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

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

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elliott davis

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the McDuffie County/City of Thomson, Georgia Water and Sewer Commission (the "Commission") as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis and schedule of funding progress - other post-employment benefit plan as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2013 on our consideration of the Commission'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* in considering the Commission's internal control over financial reporting and compliance.

Elliott Davis, LLC

Greenwood, South Carolina
June 27, 2013

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, 2012

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, 2012.

Financial Highlights

- The assets of the Commission exceeded its liabilities at the close of the most recent fiscal year by $ 29,637,900 (net position). Of this amount, $ 2,745,430 (unrestricted net position) may be used to meet the Commission's ongoing obligations to citizens and creditors.

- The Commission's total net position increased by $ 869,105 during 2012.

- For the year ended December 31, 2012, the Commission experienced a net loss from operations of $ 56,571. This loss includes non-cash operating expenses such as depreciation, amortization, and allowances for bad debts totaling $ 1,168,008 and expenses related to other post employment benefits (OPEB) totaling $ 45,409. Non-operating revenues increased by $ 506,946, primarily due to an increase in funding from special purpose local option sales tax. Capital contributions increased by $ 595,662. Non-operating expenses increased by $ 60,972.

- The Commission's total debt increased by $ 5,721,157 due to the assumption and refinancing of all Commission, McDuffie County, Georgia, and Town of Dearing, Georgia water sewer related debt.

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 Position-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 position.* Over time, increases or decreases in net position 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 Position-Proprietary Funds*, which reports how the Commission's net position 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 12 – 17 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 20 of this report.

Financial Analysis of the Commission as a Whole

As noted earlier, net position may serve over time, as a useful indicator of whether the financial position of the Commission is improving or deteriorating. As of December 31, 2012, assets exceeded liabilities by $ 29,637,900 (net position).

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

NET POSITION

	2012		2011	2010
		Percentage of Total		
Assets				
Current assets	$ 2,921,969	7.01%	$ 2,207,583	$ 2,254,010
Restricted assets	149,629	0.36%	607,591	602,210
Deferred charges	265,709	0.64%	246,081	265,867
Capital assests, net of accumulated depreciation	38,327,845	91.99%	32,203,576	33,104,172
Total assets	41,665,152	100.00%	35,264,831	36,226,259
Liabilities				
Other liabilities	540,292	4.49%	1,098,636	1,062,864
Long-term liabilities	11,486,960	95.51%	5,397,400	5,948,609
Total liabilities	12,027,252	100.00%	6,496,036	7,011,473
Net position				
Net investment in capital assets	26,742,841	90.23%	26,339,729	26,667,987
Restricted for debt service	149,629	0.51%	607,591	602,210
Unrestricted	2,745,430	9.26%	1,821,475	1,944,589
Total net position	$ 29,637,900	100.00%	$ 28,768,795	$ 29,214,786

Total net position increased by $ 869,105 during 2012. By far the largest portion of the Commission's net position (90.23 percent) reflects its investment in capital assets (e.g. land, buildings, plant and facilities, equipment, water capacity rights, 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 position totaling $ 149,629 (.51 percent) represents resources that are restricted for debt service. The remaining net position totaling $ 2,745,430 (9.26 percent) is unrestricted and as such, 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, 2012, unrestricted current assets totaled $ 2,921,969, an increase of $ 714,386 from 2011. The increase is attributable to an increase in cash on deposit of $ 376,887, intergovernmental receivables of $ 281,508, accounts receivable of $ 52,473, and inventories and prepaid items totaling $ 4,555 which were offset by a decrease in interest receivable of $ 1,037.

Restricted assets decreased by $ 457,962 during 2012 due to the refinancing of long-term debt and changes in restrictive covenants prescribed by the bond document.

Deferred charges increased by $ 19,628 due to an increase in bond issuance costs of $ 85,208 less current year amortization of deferred charges totaling $ 65,580.

Other liabilities, amounts due and payable within the next year including current maturities of long-term debt, totaled $ 540,292 as of December 31, 2012, which represents a decrease of $ 558,344 from 2011. The decrease consists of decreases in the current portion of long-term debt and accrued interest thereon of $ 366,624 and intergovernmental payables totaling $ 204,157 which were offset by increases in accounts payable, accrued expenses, and customer deposits totaling $ 12,437.

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

CHANGES IN NET POSITION

	2012	2011	2010
Revenues			
Operating revenues			
Charges for services	$ 4,263,459	$ 4,063,782	$ 4,089,315
Non-operating revenues			
Capital contributions	634,486	38,824	600,000
Special local option sales tax	577,176	39,921	200,584
Other	7,150	37,459	20,014
Total revenues	5,482,271	4,179,986	4,909,913
Expenses			
Operating expenses	4,320,030	4,393,813	4,176,300
Non-operating expenses			
Interest and amortization of bond costs	293,136	232,164	233,308
Total expenses	4,613,166	4,625,977	4,409,608
Increase (decrease) in net position	869,105	(445,991)	500,305
Net position, beginning of year	28,768,795	29,214,786	28,714,481
Net position, end of year	$ 29,637,900	$ 28,768,795	$ 29,214,786

Revenues for charges and services increased in 2012 by $ 199,677, which represents an increase of approximately 5 percent.

Capital contributions totaled $ 634,486 for the year ended December 31, 2012 and are comprised of capital assets contributed by the City of Thomson, Georgia upon completion of two Community Development Block Grants (CDBG) for construction of sewer facilities. Total costs of the two projects contributed totaled $ 371,225 and $ 263,261.

