

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, 2006

WALTON COUNTY WATER AND SEWERAGE AUTHORITY

LOGANVILLE, GEORGIA

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Walton County Water and Sewerage Authority's comparative financial statements present an analysis of the Authority's financial performance during the fiscal year ended June, 30, 2006. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2006

- The Authority's net assets increased by \$4.56 million or 16% from \$28.9 million to \$33.5 million.
- Total revenues increased by 80% from \$4.08 million to \$7.36 million.
- Total expenses increased by 77% from \$3.95 million to \$6.98 million.
- Capital contributions increased 58% from \$2.64 million to \$4.18 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of the following parts: Management's Discussion and Analysis, Independent Auditors' Report, Basic Financial Statements and Other Required Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the financial statements.

REQUIRED FINANCIAL STATEMENTS

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.

NET ASSETS

Please note that the prior year comparative values as of June 30, 2005, represent only eight months of activity rather than a complete year due to a change in the fiscal year-end on November 1, 2004.

A summary of the Authority's Net Assets and the changes are shown below:

Table 1 - Condensed Statements of Net Assets

	2006	2005	Dollar Change	Percent Change
Current and Other Assets	\$16,228,084	\$14,555,419	\$1,672,665	11%
Capital Assets	54,289,822	47,481,573	6,808,249	14%
Total Assets	70,517,906	62,036,992	8,480,914	14%
Long-term Debt	30,912,468	27,459,561	3,452,907	13%
Other Liabilities	6,071,161	5,599,185	471,976	8%
Total Liabilities	36,983,629	33,058,746	3,924,883	12%
Net assets invested in capital assets, net of related debt	24,821,139	21,607,278	3,213,861	15%
Net assets restricted for debt service	2,213,519	2,185,546	27,973	1%
Unrestricted net assets	6,499,619	5,185,422	1,314,197	25%
Total Net Assets	\$33,534,277	\$28,978,246	\$4,556,031	16%

Table 2 - Capital Assets

	2006	2005	Dollar Change	Percent Change
Land	\$ 220,280	\$ 166,984	\$ 53,296	32%
Construction in Progress	15,667,850	11,665,273	4,002,577	34%
Water Systems	44,858,682	40,967,096	3,891,586	9%
System Equipment	1,467,492	1,462,492	5,000	0%
Building	576,558	553,802	22,756	4%
Office Equipment	110,060	84,486	25,574	30%
Subtotal	62,900,922	54,900,133	8,000,789	15%
Less Accumulated Depreciation	(8,611,100)	(7,418,550)	(1,192,550)	16%
Total Capital Assets (net of depreciation)	\$54,289,822	\$47,481,583	\$ 6,808,239	14%

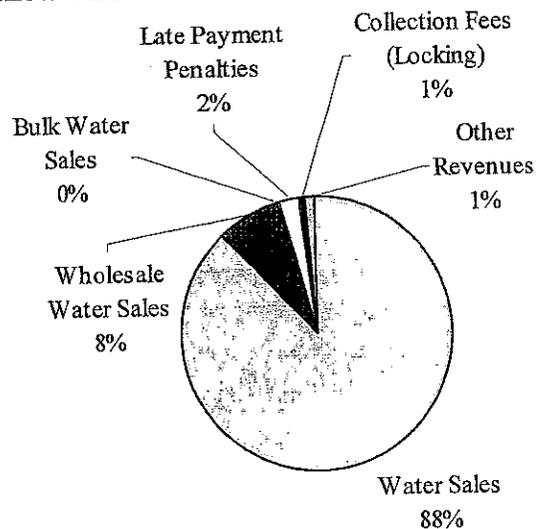
On June 30, 2006, the Authority borrowed \$4,500,000 to fund installation of radio read water meters. Please refer to the notes to the financial statements for additional details regarding changes in capital assets and long-term debt activity.

