MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2009

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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elliott davis

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

McDuffie County/City of Thomson, Georgia
Water and Sewer Commission
Thomson, Georgia

We have audited the accompanying statement of net assets of the McDuffie County/City of Thomson, Georgia Water and Sewer Commission as of December 31, 2009 and 2008, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the years ended December 31, 2009 and 2008, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the McDuffie County/City of Thomson, Georgia Water and Sewer Commission as of December 31, 2009 and 2008, and the changes in financial position and cash flows for the years 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 June 30, 2010 on our consideration of Commission's internal control over financial reporting and 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and schedule of funding progress - other post employment benefits plan as listed in the table of contents 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 supplementary information. However, we did not audit the information and express no opinion on them.

Greenwood, South Carolina
June 30, 2010

Elliott Davis, LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Within this section of the McDuffie County/City of Thomson, Georgia Water and Sewer Commission's (the "Commission") annual financial report, the Commission's management is pleased to provide this narrative discussion and analysis of the financial activities of the Commission for the year ended December 31, 2009.

Financial Highlights

- The assets of the Commission exceeded its liabilities at the close of the most recent fiscal year by $ 28,714,481 (net assets). Of this amount, $ 1,719,835 (unrestricted net assets) may be used to meet the Commission's ongoing obligations to citizens and creditors.

- The Commission's total net assets increased by $ 133,850 during 2009.

- For the year ended December 31, 2009, the Commission experienced a net loss from operations of $ 260,739. This loss includes non-cash operating expenses such as depreciation, amortization, and allowances for bad debts totaling $ 950,784 and expenses related to other post employment benefits (OPEB) totaling $ 37,540. Non-operating revenues decreased by $ 3,263,629 due to a decrease in funding from special purpose local option sales tax, and non-operating expenses decreased by $ 16,757 as a result of a decrease in interest expense.

- At the end of the current fiscal year the Commission's total debt decreased by $ 40,276. Advances from a Georgia Environmental Facilities Authority (GEFA) loan for expansion of the Big Creek Water Treatment Plant totaled $ 1,628,474. Principal payments on all debt totaled $ 505,486 for the year ended December 31, 2009.

Overview of the Financial Statements

This Management Discussion and Analysis document introduces the Commission's financial statements. The financial statements include: (1) fund financial statements and (2) notes to the financial statements. Comparative data is presented when available.

Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Commission is comprised of a single proprietary fund which is accounted for as an enterprise fund. Enterprise funds use a perspective similar to that found in the private sector, whereby, the financial statements are prepared on the accrual basis of accounting.

The Commission's annual report includes three financial statements. These statements provide both long-term and short-term information about the Commission's overall financial status.

The first of these financial statements is the *Statement of Net Assets-Proprietary Funds.* This is a statement of financial position, which presents all of the Commission's assets and liabilities, with the difference between the two reported as *net assets.* Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission as a whole is improving or deteriorating.

The second financial statement is the *Statement of Revenues, Expenses, and Changes in Fund Net Assets-Proprietary Funds*, which reports how the Commission's net assets changed during the current year.

The third financial statement is the *Statement of Cash Flows-Proprietary Funds*. This statement reports the cash provided and used by operating activities, noncapital and capital financing activities, and investing activities with the difference reported as an increase or decrease in cash and cash equivalents for the year. Transactions not requiring the use of cash are reported as noncash investing, capital, and financing activities.

The financial statements are presented on pages 10 – 15 of this report.

Notes to the Basic Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the Commission's financial statements. The notes to the financial statements begin on page 18 of this report.

Financial Analysis of the Commission as a Whole

As noted earlier, net assets may serve over time, as a useful indicator of whether the financial position of the Commission is improving or deteriorating. As of December 31, 2009, assets exceeded liabilities by $ 28,714,481 (net assets).

The following table presents a summary of the Commission's net assets.

NET ASSETS

	2009		2008	2007
		Percentage of Total		
Assets:				
Current assets	$ 1,996,216	5%	$ 2,318,304	$ 1,846,486
Restricted assets	614,081	2	622,764	622,355
Deferred charges	285,653	1	305,440	315,348
Capital assets, net of accumulated depreciation	33,223,973	92	33,493,230	28,778,326
Total assets	36,119,923	100	36,739,738	31,562,515
Liabilities:				
Other liabilities	1,024,381	14	1,780,908	955,149
Long-term liabilities	6,381,061	86	6,378,199	5,574,860
Total liabilities	7,405,442	100	8,159,107	6,530,009
Net Assets				
Invested in capital assets, net of related debt	26,380,565	92	26,609,546	22,755,906
Restricted for debt service	614,081	2	622,764	622,355
Unrestricted	1,719,835	6	1,348,321	1,654,245
Total net assets	$ 28,714,481	100%	$ 28,580,631	$ 25,032,506

Total net assets increased by $ 133,850 during 2009. By far the largest portion of the Commission's net assets (92 percent) reflects its investment in capital assets (e.g. land, buildings, plant and facilities, equipment, etc.), less any related debt used to acquire those assets still outstanding. The Commission uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the Commission's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Commission's net assets totaling $ 614,081 (2 percent) represents resources that are restricted for debt service. The remaining balance of unrestricted net assets totaling $ 1,719,835 (6 percent) is available to meet the Commission's ongoing obligations to its customers and creditors.

Current assets represent amounts that are available to pay current liabilities. For the year ended December 31, 2009, unrestricted current assets totaled $ 1,996,216, which represents a decrease of $ 322,088 from 2008. The decrease is attributable to a decrease in intergovernmental receivables of $ 403,074, which was offset by an increase in unrestricted cash of $ 78,089. Accounts receivable also increased by $ 11,712. Interest receivable, inventories, and prepaid items decreased by $ 6,956, $ 832, and $ 1,027, respectively.

Other liabilities, amounts due and payable within the next year including current maturities of long-term debt, totaled $ 1,024,381 as of December 31, 2009, which represents a decrease of $ 756,527 from 2008. The decrease primarily consists of decreases in accounts payable of $ 27,276, construction payables related to various capital projects of $ 695,072, a decrease in the current portion of long-term debt and accrued interest thereon of $ 12,520, and a decrease in other current liabilities of $ 27,890. Intergovernmental payables increased by $ 6,231.

The following table provides a summary of the Commission's changes in net assets:

CHANGES IN NET ASSETS

	2009	2008	2007
Revenues			
Operating revenues			
Charges for services	$ 3,945,035	$ 4,006,796	$ 4,004,169
Non-operating revenues			
Capital grants	28,461	57,594	102,292
Special local option sales tax	526,797	3,789,676	459,825
Other	32,419	33,169	57,197
Total revenues	4,532,712	7,887,235	4,623,483
Expenses			
Operating expenses	4,205,774	4,129,265	3,925,317
Non-operating expenses			
Interest and amortization of bond costs	193,088	209,845	130,908
Total expenses	4,398,862	4,339,110	4,056,225
Increase in net assets	133,850	3,548,125	567,258
Net assets, beginning of year	28,580,631	25,032,506	24,465,248
Net assets, end of year	$ 28,714,481	$ 28,580,631	$ 25,032,506

Revenues for charges and services decreased in 2009 by $ 61,761. The decrease is less than 2 percent of prior year revenues for charges and services and is the result of a decrease in demand due to climatic changes.

