgrade costs of approximately \$1,887,070 and their increased share of the reservoir capacity costs of \$774,284.

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 6 - NOTES PAYABLE/LONG-TERM DEBT (CONTINUED)

The debt will be financed by Newton County over a twenty year period at 5.5% per annum, payable at \$18,307 per month. The debt repayment commenced on December 1, 2000 and will continue until the debt is retired.

During 2004, Newton County, Georgia issued Bonds to refinance the prior debt and to pay for certain capital improvements. The Authority's share of this debt issue was \$4,780,000. This debt is interest only for the first five years at approximately \$209,703 per year with principal payments commencing in 2010 with debt service at approximately \$450,000 per year.

Wachovia Bank: On June 24, 2005 the Authority borrowed \$3,454,326 which was used on July 1, 2005 to purchase approximately 422 acres of land related to the Hard Labor Creek reservoir. This loan, which bears interest at prime plus 2% (6.25% at June 30, 2005) is due June 24, 2006 and may not be prepaid. The loan is secured by revenues from the water system.

The scheduled payments of principal and interest are as follows:

Bond Indebtedness-1989 Series

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ -	\$ 2,063	\$ 2,063
2007	-	2,063	2,063
2008	-	2,063	2,063
2009	-	2,063	2,063
2010	-	2,063	2,063
2011	-	2,063	2,063
2012	-	2,063	2,063
2013	-	2,063	2,063
2014	-	2,063	2,063
2015	25,000	2,063	27,063
	<u>\$ 25,000</u>	<u>\$ 20,630</u>	<u>\$ 45,630</u>

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 6 - NOTES PAYABLE/LONG-TERM DEBT(CONTINUED)

Bond Indebtedness-1996 Series

	Principal	Interest	Total
2006	\$ 265,000	\$ 378,464	\$ 643,464
2007	275,000	364,684	639,684
2008	290,000	350,109	640,109
2009	305,000	334,449	639,449
2010	325,000	317,674	642,674
2011	340,000	299,474	639,474
2012	360,000	280,094	640,094
2013	380,000	258,944	638,944
2014	405,000	236,619	641,619
2015	405,000	212,825	617,825
2016	455,000	189,031	644,031
2017	480,000	162,300	642,300
2018	510,000	133,500	643,500
2019	540,000	102,900	642,900
2020	570,000	70,500	640,500
2021	605,000	36,300	641,300
	<u>\$ 6,510,000</u>	<u>\$ 3,727,867</u>	<u>\$ 10,237,867</u>

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 6 - NOTES PAYABLE/LONG-TERM DEBT(CONTINUED)

Bond Indebtedness-Series 2002, Revenue Improvement Bonds

	Principal	Interest	Total
2006	\$ 245,000	\$ 586,091	\$ 831,091
2007	255,000	580,579	835,579
2008	265,000	574,523	839,523
2009	275,000	567,566	842,566
2010	280,000	559,660	839,660
2011	290,000	550,910	840,910
2012	300,000	541,630	841,630
2013	315,000	531,730	846,730
2014	320,000	521,020	841,020
2015	335,000	509,500	844,500
2016	350,000	497,105	847,105
2017	370,000	479,605	849,605
2018	385,000	464,805	849,805
2019	400,000	449,405	849,405
2020	420,000	432,905	852,905
2021	440,000	415,055	855,055
2022	1,095,000	395,805	1,490,805
2023	1,145,000	347,625	1,492,625
2024	1,200,000	296,100	1,496,100
2025	1,255,000	242,100	1,497,100
2026	1,315,000	185,625	1,500,625
2027	1,375,000	126,450	1,501,450
2028	1,435,000	64,575	1,499,575
	<u>\$ 14,065,000</u>	<u>\$ 9,920,369</u>	<u>\$ 23,985,369</u>

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 6 - NOTES PAYABLE/LONG-TERM DEBT(CONTINUED)