Table 3 - Condensed Comparative Statements of Activities and Changes in Net Assets

	2006	2005	Dollar Change	Percent Change
Operating Revenues	\$ 7,144,342	\$ 4,004,899	\$ 3,139,443	78%
Nonoperating Revenues	214,249	78,730	135,519	172%
Total Revenues	7,358,591	4,083,629	3,274,962	80%
Depreciation and Amortization Expense	1,192,538	704,525	488,013	69%
Other Operating Expenses	4,727,200	2,831,559	1,895,641	67%
Nonoperating Expenses	1,065,813	418,858	646,955	154%
Total Expenses	6,985,551	3,954,942	3,030,609	77%
Income Before Capital Contributions	373,040	128,687	244,353	190%
Capital Contributions	4,182,991	2,642,329	1,540,662	58%
Changes in Net Assets	4,556,031	2,771,016	1,785,015	64%
Beginning Net Assets	28,978,246	26,207,230	2,771,016	11%
Ending Net Assets	\$33,534,277	\$28,978,246	\$ 4,556,031	16%

The Major Sources of Operating Revenues are show below:

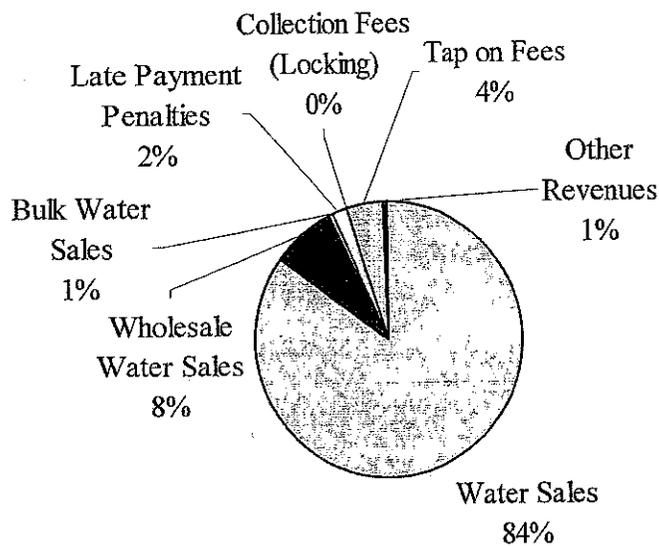
	2006
Water Sales	\$ 6,269,041
Wholesale Water Sales	558,174
Bulk Water Sales	27,476
Late Payment Penalties	142,762
Collection Fees (Locking)	72,983
Other Revenues	73,906
	<u>7,144,342</u>



During this fiscal year, the Authority's customer base topped 13,000 customers. The largest wholesale customer is the City of Loganville.

Changes in Major Sources of Operating Revenues

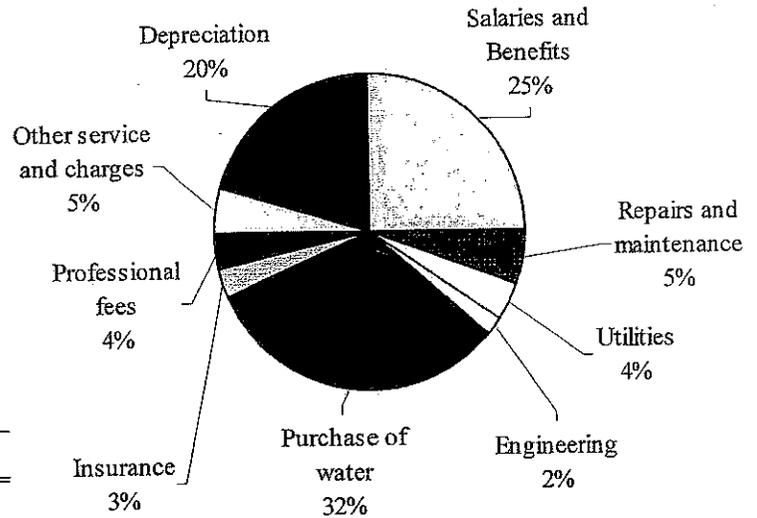
	2006	2005	Variance
Water Sales	\$6,269,041	\$3,343,426	\$ 2,925,615
Wholesale Water Sales	558,174	286,384	271,790
Bulk Water Sales	27,476	7,792	19,684
Late Payment Penalties	142,762	87,148	55,614
Collection Fees (Locking)	72,983	74,378	(1,395)
Tap on Fees	-	151,120	(151,120)
Other Revenues	73,906	54,651	19,255
	<u>7,144,342</u>	<u>4,004,899</u>	<u>3,139,443</u>