Proceeds from the Special Local Option Sales Tax (SPLOST) are used to fund the local match on capital projects funded with federal and State capital grants, locally funded capital projects, and purchases of other water sewer capital assets. The use of SPLOST funds is discretionary and is voted on and approved by the Water Sewer Commission. Accordingly, SPLOST proceeds recognized in a given year are dependent on the size and number of capital projects being undertaken by the Commission during the year. As a result of funding arrangements and other factors; SPLOST revenues recognized in 2009 decreased by $ 3,262,879.

Other non-operating revenues decreased by $ 750. This decrease is primarily attributable to a decrease in interest income earned on investments of $ 7,874. This decrease was offset by non-reoccurring insurance claims which totaled $ 7,124 in 2009.

Operating expenses increased by $ 76,509 in 2009. This increase includes additional costs for personal services and benefits of $ 32,015, recognition of other post employment benefits of $ 37,540, professional and technical services of $ 1,793, other purchased services of $ 5,038, and intergovernmental payments of $ 23,469. The increase was offset by decreases in repairs and maintenance of $ 45,970, supplies of $ 11,767, and other expenses decreased by $ 21,564. Non-cash operating expenses, including depreciation, amortization, and bad debt expense increased $ 55,955 in 2009.

Capital Assets

The Commission's investment in capital assets as of December 31, 2009 totaled $ 33,223,973 (net of accumulated depreciation) which represents a net decrease of $ 269,257. This investment in capital assets includes land, buildings, plant and facilities, equipment, service vehicles, and construction in progress.

Construction in progress as of December 31, 2009 totaled $ 789,674 which represents a decrease of $ 5,677,898 from 2008. The Commission expended $ 663,634 for additional construction costs in 2009. Completed projects transferred to property, plant, and equipment during 2009 totaled $ 6,341,532. The Big Creek Water Treatment Plant expansion was completed at a total cost of $ 6,018,886 and represents the majority of construction in progress transferred in 2009. Other completed capital projects totaled $ 322,646 and include the relocation of water sewer lines for the eastern bypass, extension of existing sewer lines, and SCADA telemetry monitoring systems.

These projects were funded with SPLOST proceeds, grants from the Georgia Department of Transportation (DOT), and loans from the Georgia Environmental Facilities Authority (GEFA). As of December 31, 2009, SPLOST funding totaled $ 4,990,182, DOT grant funds totaled $ 188,086, and GEFA loan proceeds totaled $ 1,163,264 of the total funding for completed projects.

There were no other significant capital asset transactions during the year.

Annual depreciation expense recorded in 2009 totaled $932,892.

Additional information on capital assets can be found in Note 5 to the financial statements of this report.

Debt Administration

As of December 31, 2009, the Commission had revenue bonds outstanding totaling $ 2,455,000, two notes payable to GEFA totaling $ 2,654,868, and four capital leases to Branch Banking & Trust Company (BB&T) totaling $ 105,066. In addition, the City of Thomson and McDuffie County, Georgia have entered into separate loan agreements with GEFA to borrow up to $ 1,605,000 each to fund the Big Creek Water Treatment Plant expansion project and extend existing sewer lines. Advances on these loans totaled $ 1,628,474 as of December 31, 2009.

Principal payments on the bonds payable totaled $ 365,000 for the year and interest paid and accrued at year end totaled $ 95,478. Principal payments on the GEFA loans totaled $ 107,763 and interest paid and accrued at year end totaled $ 81,136. Principal payments on the leases totaled $ 32,723 and interest paid and accrued totaled $ 4,218.

Additional information on long-term debt can be found in Note 6 to the financial statements of this report.

Economic Factors Affecting the Water and Sewer Commission

There are several economic factors on the horizon that will have positive impacts on the Water and Sewer Commission. The timing of these projects, of course depends on when the housing market starts to show signs of recovery. A subdivision is under construction near the Town of Dearing, Georgia that will add 53 new customers. Northview Acres, a subdivision expansion near Thomson, will add 64 residential customers. A third subdivision, Elias Station, is expected to provide an additional 90 customers over the next five to ten years. All of these are in various stages of construction…from fairly strong activity (Dearing subdivision) to just starting construction (Elias Station).

McDuffie County, Georgia is currently completing construction on various water/sewer projects in outlying areas of the County. Funding for these projects is provided in part by the United States Department of Agriculture (USDA) through grants and loans. The loans require that the County maintain ownership of these systems upon completion. The Water Sewer Commission has committed to operate and maintain these systems once they go into service. Revenues generated from these "Special Districts" will be remitted to the County and the County will pay a "management fee" to the Water Sewer Commission for operations and maintenance. Total estimated project costs are expected to be $ 6,500,000. The project will add an additional 72 miles of waterline to the existing system and provide 800 to 900 additional water customers. These projects are expected to be completed in 2009.

Construction is complete on the expansion of the Big Creek Water Treatment Facility and the construction of the sewer extension projects was substantially completed in 2009. The expansion of the facility will increase treatment capacity from 2 million gallons per day to 4 million gallons per day. Original cost estimates for these projects was $7,517,300 to be funded with proceeds from the special local option sales tax totaling $ 4,307,300 and two loans from the Georgia Environmental Facilities Authority (GEFA) totaling $ 1,605,000 each. The entire project was completed as of the report date. Costs to complete these projects were less than originally estimated. The City and County each borrowed $ 879,061 from GEFA and funded the remaining costs with $ 4,849,511 in SPLOST funds for a total project cost of $ 6,607,633.

Relocation of various water and sewer systems as a result of the construction of a new by-pass on the East side of town has been completed. Costs associated with the relocation project approximated $1,610,500. The Georgia Department of Transportation assumed the majority of the cost associated with the relocation of existing systems. The only costs that may not be covered by the State are construction observation services performed by the Commission's engineers which are estimated to be $ 30,000.

The City of Harlem has informally agreed to purchase a minimum of 100,000 gallons of water per day from the Thomson-McDuffie water system. This will provide additional revenues for the system and assist in improving water quality in that part of the McDuffie County. The contracts are currently being reviewed and the notice to proceed on this project is pending.

Warren County, Georgia and the Oglethorpe Power Corporation (OPC) are interested in purchasing a significant portion of our treated wastewater for a biomass power plant, which is currently in the planning stages and projected to be built by 2013. Preliminary plans call for Warren County to build a pump station and force main to transfer wastewater or "grey water" from our Central Road Wastewater Treatment Plant to the OPC plant in Warren County. Although this project is in the preliminary discussion stage, the Commission believes the chances of this project becoming a reality are very high.