Notes Payable-GEFA 1993

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 60,976	\$ 34,389	\$ 95,365
2007	63,956	31,409	95,365
2008	67,082	28,283	95,365
2009	70,360	25,005	95,365
2010	73,799	21,566	95,365
2011	77,405	17,960	95,365
2012	81,188	14,177	95,365
2013	85,156	10,210	95,366
2014	89,317	6,048	95,365
2015	69,841	1,683	71,524
	<u>\$ 739,080</u>	<u>\$ 190,730</u>	<u>\$ 929,810</u>

Notes Payable - Newton County

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 96,688	\$ 122,997	\$ 219,685
2007	102,142	117,543	219,685
2008	107,904	111,781	219,685
2009	113,991	105,694	219,685
2010	120,421	99,265	219,686
2011	127,213	92,472	219,685
2012	134,389	85,296	219,685
2013	141,970	77,716	219,686
2014	149,978	69,708	219,686
2015	158,438	61,248	219,686
2016	167,375	52,310	219,685
2017	176,816	42,869	219,685
2018	186,790	32,895	219,685
2019	197,326	22,359	219,685
2020	208,457	11,228	219,685
2021	90,289	1,247	91,536
	<u>\$ 2,280,187</u>	<u>\$ 1,106,628</u>	<u>\$ 3,386,815</u>

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 6 – NOTES PAYABLE/LONG-TERM DEBT(CONTINUED)

Notes Payable - Cornish Creek Expansion Capital Participation

	Principal	Interest	Total
2006	\$ -	\$ 173,919	\$ 173,919
2007	-	208,703	208,703
2008	-	208,703	208,703
2009	-	208,703	208,703
2010	240,000	208,703	448,703
2011	245,000	201,983	446,983
2012	255,000	192,183	447,183
2013	265,000	182,620	447,620
2014	275,000	174,008	449,008
2015	285,000	164,795	449,795
2016	290,000	154,963	444,963
2017	310,000	139,738	449,738
2018	325,000	123,463	448,463
2019	335,000	111,275	446,275
2020	355,000	94,525	449,525
2021	370,000	76,775	446,775
2022	390,000	58,275	448,275
2023	410,000	38,775	448,775
2024	430,000	18,275	448,275
	<u>\$ 4,780,000</u>	<u>\$ 2,740,384</u>	<u>\$ 7,520,384</u>

NOTE 7– CAPITALIZED INTEREST

Total year-to-date interest cost for 2005 is \$809,421, of which \$390,923 of issuance costs has been capitalized into infrastructure assets. Of the remaining \$418,498, \$78,730 was offset by interest income.

**WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 8 – CONTINGENCIES AND COMMITMENTS

Litigation – In the opinion of the Authority’s attorney and the Authority’s management, there are no material claims outstanding or pending against the Authority at June 30, 2005.

Hard Labor Creek Reservoir – The Authority has filed applications for permits with the necessary regulatory authorities for the purpose of constructing a regional water reservoir on Hard Labor Creek located in Walton County. It is anticipated that the reservoir will be jointly financed by other regional partners in the area. The partners and total costs for the project have not been finalized at the present time; however, initial cost estimates range from \$30,000,000 to \$35,000,000 for Phase I of the project and from \$25,000,000 to \$30,000,000 for Phase II of the project. The Authority has incurred approximately \$6,645,932 in expenses to date for studies, engineering, land acquisition and other professional expenses.

NOTE 9– RISK FINANCING ACTIVITIES

The Authority is exposed to various risks of losses related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Other

Walton County Water & Sewerage Authority is a member of the Georgia Municipal Association Georgia Interlocal Risk Management Agency (GIRMA). GIRMA is a group self-insurance fund covering general liability, automobile damage and theft, fire damage, and employee dishonesty for Georgia County governments. GIRMA pays losses up to \$100,000 per individual claim or \$1,000,000 for all claims. However, excess losses, if any, are covered by reinsurance and would be paid by the reinsurer.

The members of GIRMA are assessable if the losses that GIRMA must pay exceed the assets of the pool. At June 30, 2005, there was no need for such an assessment. Therefore, no liability for this has been included in these financial statements.