The majority of the increase in the operating revenues came from increased water sales. This figure is attributed to growth in the system and an increase in the rate structure. In April of 2006, a 3-tiered rate structure was adopted and implemented in accordance with State of Georgia conservation regulations.

Major Operating Expenses

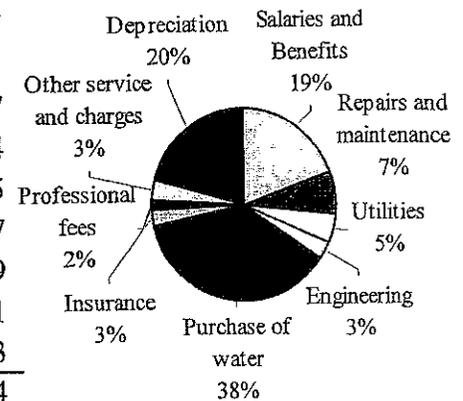
	2006
Salaries and Benefits	\$1,479,002
Repairs and maintenance	324,560
Utilities	229,566
Engineering	115,943
Purchase of water	1,895,620
Insurance	186,022
Professional fees	213,128
Other service and charges	283,359
Depreciation	1,192,538
	<u>\$5,919,738</u>



The Authority is a distributor of water. Presently the Authority relies solely on supplying its customers with water purchased from City of Monroe, Newton County, Oconee County, and Gwinnett County. Recently, the Authority entered into an agreement with the City of Winder for water purchase. The Authority has obtained a 404 permit for the construction of a reservoir on Hard Labor Creek. The reservoir is still in the planning stages but the Authority is planning on obtaining bonds for phase one construction efforts in the next year. With this reservoir, Walton County's dependence on other entities will be reduced.

Changes in Major Sources of Operating Expenses

	2006	2005	Variance
Salaries and Benefits	\$ 1,479,002	\$ 1,017,115	\$ 461,887
Repairs and maintenance	324,560	149,729	174,831
Utilities	229,566	119,359	110,207
Engineering	115,943	40,349	75,594
Purchase of water	1,895,620	1,011,615	884,005
Insurance	186,022	119,815	66,207
Professional fees	213,128	169,159	43,969
Other service and charges	283,359	204,418	78,941
Depreciation	1,192,538	704,525	488,013
	<u>\$ 5,919,738</u>	<u>\$ 3,536,084</u>	<u>\$ 2,383,654</u>



The amount of water purchased during the fiscal year contributed to the largest increase in operating expenses during the year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Due to the takeover of the Walton County Water and Sewerage Authority by the Walton County Board of Commissioners in April of 2005, the Authority's last fiscal year audit was for the eight month period from November 1, 2004 through June 30, 2005. This audit is for the period of July 1, 2005 to June 30, 2006. The next anticipated rate increase will be effective July 1, 2007. Budgeting for the next fiscal year will begin early 2007 at which time the rates will be reviewed by staff and recommendations will be made.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the Authority's customers, investors and other interested parties with an overview of the Authority's financial operations and financial condition. Should the reader have questions regarding the information in this report or wish to request additional information, please contact the Walton County Water and Sewerage Authority's Financial Services Coordinator at P.O. Box 880, Loganville, GA 30052.

INDEPENDENT AUDITORS' REPORT

November 10, 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, 2006, as listed in the table of contents. These financial statements are the responsibility of WALTON COUNTY WATER AND SEWERAGE AUTHORITY's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2006, 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.

The management's discussion and analysis and budgetary comparison information on pages iii through viii, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 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.