Request for Information

This financial report is designed to provide a general overview of the McDuffie County/City of Thomson, Georgia Water and Sewer Commission's finances for those with an interest in the Commission's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Don Powers, City Administrator, P.O. Box 1017, Thomson, Georgia 30824.

FINANCIAL STATEMENTS

MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
STATEMENTS OF NET ASSETS

	Business-type Activities-Enterprise Fund	
	2009	**2008**
ASSETS		
Current assets		
Cash	$ 1,484,173	$ 1,406,084
Restricted cash	230,379	239,063
Accounts receivable (net of allowance for uncollectibles of $ 176,944 for 2009 and $ 166,583 for 2008)	415,766	404,054
Interest receivable	6,586	13,542
Intergovernmental receivable	54,221	457,295
Inventories	16,488	17,320
Prepaid items	18,982	20,009
Total current assets	2,226,595	2,557,367
Noncurrent assets		
Restricted cash	383,702	383,701
Total restricted assets	383,702	383,701
Deferred charges	285,653	305,440
Capital assets		
Land	221,034	221,034
Buildings and improvements	18,321	18,321
Plant and facilities	44,125,370	37,924,508
Machinery and equipment	902,882	779,340
Autos and trucks	588,086	588,086
Construction in progress	789,674	6,467,572
Less accumulated depreciation	(13,421,394)	(12,505,631)
Total capital assets (net of accumulated depreciation)	33,223,973	33,493,230
Total noncurrent assets	33,893,328	34,182,371
Total assets	36,119,923	36,739,738

MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
STATEMENTS OF NET ASSETS

	Business-type Activities-Enterprise Fund	
	2009	**2008**
LIABILITIES		
Current liabilities		
Accounts payable	78,603	105,879
Construction payables	51,192	746,264
Customer deposits	109,238	102,249
Intergovernmental payable	172,698	166,467
Accrued expenses	61,542	96,421
Accrued interest payable	6,785	7,101
Current portion of capital lease payable	33,847	32,723
Current portion of notes payable	111,040	107,762
Current portion of revenue bonds payable (payable from restricted assets)	355,000	365,000
Accrued interest payable (payable from restricted assets)	44,436	51,042
Total current liabilities	1,024,381	1,780,908
Noncurrent liabilities		
Revenue bonds payable	2,100,000	2,455,000
Capital lease payable	71,219	105,066
Notes payable	2,543,828	2,654,869
Loan advances	1,628,474	1,163,264
Net post employment benefits obligation	37,540	-
Total noncurrent liabilities	6,381,061	6,378,199
Total liabilities	7,405,442	8,159,107
NET ASSETS		
Invested in capital assets, net of related debt	26,380,565	26,609,546
Restricted for debt service	614,081	622,764
Unrestricted	1,719,835	1,348,321
Total net assets	$ 28,714,481	$ 28,580,631

MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

	Business-type Activities-Enterprise Fund	
	2009	2008
OPERATING REVENUES		
Charges for sales and services		
Water and sewer sales	$ 3,383,168	$ 3,517,612
Penalties and cut-on fees	71,241	74,040
Other services	490,626	415,144
Total operating revenues	3,945,035	4,006,796
OPERATING EXPENSES		
Personal services and benefits	1,542,716	1,473,161
Professional and technical services	49,962	48,169
Repairs and maintenance	312,388	358,358
Other purchased services	592,331	587,293
Supplies	562,744	574,511
Intergovernmental	182,897	159,428
Other	11,952	33,516
Depreciation and amortization	940,423	882,895
Bad debts	10,361	11,934
Total operating expenses	4,205,774	4,129,265
Operating income (loss)	(260,739)	(122,469)
NON-OPERATING REVENUES (EXPENSES)		
Special local option sales tax	526,797	3,789,676
Insurance claims	7,124	-
Interest income	25,295	33,169
Intergovernmental revenues	28,461	57,594
Interest expense	(180,832)	(198,060)
Amortization of bond and loan issuance costs	(12,256)	(11,785)
Total non-operating revenues (expenses)	394,589	3,670,594
Change in net assets	133,850	3,548,125
NET ASSETS, BEGINNING OF YEAR	28,580,631	25,032,506
NET ASSETS, END OF YEAR	$ 28,714,481	$ 28,580,631

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MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
STATEMENTS OF CASH FLOWS

	Business-type Activities-Enterprise Fund	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	$ 3,928,312	$ 4,110,989
Payments to suppliers	(1,737,691)	(1,697,484)
Payments to employees	(1,532,864)	(1,447,723)
Net cash provided by operating activities	657,757	965,782
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from insurance claims	7,124	-
Net cash provided by noncapital financing activities	7,124	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from long-term debt	868,963	1,163,264
Proceeds from capital leases	-	169,950
Proceeds from special local option sales tax	526,797	3,789,676
Purchase and construction of assets	(1,330,246)	(5,119,425)
Reimbursements to special local option sales tax	-	(70,478)
Payments on long-term debt	(505,486)	(471,950)
Loan closing costs	-	(9,408)
Interest paid	(187,754)	(197,475)
Net cash used in capital and related financing activities	(627,726)	(745,846)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	32,251	35,567
Net cash provided by investing activities	32,251	35,567
Net increase in cash and cash equivalents	69,406	255,503
Cash, beginning of year	2,028,848	1,773,345
Cash, end of year	$ 2,098,254	$ 2,028,848
CASH - PER STATEMENT OF NET ASSETS		
Cash	$ 1,484,173	$ 1,406,084
Restricted cash - current	230,379	239,063
Restricted cash - noncurrent	383,702	383,701
	$ 2,098,254	$ 2,028,848

MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
STATEMENTS OF CASH FLOWS

	Business-type Activities-Enterprise Fund	
	2009	2008
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	$ (260,739)	$ (122,469)
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation	932,892	875,364
Amortization	7,531	7,531
Other post employment benefits (OPEB)	37,540	-
(Increase) decrease in current assets		
Accounts receivable	(11,712)	45,927
Intergovernmental receivable	(679)	(3,806)
Inventory	832	19,379
Prepaid expenses	1,027	20,839
Increase (decrease) in current liabilities		
Accounts payable	(27,276)	44,785
Intergovernmental payables	6,231	65,922
Customer deposits	6,989	8,084
Accrued expenses	(34,879)	4,226
Total adjustments	918,496	1,088,251
Net cash provided by operating activities	$ 657,757	$ 965,782

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NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

The financial statements of the McDuffie County/City of Thomson, Georgia Water and Sewer Commission (the "Commission") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accompanying summary of the Commission's more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report.