The Authority also purchases combined automobile, crime, liability and property insurance coverage from the GIRMA. A \$1,000 deductible applies to each claim. The following is a summary of coverage at June 30, 2005:

Property Losses	\$5,583,110	aggregate
Comprehensive General Liability	\$2,000,000	per occurrence
Automobile Liability	\$2,000,000	per occurrence
Public Officials	\$2,000,000	per occurrence
General Liability	\$10,000,000	aggregate

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 9 – RISK FINANCING ACTIVITIES (CONTINUED)

Crimc Coverage	\$500,000	per occurrence
Boiler and Machinery	\$5,583,110	aggregate

The Authority has no outstanding claims in excess of coverage for which a liability should be recorded as of June 30, 2005.

Workers' Compensation

The Authority participates in the Georgia Municipal Association Group Self-Insurance Workers' Compensation Fund (GSIWCF), a self-insured pool cooperative arrangement among its members to finance workers' compensation coverage. The fund is owned by its members and is managed by a fifteen member Board of Trustees made up of representatives from participating counties. Losses up to \$450,000 per individual claim are paid by the Fund. However, excess losses, if any, are covered by reinsurance and would be paid by the reinsurer. The members of the Fund are assessable if the losses that the Fund must pay exceed the assets of the pool. At June 30, 2005, there was no need for such an assessment. Therefore, no liability for this has been included in these financial statements.

As part of these risk pools, (GIRMA & GSIWCF), the Authority is obligated to pay all contributions and assessments to cooperate with the pools' 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 that could require the funds to pay any type of loss. The Authority is also to allow all the pools' agents and attorneys to represent the Authority in investigations, settlement discussions, and all levels of litigation arising out of any claim made against the Authority.

The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member government contract and in accordance with the workers' compensation law of Georgia. The funds are to pay all cost taxed against the 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.

NOTE 10 – PENSION PLAN

Plan Description. The Walton County Water and Sewerage Authority contribute to the Walton County Water and Sewerage Authority Retirement Plan, which is part of the Georgia Municipal Employee's Benefit System (GMEBS), which is an agent multiple-employer defined benefit pension plan. This plan was adopted by resolution of the Authority Board who may also amend the plan provisions and contributions by resolution. It is the responsibility of the Georgia Municipal

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 10 - PENSION PLAN (CONTINUED)

Employee's Benefit System to function as an investment and administrative agent for the Walton County Water and Sewerage Authority with respect to the pension plan. The Georgia Municipal Employee Benefits System issues a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained by writing to Georgia Municipal Employee Benefits System, 201 Pryor Street, SW, Atlanta, GA 30303 or calling (404) 688-0472.

Under the provision of the Plan, all officials are eligible to participate and employees who work twenty hours or more per week are eligible to participate after one year. The pension benefits are fully vested after 5 years in the Plan. An employee may retire at age 65 and receive benefits of 3.0% of his final salary up to the breakpoint. The breakpoint serves to integrate the pension benefits with social security. Also, the Plan provides for death benefits through an actuarial reserve.

The Authority employees are not required to contribute to the plan. The Authority contributes the entire cost of the plan using the actuarial basis described in the annual valuation report. For the year ended June 30, 2005, the Authority's total payroll for all employees and the covered payroll amounted to \$940,386. Covered payroll refers to the active employees covered by the Walton County Water and Sewerage Authority Retirement Plan on which contributions to the pension are based.

Funding Policy and Annual Contributions. The Plan is subject to minimum funding standards of the Public Retirement Systems Standards Law (Georgia Code Section 47-20-10). The estimated minimum annual contribution under these funding standards is \$161,445. Since the Authority's policy is to contribute the pension expense, which was \$161,445 for 2005, the Plan will meet the guidelines for calculating an annual required contribution as set forth in GASB Statement 27. These contributions are determined under the projected unit credit actuarial cost method and the asset valuation method. The GMEBS Board of Trustees has adopted an actuarial funding policy, which requires a different funding level than the estimated minimum annual contribution to minimize fluctuation in annual contribution amounts and to accumulate sufficient funds to secure benefits under the plan. The GMEBS funding policy is to contribute an amount equal to the recommended contribution each year.

As of June 30, 2005, the Walton County Water and Sewerage Authority Retirement Plan held no debt instrument of the Authority.