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, 2006
(with comparative data for June 30, 2005)

	BUSINESS-TYPE ACTIVITIES	
	ENTERPRISE FUND	
	2006	2005
ASSETS		
Current Assets		
Cash	\$ 4,374,895	\$ 3,424,723
Investments	1,227,425	1,189,180
Receivables - trade, net	627,089	399,450
Unbilled revenue	535,300	214,623
Prepaid expenses	21,656	144,889
Restricted:		
Cash restricted for construction	6,548,159	6,350,194
Cash restricted for debt service	1,613,135	1,556,667
Investments restricted for debt service	682,231	655,411
	15,629,890	13,935,137
Total Current Assets		
Capital Assets:		
Capital assets, non-depreciable	15,888,130	11,832,257
Capital assets, depreciable, net	38,401,692	35,649,316
	54,289,822	47,481,573
Total Capital Assets, net		
Other Assets		
Bond issuance costs, net	487,001	496,621
Bond deferred charges, net	111,193	123,661
	598,194	620,282
Total Other Assets		
Total Noncurrent Assets	54,888,016	48,101,855
TOTAL ASSETS	\$ 70,517,906	\$ 62,036,992

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 NET ASSETS
PROPRIETARY FUND
June 30, 2006
(with comparative data for June 30, 2005)

	BUSINESS-TYPE ACTIVITIES	
	ENTERPRISE FUND	
	2006	2005
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 397,979	\$ 263,259
Accrued payroll withholdings	19,601	811
Accrued salaries payable	64,055	94,290
Current liabilities payable from restricted assets		
Accounts payable - construction	19,707	99,107
Accrued interest payable	412,795	419,121
Customer deposits	650,846	610,122
Notes payable - current portion	3,990,452	3,611,990
Revenue bonds payable	515,726	500,485
Total Current Liabilities	<u>6,071,161</u>	<u>5,599,185</u>
Long-Term Debt		
Revenue bonds payable	19,306,991	19,817,958
Notes payable	11,605,477	7,641,603
Total Long-term Liabilities	<u>30,912,468</u>	<u>27,459,561</u>
TOTAL LIABILITIES	<u>36,983,629</u>	<u>33,058,746</u>
NET ASSETS		
Invested in capital assets, net of related debt	26,017,530	22,847,841
Restricted for:		
Debt service	2,213,519	2,185,546
Unrestricted net assets	5,303,228	3,944,859
TOTAL NET ASSETS	<u>\$ 33,534,277</u>	<u>\$ 28,978,246</u>

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 REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2006
(with comparative data for the eight months ended June 30, 2005)

	2006	2005
Operating revenues		
Pledged as security for revenue bonds		
Charges for water service	\$ 7,128,039	\$ 3,841,557
Charges for sewer service	16,303	12,222
Tap on fees	-	151,120
Total operating revenues	7,144,342	4,004,899
Operating expenses		
Depreciation	1,192,538	704,525
Engineering	115,943	40,349
Insurance	186,022	119,815
Meetings and public relations expense	2,694	54,789
Other service and charges	273,350	143,941
Professional fees	213,128	169,159
Purchase of water	1,895,620	1,011,615
Purchase of sewer services	7,315	5,688
Repairs and maintenance	324,560	149,729
Salaries and benefits	1,479,002	1,017,115
Utilities	229,566	119,359
Total operating expenses	5,919,738	3,536,084
Operating income	1,224,604	468,815
Non-operating revenues (expenses)		
Interest income	214,249	78,730
Interest expense	(978,792)	(418,498)
Gain (loss) on disposal of assets	(87,021)	(360)
Total non-operating revenues (expenses)	(851,564)	(340,128)
Income (loss) before contributions	373,040	128,687
Contributions		
Capital contributions	-	19,330
Donated waterlines	3,008,616	1,679,494
Tap fees in excess of cost	1,174,375	943,505
Total contributions	4,182,991	2,642,329
Change in net assets	4,556,031	2,771,016
Total net assets, Beginning of year	28,978,246	26,207,230
Total Net Assets, End of Year	\$ 33,534,277	\$ 28,978,246