B. The Financial Reporting Entity

McDuffie County, Georgia and the City of Thomson, Georgia entered into an agreement to establish the McDuffie County/City of Thomson, Georgia Water and Sewer Commission to operate, maintain and extend the water and sewerage system for the residents of the City of Thomson and McDuffie County, Georgia. On April 1, 1988, the Commission assumed ownership and operations of the City of Thomson Water and Sewer Enterprise Fund and began collecting a 1% special purpose local option sales tax to fund expansion of the existing system. The terms of the agreement are binding for a period of 50 years commencing on April 1, 1988. A seven member board administers the Commission and is composed of the McDuffie County commission chairman, one County commissioner, one resident of McDuffie County, the Mayor of Thomson, one City Council member, one City of Thomson resident and one McDuffie County resident appointed by the Water and Sewer Commission.

The County and City equally own and maintain the Water and Sewer System and any future improvements to it. The County administers the special 1% construction fund, as well as, grants and loans obtained in the County's name for expansion of the System. The City is responsible for any construction funds derived from grants and loans obtained in the City's name, as well as, all funds from operating the System. Daily operations of the System are carried out by the City's water and sewer department. All funds generated by the System are to be used for operating, maintaining, improving, or expanding the System.

Based on the standards established by Statement No. 14 of the Governmental Accounting Standards Board (GASB), the Commission is a separate organization classified as a joint venture.

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (1) an ongoing financial interest or (2) an ongoing financial responsibility. Joint ventures are established for a number of reasons, ranging from economies of scales to effective risk management while providing a service directly to the individual governments involved or the citizens served by the governments. Joint control means that no one entity can unilaterally control the operational and financial policies of the commonly controlled entity.

An ongoing financial interest in a joint venture is present when the agreement stipulates that participating governments have an explicit, measurable right to the present and future net resources of the venture.

A participating government has an ongoing financial responsibility if it is obligated in some manner for the debts of a joint venture or when the joint venture's existence depends on continued funding by the participating government.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The Commission has elected to follow GAAP prescribed by GASB and all Financial Accounting Standard Board (FASB) standards issued prior to November 30, 1989. Subsequent to this date, the Commission accounts for its proprietary fund as presented by GASB.

The Water and Sewer Commission is a proprietary fund operating as an enterprise fund. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with financial-related legal and contractual provisions.

Enterprise funds distinguish operating revenues and expenses from nonoperating 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 of the Water and Sewer Commission enterprise fund are charges to customers for sales and services. Management fees received from special water and sewer districts for the daily operations and maintenance of those systems are also recognized as operating revenues by the Commission. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Budgetary Accounting and Control

The Commission's annual budget is adopted by the Mayor and City Council of Thomson, Georgia as part of the City's management duties. Prior to September 1, a proposed operating budget is submitted for the fiscal year commencing the following January 1. The operating budget includes proposed expenses and the means of financing them. Public hearings are conducted to obtain public input. Prior to November 1, the budget is legally enacted through passage of a resolution. The City, in its administration of Commission funds, is authorized to amend the adopted budget when unexpected modifications are required in estimated revenues and expenses. Budget appropriations lapse at year end.

The Commission's budget differs in perspective to generally accepted accounting principles whereby the legally adopted budget is on the cash basis, capital expenditures are accounted for as expenses, and in its classifications and the order in which line item expenditures are presented.

The Commission's budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenses are budgeted by department and character (personal services, maintenance and operations, capital outlay, debt service) which constitutes the legal level of control. Expenses may not exceed appropriations at this level. All budget revisions at this level are subject to final review by the Commission. Within these control levels, management may transfer appropriations without Commission approval. Revisions to the budget were made throughout the year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Fund Equity

Cash and Investments

The Commission's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments that mature within three months of the date acquired by the Commission.

Receivables

All receivables are reported at their net realizable value. Unbilled utility service receivables are recorded at year end. At December 31, 2009, unbilled receivables totaled $ 184,927.

Intergovernmental Receivables and Payables

The Water and Sewer Commission manages the daily operations of special water and sewer districts for McDuffie County, Georgia and the Town of Dearing, Georgia. Collections from customers in these districts are remitted to the respective governments. The Commission receives a management fee from the participating governments for its services. The amounts due from and due to the other governments, related to these agreements, are recorded as intergovernmental receivables and payables.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consist of various supplies of pipes, meters, and other items that may be needed for repairs, maintenance, or minor construction projects.

Prepaid Items

The Commission uses the allocation method for accounting for prepayments. Under the allocation method, an asset is established at the date of payment and subsequently amortized over the accounting periods that are expected to benefit from the initial payment.

Restricted Assets

The restricted cash reflects amounts set aside for debt service related to the bonds payable. The bond resolution requires a reserve account to be maintained equal to the debt service requirements of the bonds. The resolution also requires a sinking fund to be maintained equal to one-sixth of the next ensuing interest payment, and one-twelfth of the next ensuing principal payment. Both of these accounts are restricted for debt service.

Capital Assets

Capital assets are defined by the Commission as assets with an initial individual cost of more than $ 5,000 (amount not rounded) and an estimated useful life in excess of one year. Individual assets that cost less than $ 5,000, but that operate as part of a network system, are capitalized in the aggregate using the group method if considered material or significant. Capital assets are valued at historical cost or estimated historical cost if historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the year ended December 31, 2009.

Depreciation of capital assets is charged as an expense against operations and accumulated depreciation is reported on the statement of net assets. Depreciation has been provided using the straight-line method over the assets estimated useful lives as follows:

Buildings and improvements	25-40 years
Plant and facilities	25-50 years
Machinery and equipment	5-7 years
Autos and trucks	5 years

Compensated Absences

Employees may accumulate up to 20 days of unused vacation leave to be received as compensation upon separation from service. Accumulated vacation pay totaled $ 53,052 and $ 49,430 for the years ended December 31, 2009 and 2008, respectively. These amounts are included in accrued expenses on the statement of net assets.

There is no liability for unpaid accumulated sick leave since the Commission does not have a policy to pay any amounts for accumulated sick leave when employees separate from service.

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the proprietary fund's statement of net assets. Bond issuance and note costs are being amortized over the life of the bonds and related notes payable using the straight-line method. The unamortized portion of bond issuance and note costs and bond discounts related to the 1993 Series bonds (refunded bonds) and January 2007 notes payable are being amortized over the life of the Series 2005 Bonds and January 2007 notes payable using the straight-line method. Bonds payable are reported net of the applicable bond discount. Bond issuance and note costs and the related unamortized charges are reported as deferred charges on the statement of net assets.

Net Assets

Net assets in proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were recorded.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Data/Reclassifications

Comparative total data for the prior year have been presented in order to provide an understanding of the changes in the financial position and operations of the Water and Sewer enterprise fund. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Compliance With Bonds Payable

The Commission believes it is in compliance, in all material respects, with requirements under covenants relating to its bonds payable.