Annual Pension Cost. The Authority's annual pension cost of \$161,445 (\$161,445 employer and \$0 employee) was equal to the Authority's required and actual contributions. The required contribution was determined as part of the July 1, 2005 actuarial valuation using the projected unit credit method. The actuarial assumptions included (a) 8.0% interest rate, (b) projected salary increases of 5% as a result of inflation and .5% as a result of merit or seniority. The actuarial value of the Walton County

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 10 – PENSION PLAN (CONTINUED)

Water & Sewerage Authority Retirement plan assets was determined by rolling forward prior year's actuarial value with contributions, disbursements, and expected return on investments, plus 10% of investment gains (losses) during the 10 prior years. The period, and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years from 1992 and current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods as a level dollar amount. These amortization periods, if applicable, are closed for this plan year.

The plan provisions valued and the actuarial assumptions and cost methods are the same as those used to determine the contribution requirement for the preceding year.

As of July 1, 2005, employee membership data relating to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits	3
Terminated vested employees	4
Active plan participants	<u>28</u>
Total	<u>35</u>

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
7/1/2005	\$ 161,445	100%	-
7/1/2004	90,159	100%	-
7/1/2003	65,173	100%	-

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL	Covered Payroll	Percentage of Covered Payroll
7/1/2005	\$ 320,037	\$ 796,421	\$ 476,384	\$ 940,386	50.66%
7/1/2004	220,419	437,793	217,374	827,154	26.30%
7/1/2003	164,810	331,911	167,101	652,405	25.60%

Deferred Compensation Plan

Employees of the Walton County Water & Sewerage Authority may participate in a deferred compensation plan adopted March 2002.

The deferred compensation plan is available to all employees of the Authority. Under the plan,

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 10 – PENSION PLAN (CONTINUED)

employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The plan is a voluntary participation plan with no matching or financial commitment from the Authority. The only cost to the Authority is the processing of the payment of funds withheld from the wages of any participating employees.

The deferred compensation plan is administered by the Georgia Municipal Association and administered by Citistreet.

NOTE 11 – SUBSEQUENT EVENTS

As mentioned in Note 6, the Authority received loan proceeds in the amount of \$3,454,326 prior to the June 30, 2005 year end. These funds were subsequently used on July 1, 2005 to purchase 422 acres of land related to the Hard Labor Creek reservoir.

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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

January 11, 2006

To the Members of the Board
Walton County Water and Sewerage Authority
Loganville, Georgia

We have audited the financial statements of WALTON COUNTY WATER AND SEWERAGE AUTHORITY, a component unit of WALTON COUNTY, GEORGIA, as of and for the period ended June 30, 2005, and have issued our report thereon dated January 11, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered WALTON COUNTY WATER AND SEWERAGE AUTHORITY's, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect WALTON COUNTY WATER AND SEWERAGE AUTHORITY's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described below is a material weakness.

CASH

05-01 Statement of Condition: The client did not reconcile several of the bank accounts to the general ledger on a timely basis. The cash general ledger accounts needed to be adjusted by \$3,514,677.01 and these entries were not posted until December 15, 2005. In addition to the entries that were posted, unreconciled differences of \$2,390.33 were not posted.

Criteria: When a bank statement is received, the client should review it and post any of the transactions not already recorded to the general ledger. They should then reconcile the bank statement balance with the general ledger balance so that they can ascertain that all transactions have been recorded.

Effect of Condition: By not posting the activities in these accounts in a timely manner, the general ledger does not show an accurate balance during the year.

Cause of Condition: *Unknown*

Recommendation: We recommend that the client reconcile the bank statement balances to the general ledger on a timely basis.

Response: Bank statements are balanced as soon as they are received. These are normally reconciled to general ledger monthly. During the period noted, factors such as a mid-year audit, staff shortages (business manager quit, assistant financial person had major surgery), etc. were reasons why they were not handled as quickly as the auditor thought they should. This is not an on-going situation.

INVESTMENTS

05-02 Statement of Condition: The client did not post any of the transactions involving the investment accounts during the year.