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
Year Ended June 30, 2006
(with comparative data for the year ended June 30, 2005)

	2006	2005
Cash flows from operating activities	\$ 6,636,751	\$ 3,902,843
Receipts from customers and users	(2,990,247)	(1,828,748)
Payments to suppliers	(1,490,447)	(984,471)
Payments to employees		
Net cash provided by (used in) operating activities	2,156,057	1,089,624
Cash flows from capital and related financing activities	(4,805,747)	(1,870,923)
Acquisition and construction of capital assets	10,022	-
Proceeds (costs) from sale of assets	(1,311,622)	(604,188)
Interest paid	4,500,000	3,454,326
Proceeds from issuance of long-term debt	(667,664)	(585,988)
Principal payments on long-term debt	-	(10,026)
Principal payments under capital lease obligations	-	19,330
Capital contributions	1,174,375	943,505
Tap fees in excess of costs		
Net cash provided by (used in) capital and related financing activities	(1,100,636)	1,346,036
Cash flows from investing activities	(65,065)	(33,898)
Purchase of investments	214,249	86,830
Interest income		
Net cash provided by (used in) investing activities	149,184	52,932
Net increase (decrease) in cash and cash equivalents	1,204,605	2,488,592
Cash and cash equivalents at beginning of year	11,331,584	8,842,992
Cash and cash equivalents at end of year	\$ 12,536,189	\$ 11,331,584

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
Year Ended June 30, 2006
(with comparative data for the year ended June 30, 2005)

	<u>2006</u>	<u>2005</u>
...CONTINUED		
Cash and cash equivalents shown on Statement of Net Assets		
Cash	\$ 4,374,895	\$ 3,424,723
Cash restricted for construction	6,548,159	6,350,194
Cash restricted for debt service	1,613,135	1,556,667
	<u>\$ 12,536,189</u>	<u>\$ 11,331,584</u>
Reconciliation of Operating Income (Loss) to Net cash provided by (used in) operating activities		
Operating income	\$ 1,224,604	\$ 468,815
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:		
Depreciation	1,192,538	704,525
(Increase) decrease in accounts receivable	(548,317)	(125,527)
(Increase) decrease in prepaid expense	123,233	(66,709)
Increase (decrease) in accounts payable	134,720	52,402
Increase (decrease) in accrued expenses	(11,445)	32,646
Increase (decrease) in customer deposits	40,724	23,472
	<u>931,453</u>	<u>620,809</u>
Total Adjustments		
Net cash provided by (used in) operating activities	<u>\$ 2,156,057</u>	<u>\$ 1,089,624</u>
Supplemental Information:		
Non-cash additions to capital assets:		
Interest capitalized	\$ 362,867	\$ 390,923
Donated waterlines	3,008,616	1,679,494
Increase (decrease) in construction payables	(79,400)	(264,293)
	<u>\$ 3,292,083</u>	<u>\$ 1,806,124</u>
Total non-cash additions to capital assets		
Undepreciated cost of capital assets disposed	<u>\$ 97,043</u>	<u>\$ 360</u>
Amortization of bond issuance costs and deferred charges	<u>\$ 51,360</u>	<u>\$ 34,241</u>

The accompanying notes are an integral part of this statement.

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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 that 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, 2006

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 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. The 2005 amounts are activity for eight months.

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 initial maturity of three months or less.

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2006, 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 \$51,360 of which \$12,739 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, 2006

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. The Authority defines capital assets 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, 2006

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, 2006, the Authority had \$14,771,862 in cash or cash equivalents. This includes \$1,909,656 of certificates of deposit which are deposits for custodial credit risk but are displayed as investments in the financial statements since they have an original maturity in excess of three months. The total cash amount includes \$4,400,000 which was uncollateralized due to a timing difference between the date loan proceeds were received and the day the proceeds were invested in marketable securities. The proceeds were deposited in an escrow account on June 30, 2006, and invested on July 5, 2006.

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.