NOTE 3 - CASH

Statutes authorize the Commission to make direct investment in obligations of Georgia or the U. S. Government, obligations fully insured or guaranteed by the U. S. Government, repurchase agreements and certificates of deposit that are secured by direct obligations of Georgia or the U. S. Government.

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk.

The Commission maintains its cash on deposit with local financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2009, the carrying amount of the Commission's deposits was $ 2,098,254 and the bank balance totaled $ 2,088,309. Deposits of the Commission were fully collateralized as of year end.

Amount insured by FDIC	$ 850,000
Amount collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name	1,238,309
Total bank balance	$ 2,088,309

NOTE 4 - ACCOUNTS RECEIVABLE

As of December 31, 2009, accounts receivable totaled $ 415,766 net of an allowance for uncollectible accounts of $ 176,944 whereas, accounts receivable totaled $ 404,054 net of an allowance for uncollectibles of $ 166,583 as of December 31, 2008. Collections on accounts receivable are generally favorable and write-offs minimal, due to the threat of discontinued services for nonpayment.

NOTE 5 - CAPITAL ASSETS

Business-type capital assets activity for the year ended December 31, 2009, was as follows:

	Balance 1-1-09	Additions	Deletions	Balance 12-31-09
Capital assets not being depreciated				
Land	$ 221,034	$ -	$ -	$ 221,034
Construction in progress	6,467,572	663,634	(6,341,532)	789,674
Total capital assets not being depreciated	6,688,606	663,634	(6,341,532)	1,010,708
Capital assets being depreciated				
Buildings and improvements	18,321	-	-	18,321
Plant and facilities	37,924,508	6,200,862	-	44,125,370
Machinery and equipment	779,340	140,670	(17,128)	902,882
Autos and trucks	588,086	-	-	588,086
Total capital assets being depreciated	39,310,255	6,341,532	(17,128)	45,634,659
Less accumulated depreciation				
Buildings and improvements	(2,977)	(458)	-	(3,435)
Plant and facilities	(11,516,439)	(825,248)	-	(12,341,687)
Machinery and equipment	(526,934)	(65,479)	17,129	(575,284)
Autos and trucks	(459,281)	(41,707)	-	(500,988)
Less accumulated depreciation	(12,505,631)	(932,892)	17,129	(13,421,394)
Net capital assets being depreciated	26,804,624	5,408,640	1	32,213,265
Business-type capital assets-net	$ 33,493,230	$ 6,072,274	$ (6,341,531)	$ 33,223,973

Depreciation expense totaled $ 932,892 for the year ended December 31, 2009.

Constructed assets financed with the proceeds of tax exempt debt (if those funds are externally restricted to finance the acquisitions of the asset or used to service the related debt) include capitalized interest only to the extent that interest cost exceeds interest earned on related interest-bearing investment acquired with proceeds of the related tax-exempt borrowing. No interest was capitalized during the year ended December 31, 2009.

NOTE 6 - LONG-TERM DEBT

Capital Leases

The Commission entered into a lease agreement as lessee for financing the acquisition of various capital assets. The following table summarizes capital lease activity for the year ended December 31, 2009.

Capital Lease Payable	Original Principal	Interest Rate	Final Maturity	Outstanding Balance	Amount Due Within One Year
BB&T, 20 quarterly payments $ 2,110	$ 38,797	3.39%	2012	$ 23,985	$ 7,727
BB&T, 20 quarterly payments $ 2,692	49,485	3.39%	2012	30,592	9,855
BB&T, 20 quarterly payments $ 2,220	40,802	3.39%	2012	25,225	8,126
BB&T, 20 quarterly payments $ 2,223	40,866	3.39%	2012	25,264	8,139
Totals	$ 169,950			$ 105,066	$ 33,847

NOTE 6 - LONG-TERM DEBT (Continued)

The assets acquired through capital leases are as follows:

Asset	Business-type Activities
Autos and trucks	$ 38,797
Machinery and equipment	131,153
Less accumulated depreciation	(39,743)
Total	$ 130,207

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2009, are as follows:

Year Ending December 31,	Business-type Activities
2010	36,980
2011	36,980
2012	36,980
Total minimum lease payments	110,940
Less amount representing interest	(5,874)
Present value of minimum lease payments	$ 105,066

2005 Revenue Bonds Payable

On August 17, 2005, the City of Thomson and McDuffie County, Georgia issued $ 3,825,000 in City of Thomson, Georgia and McDuffie County, Georgia Water and Sewerage Revenue Refunding Bond Series 2005 (the “Series 2005 Bonds). The Series 2005 Bonds were issued for the purpose of providing funds to refund all of the outstanding Series 1993 Bonds maturing on and after July 1, 2006, to prepay notes payable to the Georgia Environmental Facilities Authority (GEFA), to provide for required debt service reserves, and to pay expenses related to the issuance of the Series 2005 Bonds.

The foregoing was achieved with available proceeds totaling $ 4,269,168 (including bond proceeds and additional funds). Of this amount, $ 2,945,486 was used to refund the Series 1993 Bonds, $ 853,288 was used to prepay notes payable to GEFA, $ 382,500 was used to fund the Debt Service Reserve account for the Series 2005 Bonds, $ 78,331 was used to pay issuance costs of the Series 2005 Bonds, and $ 9,563 was transferred to the Debt Service account.

The bond resolution requires several funds and accounts to facilitate the operation of the system and provide for servicing the bond obligation. The Revenue Fund is used as the depository for all revenues derived from the ownership and operation of the system. Costs of operating, maintaining and repairing the system are paid from the Revenue Fund. A Sinking Fund is maintained to provide for payment of the principal and interest of the bonds. A monthly deposit is made to the Debt Service Account in amounts sufficient to fully fund the next ensuing payment of principal and interest. The Debt Service Account deposit requirement was $ 221,936 at December 31, 2009. Deposits in the Debt Service Account at December 31, 2009 totaled $ 230,379. The resolution also requires a Debt Service Reserve account to be maintained equal to the debt service requirements of the bonds. The debt service requirements of the bonds totaled $ 382,500. At December 31, 2009, deposits in the Debt Service Reserve Account totaled $ 383,702.

NOTE 6 - LONG-TERM DEBT (Continued)

Deposits held in the Revenue Fund exceeding sixty days working capital are to be paid to the Renewal and Extension Fund on an annual basis. These funds are to be used for (1) debt service in the event the Sinking Fund does not have sufficient money; (2) an emergency having a major affect on the system; (3) making replacements, additions, extensions, improvements, and acquiring equipment deemed to be reasonable and in the best interest of the City and County; (4) payment of amounts drawn under a surety bond; or (5) payment of the charges of any depository for investment services.