Criteria: When a bank statement is received, the client should review it and post any of the transactions affecting that account to the General Ledger.

Effect of Condition: By not posting the activities in these accounts in a timely manner, the General Ledger does not show an accurate balance during the year. Adjustments of \$33,897.24 were necessary to properly reflect the Investment accounts.

Cause of Condition: *Unknown*

Recommendation: We recommend that when a transaction occurs affecting these accounts, the client post the transaction to the General Ledger in a timely manner.

Response:

Bank statements are balanced as soon as they are received. These are normally reconciled to general ledger monthly. During the period noted, factors such as a mid-year audit, staff shortages (Business Manager quit, Assistant Financial person had major surgery), etc. were reasons why they were not handled as quickly as the auditor thought they should. This is not an on-going situation.

ACCOUNTS RECEIVABLE

05-03 Statement of Condition: Adjustments to customers' bills are determined and made by the Business Manager with no review and approval by another person.

Criteria:

All customer billing adjustments should be reviewed for appropriateness by someone other than the person who made the adjustment in order to have proper segregation of duties over the billing process.

Effect of Condition:

It is possible that cash payments could be stolen and covered up by making an unauthorized adjustment to the customer's account.

Cause of Condition:

Unknown

Recommendation:

We recommend that the Finance Director review all billing adjustments posted to customer accounts on a weekly basis. The report of the adjustments made should be initialed as written evidence of that review process. Those reports then should be retained on file along with any supporting documentation.

Response:

Finance Director has taken over approving and overseeing adjustments. There are several parameters within the Utility Billing and Cash Receipting System that would make any thefts easy to trace. The Business Manager did not customarily take in payments. The Finance Director does not take payments at all. We believe we have proper segregation of duties that are allowed with the number of staff.

05-04 Statement of Condition: The client did not reconcile the Accounts Receivable balance listed in the General Ledger with the utility billing system used by the client at the end of the fiscal year end. The General Ledger Accounts Receivable balance was lower than the utility billing system by \$10,365.73. This correction has not been posted.

Criteria:

The client should routinely review the billing system balance and reconcile the total amount to the General Ledger balance.

Effect of Condition:

When the Accounts Receivable balance is not properly reviewed and reconciled, the client may be unable to accurately determine the amount of payments they should be receiving.

Cause of Condition:

It appears that the client double counted refunds in the General Ledger system for a period of time. This was not discovered until the audit was performed.

Recommendation:

We recommend that the client review and reconcile the utility billing system balance and compare to the General Ledger Accounts Balance, and investigate any differences between them. This should be done on a monthly basis.

Response:

Staff was able to balance receivables after finding several issues with real-time and batch posting situations. Some of the differences were with auditor adjusting entries of April 15th and misposting of refund checks in November 2005. The factors leading to this finding have been corrected.

FIXED ASSETS

05-05 Statement of Condition:

In the prior financial statements, the client did not record any depreciation expense on the first phase of the Cornish Creek project that was placed into service in 1998. This resulted in a prior period adjustment of \$210,533.

Criteria:

When a depreciable asset is placed in service, the Water Authority should begin to recognize and record the depreciation expense associated with that project.

Effect of Condition:

The client understated its expenses in the fiscal years 1998 through 2004. This in turn resulted in an overstated Net Asset account.

Cause of Condition:

The prior auditors did not record the depreciation associated with the Cornish Creek project. It is the client's responsibility to review and confirm that any fixed assets recorded on the General Ledger are being properly depreciated.

Recommendation:

We recommended that the client review the fixed asset listing and ensure that all projects are being properly depreciated.

Response:

The Authority chose not to record the depreciation expense on the first phase of the Cornish Creek project because every time an addendum is created it essentially starts the depreciation process over because the debt is then rolled into a new category. The 25% ownership of the project does not change. Upgrades to the treatment facility changes. This is a debatable issue and the Authority feels they handled it properly.