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 4 – ACCOUNTS RECEIVABLE – TRADE

Accounts receivable - trade is shown net of the allowance for doubtful accounts of \$139,244.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the period ended June 30, 2006 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	-	-	53,296	102,230
Construction in progress	11,665,273	4,807,338	(97,044)	(707,717)	15,667,850
Total non-depreciable capital assets	<u>11,832,257</u>	<u>4,807,338</u>	<u>(97,044)</u>	<u>(654,421)</u>	<u>15,888,130</u>
Depreciable assets:					
Water System	26,156,600	202,504	-	654,421	27,013,525
Water System-Contributed	14,763,271	3,034,661	-	-	17,797,932
Wells	47,225	-	-	-	47,225
System Equipment	1,462,492	5,000	-	-	1,467,492
Construction-New Office	553,802	22,757	-	-	576,559
Office Equipment	84,486	25,571	-	-	110,057
Total depreciable capital assets	<u>43,067,876</u>	<u>3,290,493</u>	<u>-</u>	<u>654,421</u>	<u>47,012,790</u>
Less accumulated depreciation for:					
Water System	(4,471,863)	(645,252)	-	-	(5,117,115)
Water System-Contributed	(1,612,069)	(349,409)	-	-	(1,961,478)
Wells	(15,054)	(1,050)	-	-	(16,104)
System Equipment	(1,051,184)	(156,196)	-	-	(1,207,380)
Construction-New Office	(214,723)	(27,983)	-	-	(242,706)
Office Equipment	(53,667)	(12,648)	-	-	(66,315)
Total accumulated depreciation	<u>(7,418,560)</u>	<u>(1,192,538)</u>	<u>-</u>	<u>-</u>	<u>(8,611,098)</u>
Total depreciable capital assets, net	35,649,316	2,097,955	-	654,421	38,401,692
Business-type capital assets, net	<u>\$ 47,481,573</u>	<u>\$ 6,905,293</u>	<u>\$ (97,044)</u>	<u>\$ -</u>	<u>54,289,822</u>

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 6 - NOTES PAYABLE/LONG-TERM DEBT

	Balance June 30, 2005	Increase	Decrease	Balance June 30, 2006	Due within one year
Revenue Bonds -1989	\$ 25,000	\$ -	\$ -	\$ 25,000	\$ -
Revenue Bonds -1996	6,510,000	-	265,000	6,245,000	275,000
Revenue Bonds -2002	14,065,000	-	245,000	13,820,000	255,000
Less deferred amounts:					
For issuance discounts	(281,557)	-	(14,274)	(267,283)	(14,274)
Total Revenue bonds payable	<u>20,318,443</u>	<u>-</u>	<u>495,726</u>	<u>19,822,717</u>	<u>515,726</u>
GEFA Notes	739,080	-	60,976	678,104	63,956
Newton County Notes	2,280,187	-	96,688	2,183,499	102,142
Cornish Creek Expansion	4,780,000	-	-	4,780,000	-
Water Meter Project Note	-	4,500,000	-	4,500,000	370,028
Note payable	3,454,326	-	-	3,454,326	3,454,326
Total notes payable	<u>11,253,593</u>	<u>4,500,000</u>	<u>157,664</u>	<u>15,595,929</u>	<u>3,990,452</u>
Total	<u>\$ 31,572,036</u>	<u>\$ 4,500,000</u>	<u>\$ 653,390</u>	<u>\$ 35,418,646</u>	<u>\$ 4,506,178</u>

Bond Indebtedness. The Authority currently has three bond indentures outstanding as of June 30, 2006, 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 4.30% 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, 2006

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 defeased 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, 2006 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, 2006

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, refinanced on June 23, 2006, which bears interest of 3.99% is due June 22, 2007 and may not be prepaid. The loan is secured by revenues from the water system.

Citimortgage: On June 30, 2006, the Authority borrowed \$4,500,000 to fund installation of radio read water meters. This loan accrues interest at a rate of 4.195%. The principal and interest is payable in monthly installments of \$45,979 until the maturity date of June 30, 2016. The loan is secured by revenues from the water system.