In addition, the bond resolution requires the Commission to maintain charges for services sufficient to operate and maintain the system, maintain required reserves, and provide net revenues of at least 115% of the debt service requirements of the Series 2005 Bonds and 100% of the debt service requirements on the Bonds plus any and all other obligations of the Commission payable from the revenues of the System.

All requirements of the bond resolution were met for the year ended December 31, 2009.

The bonds are revenue bonds and are not considered debts of either the City of Thomson or McDuffie County, Georgia. The bonds are secured by the net revenues of the system, the Sinking Fund Account and the Revenue Fund.

Issuance Costs and Discounts

Cost incurred to issue the Series 2005 bonds totaled $ 78,331. Issuance costs are being amortized over the life of the bonds using the straight-line method. Unamortized issuance costs and discounts related to the Series 1993 Bonds totaled $ 39,606 and are being amortized over the life of the new bonds. Amortization of bond related costs and discounts totaled $ 9,435 for the years ended December 31, 2009 and 2008.

Annual requirements to amortize the Series 2005 Bonds outstanding as of December 31, 2009 are as follows:

Year Ending	Principal	Interest	Total
2010	$ 355,000	$ 88,871	$ 443,871
2011	365,000	76,020	441,020
2012	375,000	62,807	437,807
2013	390,000	49,232	439,232
2014	405,000	35,114	440,114
2015 thru 2019	565,000	31,132	596,132
Total	$ 2,455,000	$ 343,176	$ 2,798,176

The interest rate for the Series 2005 Bond issue was 3.620%. The Series 2005 Bonds can be redeemed at the option of the City and the County in whole or in part on any date from any moneys which may be available and deposited with the Paying Agent on or before the date fixed for redemption. The optional redemption will include payment of the principal amount of the Series 2005 Bonds to be redeemed and accrued interest to date of redemption, plus a premium. The premium will be the sum of fees calculated separately for each prepaid principal based on a formula set forth in the bond resolution.

Notes Payable

The following notes payable were incurred by the City of Thomson, Georgia and McDuffie County, Georgia as part of constructing new filtration systems at both water treatment facilities. Upon completion of the project the assets and the related liabilities were contributed to the Water/Sewer Commission. The Commission is responsible for servicing the debt with revenues from the water sewer system.

NOTE 6 - LONG-TERM DEBT (Continued)

In January 2007, the City of Thomson and McDuffie County each borrowed $ 1,410,210 from the Georgia Environmental Facilities Authority (GEFA). Proceeds of the loans were used to fund the filtration project and include construction period interest totaling $ 58,872. Repayment of the outstanding principal is to be made in 240 monthly payments of $ 15,764, including principal and interest computed at 3.00%. The final payment will be due February 1, 2028.

Annual debt service requirements to maturity for the notes payable are as follows:

Year Ending	Principal	Interest	Total
2010	$ 111,040	$ 78,128	$ 189,168
2011	114,418	74,750	189,168
2012	117,898	71,270	189,168
2013	121,484	67,684	189,168
2014	125,180	63,989	189,169
2015 thru 2019	685,377	260,464	945,841
2020 thru 2024	796,146	149,695	945,841
2025 thru 2028	583,325	29,428	612,753
Total	$ 2,654,868	$ 795,408	$ 3,450,276

Loan Closing Fees

The loan agreements required that the City and County each pay a two-percent loan closing fee. Total loan closing fees paid by the City and County was $ 56,408 and are being amortized over the life of the loans (240 months) using the straight-line method. Amortization of the loan closing cost totaled $ 2,821 for the year ended December 31, 2009.

Loan Advances

The City of Thomson and McDuffie County, Georgia have entered into a loan agreement with the Georgia Environmental Facilities Authority to each borrow $ 1,605,000 to expand the water treatment capacity of the Big Creek treatment facility and extend existing sewer lines. As of December 31, 2009, the City and County have each been advanced $ 814,237 on their respective loans for a total of $ 1,628,474. The advances on the loans are included in the noncurrent liabilities section of the Statements of Net Assets. The interest rate is 4.40%.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

Business-type activities	Balance 1-1-09	Additions	Reductions	Balance 12-31-09	Due Within One Year
Capital leases	$ 137,789	$ -	$ (32,723)	$ 105,066	$ 33,847
Revenue bonds payable	2,820,000	-	(365,000)	2,455,000	355,000
Notes payable	2,762,631	-	(107,763)	2,654,868	111,040
Loan advances	1,163,264	465,210	-	1,628,474	-
Business-type activities Long-term liabilities	$ 6,883,684	$ 465,210	$ (505,486)	$ 6,843,408	$ 499,887

NOTE 7 - DEFERRED CONTRACT COSTS

The Commission entered into a contract with the U. S. Department of the Army Corps of Engineers in 1990 to use 1,056 acre-feet of storage space in J. Strom Thurmond Dam and Reservoir. As a result of this contract, it is anticipated that the Commission will be able to utilize an additional four million gallons of water per day.

As part of the contract, the Commission made a lump-sum payment of $ 301,243. Amortization of this payment will be provided over the remaining life of the project. For the years ended December 31, 2009 and 2008, amortization expense related to this project totaled $ 7,531 per year. In addition to the above cost, the Commission is required to pay .074 percent of the annual experienced joint-use operation and maintenance expense of the project. The Commission will also be required to pay .074 percent of the joint-use cost associated with major replacement and rehabilitation program costs.

NOTE 8 - RETIREMENT PLAN

The Commission participates in the Georgia Municipal Employees Benefit System, (GMEBS) an agent multiple-employer retirement system that acts as a common investment and administrative agent for cities in the State of Georgia. The Commission's participation is conducted as part of the City of Thomson, Georgia's participation; the Commission does not maintain its own account status with the Georgia Municipal Employees Benefit System.

The Georgia Municipal Employees Benefit System (GMEBS) has notified management that they are implementing a new schedule for annual actuarial valuations and changes in annual contribution rates. As a result of this new schedule the actuarial valuations for the current plan year are not expected to be available until August-September 2010. The information provided below is based on the latest actuarial valuation dated January 1, 2009 and includes the Commission's, as well as, the City of Thomson's participation in the plan.

Plan Description

The City's defined benefit pension plan, (the Plan) provides retirement benefits to plan members and beneficiaries. Employees covered under the Plan include employees of the City and the McDuffie County/City of Thomson Water-Sewer Commission. The Plan is affiliated with the Georgia Municipal Employees Benefit System (GMEBS), a multiple-employer pension plan administered by the Board of Trustees of the GMEBS. The GMEBS issues a publicly available financial report that includes financial statements and required supplementary information of the Plan. The address of the GMEBS is 201 Pryor Street, SW, Atlanta, GA 30303, and their telephone number is 404-688-0472.