ACCOUNTS PAYABLE AND EXPENSES

- 05-06** **Statement of Condition:** The aged accounts payable detail invoice listing does not agree with the general ledger accounts payable control account. The Accounts Payable balance needed to be adjusted by \$9,474.47 to agree with the invoice listing.
- Criteria:** The aged accounts payable detail invoice listing should be reviewed monthly and should agree with the general ledger control account at all times. Management should also review the detail payable listing aged and should follow-up on any unusual items.
- Effect of Condition:** Without reconciling the accounts payable detail invoice listing to the general ledger accounts payable control account, the Authority does not have an accurate record of outstanding payables.
- Cause of Condition:** Client was unaware of how to run the proper reports from the Accounts Payable Invoice System.
- Recommendation:** We recommend that the client review and reconcile the Accounts Payable Invoice System printout compared to the general ledger accounts balance, and investigate any differences between them. This should be done on a monthly basis.
- Response:** There are some "date" issues within the accounting system. The differences noted are minor and does not affect overall ability of organization to plan or pay for outstanding payables. The list is reviewed at every check run.
- 05-07** **Statement of Condition:** The meter deposit general ledger account does not agree with the meter deposit listing by customer. The difference between the two was \$1,880.00 on June 30, 2005.
- Criteria:** The Authority should verify that the meter deposit listing agrees to the general ledger account balance.
- Effect of Condition:** The liability for meter deposits is incorrect by \$1,880.00.
- Cause of Condition:** *Unknown*
- Recommendation:** We recommend that the client reconcile the meter deposit listing to the general ledger control account each month.
- Response:** Staff was able to reconcile the noted difference in the account. The "timing" issue accounted for some of the difference and the correction of the misposting of checks in November was the other part.

PAYROLL

- 05-08** **Statement of Condition:** During a random testing of payroll procedures we noted two timesheets covering a total of four workweeks for the finance director which were not approved by the director. Additionally, these timesheets included a total of 16.5 hours overtime. These sheets also reflected a total of 13 hours as worked from home.
- Criteria:** All employees who are paid an hourly wage and receive any overtime benefits should have all timesheets approved by their supervisor or manager.
- Effect of Condition:** There is no support or approval that this overtime pay was approved and necessary or that the work from home time was approved and accurately reported.
- Cause of Condition:** *Unknown*
- Recommendation:** We recommend that either the Authority director sign off on all timesheets, approve overtime, and monitor time working from home or that the finance director be converted to a salaried employee without opportunity to receive overtime pay.
- Response:** General Manager disagrees that this condition was warranted. I supervise all staff, I sign and review all checks (even review direct deposit slips). At no time have I found a problem with finance director's time/work. All supervisors, etc. must work "outside" of office. One of the conditions of the finance director's employment was that she would be an hourly employee who was allowed to work a flex time schedule. It would not be in the Authority's best interest to single out the finance director to be on a salary due to several factors. One being, the conditions under which she was hired and secondly discriminating against one supervisor over others. During period noted, over-time was necessary and approved. Prior director was aware of it at that time.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether WALTON COUNTY WATER AND SEWERAGE AUTHORITY'S financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements, noncompliance with which could have a direct and material affect 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described below.

05-09 **Statement of Condition:** Employees are given a clothing allowance that is not reported as taxable income to the employee.

Criteria: The clothing allowance is taxable and should be included in the wages reported on Form W-2, Wage and Tax Statement, subject to federal income tax withholding and FICA withholding. In order for the amounts to be nontaxable, work clothes and uniform allowances and reimbursements must meet the accountable plan rules and 1) be specifically required as a condition of employment; 2) not be adaptable to general usage as ordinary clothing; and 3) not worn for general usage

Effect of Condition: Employees are receiving wages that are not being properly taxed and reported.

Cause of Condition: *Unknown*

Recommendation: We recommend that the Authority not allow a clothing allowance except for specific clothing that is necessary to do the job and cannot be worn for as ordinary clothing and for general use.

Response: Auditors are referring to shoe allowance granted to all employees. It has been policy that ALL employees receive this allowance. If it is a problem with taxing, this will be shown as income to the staff members that they are referring to.

We also noted certain additional matters that we reported to management and the Board of Directors in a separate Agreed Upon Procedures report dated August 3, 2005.

This report is intended for the information of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Bates, Carter & Co, P.C.