The scheduled payments of principal and interest are as follows:

Bond Indebtedness-1989 Series

	Principal	Interest	Total
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>\$ 18,567</u>	<u>\$ 43,567</u>

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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

Bond Indebtedness-1996 Series

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 6,245,000</u>	<u>\$ 3,349,403</u>	<u>\$ 9,594,403</u>

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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

Bond Indebtedness-Series 2002, Revenue Improvement Bonds

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 13,820,000</u>	<u>\$ 9,334,278</u>	<u>\$ 23,154,278</u>

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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

Notes Payable-GEFA 1993

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 678,104</u>	<u>\$ 156,341</u>	<u>\$ 834,445</u>

Notes Payable - Newton County

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 2,183,499</u>	<u>\$ 983,631</u>	<u>\$ 3,167,130</u>

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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

Notes Payable - Cornish Creek Expansion Capital Participation

	Principal	Interest	Total
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>\$ 2,566,465</u>	<u>\$ 7,346,465</u>

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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

Notes Payable - Water Meter Project

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 370,028	\$ 181,714	\$ 551,742
2008	385,853	165,890	551,743
2009	402,354	149,388	551,742
2010	419,561	132,181	551,742
2011	437,504	114,238	551,742
2012	456,214	95,528	551,742
2013	475,725	76,017	551,742
2014	496,070	55,672	551,742
2015	517,285	34,458	551,743
2016	539,406	12,336	551,742
	<u>\$ 4,500,000</u>	<u>\$ 1,017,422</u>	<u>\$ 5,517,422</u>

Notes Payable – Reservoir Land

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	<u>\$ 3,454,326</u>	<u>\$ 137,828</u>	<u>\$ 3,592,154</u>

NOTE 7 – CAPITALIZED INTEREST

Total year-to-date interest paid for 2006 is \$1,311,626, of which \$362,867 of issuance costs has been capitalized into infrastructure assets after interest income on construction accounts of \$45,319 was offset against the amount being capitalized.

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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, 2006.

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 other regional partners in the area will jointly finance the reservoir. The partners and total costs for the project have not been finalized at the present time; however, current cost estimates for Phase I of the project are approximately \$109,000,000. Cost estimates for future phases will be based on population and customer growth. The costs to complete the project, which will be done through multiple phases between the years 2014 through 2050, are estimated to be \$246,000,000. The Authority has incurred approximately \$10,650,632 in expenses to date for studies, engineering, land acquisition and other professional expenses.

Cornish Creek Reservoir – As of June 30, 2006, the Authority has incurred approximately \$4,633,914 in expenses to date for studies, engineering, land acquisition and other professional expenses related to the Cornish Creek Reservoir. This reservoir is still in design, and the Authority cannot estimate the total cost of this project at this time.

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

As of June 30, 2006, the Authority's property was included in Walton County, Georgia's insurance policy. The Authority has no outstanding claims in excess of coverage for which a liability should be recorded as of June 30, 2006.

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, 2006, there was no need for such an assessment. Therefore, no liability for this has been included in these financial statements.

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 9 – RISK FINANCING ACTIVITIES (CONTINUED)

As part of the GSIWCF risk pool, 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 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, 2006, the Authority's total payroll for all employees and the covered payroll

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 10 – PENSION PLAN (CONTINUED)

amounted to \$906,568. 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 \$160,074 for the fiscal year ended June 30, 2007. Since the Authority's policy is to contribute the pension expense, which was \$161,445 for 2006 and is estimated to be \$160,074 for 2007, 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, 2006, 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, 2006 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 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.

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 10 – PENSION PLAN (CONTINUED)

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
7/1/2006	\$ 486,739	\$ 961,883	\$ 475,144	\$ 906,568	52.41%
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, 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.