The City of Thomson established the Plan January 1, 1972 through an agreement adopting the GMEBS Master Plan and Joint Trust Agreement. The Adoption Agreement establishes the types of benefits available under the Plan and the City's obligations to contribute to the Plan. The City of Thomson has the right to amend any or all elections in the Adoption Agreement. The amendment must be approved by GMEBS, cannot reduce any previously accrued benefits of the participants or beneficiaries, cannot authorize or permit any part of the Trust Fund to be diverted to any purpose other than for the exclusive benefit of participants and their beneficiaries, and cannot deprive any participant or beneficiary of any rights or benefits irrevocably vested under the Plan.

GMEBS can amend the Master Plan or the elective provisions of the Adoption Agreement in its sole discretion as Trustee of the Plan. Any amendment by GMEBS must be approved by the City of Thomson as the adopting employer. The City cannot amend the Master Plan or the Joint Trust Agreement.

NOTE 8 - RETIREMENT PLAN (Continued)

All full-time employees, excluding officials, working at least 30 hours per week are eligible, and become fully vested after 10 years of service. Normal retirement age is 65 with a minimum of 5 years of service, and early retirement is age 55 with a minimum of 10 years total credited service. Monthly benefits are based on (a) the average annual earnings paid to a participant during any consecutive 5 year period preceding actual date of retirement in which the earnings were highest and (b) total years of service. The system also provides death and disability benefits.

As of December 31, 2008, there were ninety-one active participants, forty-seven retirees and beneficiaries receiving benefits, and twenty-seven terminated participants with deferred vested benefits. For the year ended December 31, 2008, there was no employer or related party securities or loans included in plan assets.

Summary of Significant Accounting Policies and Plan Asset Matters

The Pension Plan's financial statements are prepared on the accrual basis of accounting. Contributions are recognized as revenue in the period in which employees provide services. Investment income is recognized as earned by the pension plan. The net appreciation/depreciation in the fair value of investments held by the Plan is recorded as an increase/decrease to investment income based on valuation of investments as of the balance sheet date. Investment valuations are based on quoted market prices at the balance sheet date.

Funding Policy

The City is required to contribute at an actuarially determined rate; the rate for 2008 was 9.14% of annual covered payroll, and the rate for 2009 will be 15.94% of covered payroll. Total covered payroll was $ 2,842,832 and $ 2,775,740 for 2009 and 2008 and total payroll was $ 3,489,308 and $ 3,406,959, for 2009 and 2008. Employees do not contribute to the plan.

Annual Pension Cost

For 2008, the annual pension cost of $ 250,372 for the Plan was equal to the recommended annual contribution. The annual required contribution for the current year was determined as part of the January 1, 2009 actuarial valuation using the projected unit credit method. The actuarial assumptions included (a) 8.0% investment rate of return, (b) projected salary increases of 5.5% attributable to merit and seniority, (c) no cost of living adjustments, and (d) no post retirement increases.

Contributions are determined under the projected unit credit actuarial cost method and the asset valuation method for developing the actuarial value of assets. The period, and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years from 1982 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 are closed for this plan year.

There is no pension liability at the date of transition as determined in accordance with Statement No. 27 of the Governmental Accounting Standards Board. Accordingly, there is no difference in the pension liability currently reported and amounts previously reported for this plan.

The following schedule of employer contributions and schedule of funding progress for the Plan include employees of the City of Thomson, Georgia and the McDuffie County/City of Thomson, Georgia Water and Sewer Commission.

NOTE 8 - RETIREMENT PLAN (Continued)

Schedule of Employer Contributions

Year Ended	Annual Pension Cost (APC)	% APC Funded	Net Pension Obligation
December 31, 1993	$ 104,699	100%	None
December 31, 1994	$ 99,482	100%	None
December 31, 1995	$ 90,727	100%	None
December 31, 1996	$ 117,354	100%	None
December 31, 1997	$ 123,448	100%	None
December 31, 1998	$ 117,558	100%	None
December 31, 1999	$ 94,361	100%	None
December 31, 2000	$ 90,703	100%	None
December 31, 2001	$ 102,568	100%	None
December 31, 2002	$ 131,666	100%	None
December 31, 2003	$ 186,692	100%	None
December 31, 2004	$ 208,736	100%	None
December 31, 2005	$ 229,890	100%	None
December 31, 2006	$ 240,900	100%	None
December 31, 2007	$ 238,696	100%	None
December 31, 2008	$ 250,372	100%	None

Schedule of Funding Progress for the Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (Funding Excess) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Funding Excess) as a % of Covered Payroll ((b-a)/c)
01/01/94	$ 1,605,055	$ 1,779,674	$ 174,619	90.2%	$ 1,155,935	15.1%
01/01/95	$ 1,642,249	$ 1,741,836	$ 99,587	94.3%	$ 1,318,064	7.5%
01/01/96	$ 1,864,536	$ 2,017,348	$ 152,812	92.4%	$ 1,595,948	9.6%
01/01/97	$ 1,933,299	$ 2,124,547	$ 191,248	91.0%	$ 1,697,220	11.3%
01/01/98	$ 2,176,425	$ 2,239,217	$ 62,792	97.2%	$ 1,818,812	3.5%
01/01/99	$ 2,719,434	$ 2,393,700	$ (325,734)	113.6%	$ 1,784,577	(18.3%)
01/01/00	$ 2,931,878	$ 2,651,347	$ (280,531)	110.6%	$ 1,814,450	(15.5%)
01/01/01	$ 3,148,907	$ 2,940,816	$ (208,091)	107.1%	$ 1,988,052	(10.5%)
01/01/02	$ 3,317,375	$ 3,291,305	$ (26,070)	100.8%	$ 2,246,049	(1.1%)
01/01/03	$ 3,291,482	$ 3,611,180	$ 319,698	91.1%	$ 2,594,302	12.3%
01/01/04	$ 3,533,233	$ 3,905,186	$ 371,953	90.5%	$ 2,638,147	14.1%
01/01/05	$ 3,794,735	$ 4,305,729	$ 510,994	88.1%	$ 2,610,741	19.6%
01/01/06	$ 4,058,371	$ 4,615,680	$ 557,309	87.93%	$ 2,577,074	21.63%
01/01/07	$ 4,406,496	$ 4,799,189	$ 392,693	91.82%	$ 2,841,294	13.82%
01/01/08	$ 4,775,585	$ 5,276,374	$ 500,789	90.51%	$ 2,755,740	18.17%
01/01/09	$ 4,029,890	$ 5,787,798	$ 1,757,908	69.63%	$ 2,858,076	61.51%

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description, Contribution Information and Funding Policies

In addition to providing pension benefits, the Commission provides certain health care benefits for retired employees as per a personnel policy adopted December 7, 1992. Substantially all of the Commission's employees may become eligible for those benefits if they reach normal retirement age while working for the Commission.