WALTON COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 11 - SUBSEQUENT EVENTS

Effective July 1, 2006 the Walton County Water and Sewerage Authority leased all of its assets and transferred all of its operations and liabilities, including all of its bonds payable, to Walton County for a period of fifty years. The employees of the Authority became employees of the County on that date. Since the County has full power to act for the Authority, the Authority will be accounted for as a blended component unit as the Water and Sewerage Authority Enterprise Fund. As of July 1, 2006, the County will record all assets and liabilities of the Authority at the amounts as of June 30, 2006. The beginning net assets will be included, but will be labeled as "restated" to reflect the fact that this component unit is moving from a discretely presented component unit to a blended component unit.

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

November 10, 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, 2006, and have issued our report thereon dated November 10, 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 initiate, record, process, 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.

INVESTMENTS

06-01 Statement of Condition: This was a finding in the prior year. The client did not post interest income for 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. The Investment accounts and the related investment income accounts were misstated by \$65,065 before the adjustment was made.

Cause of Condition: The bank does not mail the statements for certificates of deposits on a regular basis. The Authority has to contact the bank to obtain a copy of a statement.

Recommendation: We recommend that the Authority contact the bank at the end of each quarter and post the investment income and any other reconciling items in a timely manner.

Response: As stated above, the accounts in question are certificates of deposit. These are funds that are held in reserve to satisfy bonding requirements, and therefore, the principal is never used. It has been the policy of the Authority in the past to post accrued interest on these types of accounts on a yearly basis. It was also noted that the statements are not mailed on a regular basis. The recommendation can be followed at the Board of Commissioner's request.

ACCOUNTS RECEIVABLE

06-02 Statement of Condition: This was a finding in the prior year. 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 \$16,507.

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: NSF checks were double counted in the General Ledger system for a period of time.

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. We have provided some additional worksheets to assist in this procedure.

Response:

Staff will use the worksheets that will assist with the procedure. Please note that Management has asked for an integrated billing and accounting system. If the Board of Commissioners will allow this expenditure, the system will help staff with the noted tasks.

ACCOUNTS PAYABLE AND EXPENSES

06-03 **Statement of Condition:** **This was a finding in the prior year.** 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 \$12,029 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:

Unknown.

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:

As noted last year, the payables are reviewed every check run. Staff was aware that the differences existed, but were awaiting further instruction on how to properly "fix" this without negatively affecting the general ledger. The outstanding invoices on the aged invoice report will be taken off as recommended by the auditor.

06-04 **Statement of Condition:** During our audit procedures, we noted eight invoices that were paid for which the Authority did not have an authorized purchase order. Seven of the invoices related to the installation of new computer equipment and computer maintenance. The eighth invoice related to the installation of the Authority's new doors and card reader system.

Criteria:

To ensure proper internal controls, orders should only be placed after an authorized purchase order is obtained. Vendors should reference

the purchase order number when invoicing, and Accounts Payable staff should not pay invoices for which the Authority does not have an authorized purchase order.

Effect of Condition:

There is no support or approval that the purchases were approved before an order was placed and the goods were received. Therefore, the Authority might be obligated to pay for unauthorized purchases that cannot be returned. In addition, the Authority cannot monitor purchases for budgeting purposes if it is not using the purchase orders properly.

Cause of Condition:

Unknown.

Recommendation:

We recommend that the Authority staff obtain an authorized purchase order for all purchases before placing the order.

Response:

The noted purchases were initiated only after the availability of funds and the budget were reviewed. The General Manager and Chairman also approved these charges. Purchase orders will be issued in the future for these types of items. The payable staff scrutinizes all purchases and there was no discrepancy in what was requested and what was received. These items were necessary expenditures to replace existing computer equipment and replace doors that were no longer closing and locking properly.

LONG-TERM DEBT

06-05 **Statement of Condition:** The client did not book a new note payable issued on June 30, 2006 for \$4,500,000.

Criteria:

The client should post journal entries in a timely manner.

Effect of Condition:

The Authority's restricted cash and notes payable were understated by \$4,500,000 as of June 30, 2006.

Cause of Condition:

Unknown.

Recommendation:

We recommend that the client record new notes payable and other items as soon as possible.

Response:

This has been taken care of within the adjusting entries prepared by auditor.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely 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.

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