Benefits are available to all employees who have attained the age sixty-two (62) while working for the City, and have a minimum of twenty-five (25) years of full time service upon retirement. Benefits continue in effect until the retirees reach the age of 65 at which time the retiree can convert to Medicare or any other plan as desired. The City funds 100% of the retirees' premium and the benefits are underwritten by the City's regular health care provider. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans.

The cost of these benefits is recognized as an expenditure on a pay-as-you-go basis. As of year end, there were no retired employees that were receiving benefits for the year.

Annual OPEB costs and Net OPEB Obligation

The Commission first had an actuarial valuation performed for the plan as of December 31, 2008 to determine the funded status of the plan as of that date as well as the employer's annual required contribution (ARC) for the fiscal year ended December 31, 2009. The Commission's annual OPEB cost of $37,540 is equal to the ARC for the initial reporting year since the transition liability was set at zero as of December 31, 2008. The Commission's annual OPEB costs and the net OPEB obligation for December 31, 2009 was as follows (information for prior years is not available as the actuarial valuation was performed for the first time as of December 31, 2008):

Employer normal costs	$ 26,783
Amortization of UAAL*	10,028
Annual required contribution (ARC	36,811
Interest on net obligation	729
Annual OPEB costs	37,540
Contributions made	-
Net OPEB obligation - end of year	$ 37,540

* Unfunded actuarial accrued liabilities (UAAL) were amortized over 30 years.

The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009:

Fiscal Year	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2009	$ 37,540	0.00 %	$ 37,540

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Funded Status and Funding Progress

The funded status of the plan as of December 31, 2009, was as follows:

Actuarial accrued liability	$	351,833
Accrued value of plan assets		-
Unfunded actuarial accrued liability	$	351,833
Funded ratio		0.00%
Covered payroll	$	2,842,832
Unfunded actuarial accrued liability as a percentage of payroll		12.4%

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events well into the future. Examples would include assumptions about future employment, rates of retirement, mortality, and health care cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

In the December 31, 2008 actuarial valuation, the projected unit credit cost method was used. The UAAL amortization payment is the level dollar amount required to fully amortize the UAAL over a 30 year period. The actuarial assumptions included 2.72% rate of investment return. The valuation assumes a 7.5% health and dental care trend inflation rate for 2009 and decreases 0.5% each year until 2014, and thereafter 5.0% was assumed.

NOTE 10 - RISK MANAGEMENT

The Commission is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to minimize the total cost of workman's compensation and property and liability insurance, the Commission is a member of Georgia Interlocal Risk Management Agency Fund (GIRMA), and the Georgia Municipal Association (GMA) Self-insured Workman's Compensation Fund. The Commission pays an annual premium to these Funds through GIRMA and GMA. The Commission retains the first $ 1,000 of each risk of loss in the form of a deductible. All claims are filed with GIRMA and GMA who bills the Commission for any risk of loss up to the deductible amount.

As part of their agreement, the Commission must assist and cooperate in the defense and settlement of claims against the Commission. The Commission must furnish full cooperation with GIRMA's and GMA's attorneys, claims adjusters, and any agent or independent contractor of GIRMA and GMA. In addition, the Commission must report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in GIRMA and GMA or any Fund established by GIRMA and GMA being required to pay a claim for loss or injuries to municipal property or injuries to persons or property when such loss or injury is within the scope of the protection of a Fund or Funds in which the Commission participates. The Commission is required to use due diligence to avoid or diminish any loss covered under the agreement.

NOTE 10 - RISK MANAGEMENT (Continued)

As a condition of coverage, GIRMA and GMA can request that the Commission assist in effecting settlements, securing and giving evidence, obtaining witnesses in the conduct of suits, and providing of written statements for the purposes of investigation, defense, and mitigation of claims. GIRMA and GMA are responsible for payment of all claims covered under the agreement. The maximum liability for any one occurrence or claim is the maximum limit of liability as specified in the policies less the amount of stated deductibles.

NOTE 11 - CONTINGENT LIABILITIES

Federal and State Grants

The Commission receives federal and state financial assistance through various grant programs that are passed through the City of Thomson, McDuffie County, and the Town of Dearing, Georgia. The grant programs are subject to audit by the granting agency to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

Litigation

As of December 31, 2009, the McDuffie County/City of Thomson, Georgia Water and Sewer Commission was not involved in any pending or threatened litigation.

NOTE 12 - COMMITMENTS/SUBSEQUENT EVENTS

McDuffie County, Georgia is currently completing construction on various water/sewer projects in outlying areas of the County. Funding for these projects is provided in part by the United States Department of Agriculture (USDA) through grants and loans. The loans require that the County maintain ownership of these systems upon completion. The Water Sewer Commission has committed to operate and maintain these systems once they go into service. Revenues generated from these “Special Districts” will be remitted to the County and the County will pay a “management fee” to the Water Sewer Commission for operations and maintenance. Construction is scheduled for completion in 2009.

As of December 31 2009, the Commission had completed the expansion of the Big Creek Water Treatment Facility and had substantially completed the construction of assorted sewer collection lines. Total construction cost incurred for the Big Creek expansion totaled $ 6,012,776 which included SPLOST proceeds totaling $ 4,849,512 and GEFA loan proceeds totaling $ 1,163,264. As of December 31, 2009 the Commission had incurred construction cost related to the sewer collection lines totaling $ 474,230 which is comprised of $ 9,020 in SPLOST proceeds and $ 465,210 in GEFA loan proceeds.

The final advances on the City and County GEFA loans on the Big Creek Water Treatment Facility and sewer collection lines were received in March 2010 and final terms of the note repayment were established. Principal advances and accrued interest through April 1, 2010 on each of the loans totaled $ 839,833 and $ 39,228, respectively for a total repayment amount on each of the loans of $ 879,061. Repayment terms require 240 monthly payments of $ 5,514, including principal and interest at 4.40%. The first payment was due May 1, 2010 with the final payment being due April 1, 2030.

REQUIRED SUPPLEMENTARY INFORMATION
MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
SCHEDULE OF FUNDING PROGRESS
OTHER POST EMPLOYMENT BENEFITS PLAN

The Commission's annual Other Post Employment Benefits Plan (OPEB) cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	$37,540	0.00%	$37,540

Funded status and Funding Progress

The funded status of the plan as of December 31, 2009 was as follows:

Actuarial accrued liability	$351,833
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	$351,833
Funded ratio	0.00%
Covered payroll	$2,842,832
Unfunded actuarial accrued liability as a percentage of covered payroll	12.40%

OTHER AUDITORS' REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS

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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*

McDuffie County/City of Thomson, Georgia
Water and Sewer Commission
Thomson, Georgia

We have audited the financial statements of the McDuffie County/City of Thomson, Georgia Water and Sewer Commission as of and for the year ended December 31, 2009, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated June 30, 2010. 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 the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control such that there is reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the organization, Commissioners, federal awarding agencies, and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Greenwood, South Carolina
June 30, 2010

Elliott Davis, LLC