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 and 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. Total funding received from SPLOST during 2012 was $ 577,176, which included capital projects at the wastewater treatment and fresh water treatment plants totaling $ 490,394, as well as local matching funds and other waterline upgrades totaling $ 86,782.

Other non-operating revenues decreased by $ 30,309 which is attributable to a decrease in insurance claims of $ 26,650 and a decrease in interest income earned on investments of $ 3,659.

Operating expenses decreased by $ 73,783 in 2012. This decrease includes reductions in costs for personal services and benefits of $ 49,465, repairs and maintenance of $ 66,111, other purchased services of $ 31,591, intergovernmental payments of $ 23,847, and supplies and other costs of $ 46,401. These decreases were offset with a net increase in professional and technical services, depreciation, amortization, and bad debt expense totaling $ 143,632.

Capital Assets

The Commission's investment in capital assets as of December 31, 2012 totaled $ 38,327,845 (net of accumulated depreciation) which represents a net increase of $ 6,124,269. This investment in capital assets includes land, buildings, plant and facilities, equipment, service vehicles, construction in progress, and water capacity rights.

The Commission assumed all water sewer related debts of McDuffie County, Georgia and the Town of Dearing, Georgia in exchange for exclusive use of the underlying assets and all future revenues derived therefrom. The exclusive rights granted to the Commission totaled $ 6,083,014, which represents the total debt assumed net of cash contributed by the County and Dearing. These rights are described as "water capacity rights" and are accounted for as capital assets in accordance with GASB 51 *Accounting and Financial Reporting for Intangible Assets*. Water capacity rights are being amortized using the straight-line method. Amortization of water capacity rights totaled $ 97,719 for the year.

Construction in progress as of December 31, 2012 totaled $ 667,074 which represents an increase of $ 476,412 over 2011. The Commission incurred $ 506,320 in additional construction costs in 2012 and completed construction projects totaling $ 29,908.

Transfers from construction in progress and other capital asset additions include sewer line upgrade projects totaling $ 634,486, upgrades to water lines and meters totaling $ 29,908, and purchase of a service truck totaling $ 15,886.

These projects were funded with SPLOST proceeds, capital grants, and revenues from operations. Funding for the completed projects is comprised of SPLOST proceeds totaling $ 100,764, capital grants totaling $ 563,630, and water sewer revenues totaling $ 15,886.

Fully depreciated capital assets with an original cost basis of $ 12,500 were disposed of in 2012.

Annual depreciation expense recorded in 2012 totaled $ 1,115,437.

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

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

Debt Administration

On August 31, 2012, the City of Thomson, Georgia and McDuffie County, Georgia passed a joint resolution calling for the issuance of water and sewerage revenue refunding bonds (Series 2012A and Series 2012B) to refinance all existing water sewer related debt of the Commission, McDuffie County, Georgia, (the "County") and the Town of Dearing, Georgia ("Dearing"). Total debt refinanced was $ 11,481,017, after equity contributions of $ 1,245,238 from the Commission and County. Existing Commission debt refinanced totaled $ 4,884,892; County debt assumed totaled $ 5,809,800 and Dearing debt assumed totaled $ 786,325. Bond issuance costs, discounts, and unamortized charges from prior refundings totaled $ 328,983. Total proceeds from the new bond issue were $ 11,810,000.

The resolution called for the Commission to assume all water sewer related debt of the County and Dearing totaling $ 5,809,800 and $ 786,325, respectively. Restrictions in existing grant and loan agreements precluded the transfer of the underlying capital assets to the Commission. Accordingly, in exchange for the assumption of debt, the Commission received exclusive rights to use of the underlying capital assets and all future revenues derived therefrom. In addition, the County and Dearing were required to remit to the Commission all funds held in their respective water sewer operating, reserve, and debt service accounts not otherwise applied to the refinancing. The excess of debt assumed over cash received and offset of other intergovernmental payables totaled $ 6,083,014 and is recorded as water capacity rights on the statements of net position.

As of December 31, 2012, the principal balance of the Series 2012A bonds was $ 9,870,000 and the principal balance of the Series 2012B bonds was $ 1,940,000. There was no other outstanding debt as of December 31, 2012.

Prior to the refinancing, principal payments on the existing bonds totaled $ 375,000 for the year and interest paid totaled $ 109,134. Principal payments on notes payable totaled $ 133,114 and interest paid totaled $ 106,451. Principal payments on capital leases totaled $ 36,212 and interest paid totaled $ 724. Amortization of bond issuance costs, discounts, and prior unamortized charges reported as interest expense totaled $ 24,154.

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

The Water and Sewer Commission is committed to providing its customers with high quality drinking water, reliable sewage delivery systems, and facilities to treat wastewater in a safe and responsible manner. This commitment is demonstrated in the commission's efforts to provide operator training and certification, monitoring of the systems inflows and outflows, evaluation of existing systems, and exploring new technologies to enhance and improve its delivery systems.

While many state and local governments face legal challenges to water rights and struggle with the possibility of shortages in water supply, the Commission has planned for and positioned itself with an ample source of water for generations to come. The Commission's two water treatment plants provide quality drinking water for a large majority of McDuffie County residents. Additional revenues are generated through agreements with other local governments to purchase a limited amount of water from the system. These agreements provide a cost effective means of providing water to households and industries that might not have been available otherwise.

The Commission fully understands that access to adequate, reliable, and well maintained water sewer systems is a key component in attracting new industries and residential developments to the community. Water and sewer services have been extended to a large majority of the local industrial parks and major improvements have been made to many residential neighborhoods throughout the service area. These expansions and improvements have been funded in large part by capital grants that do not have to be repaid, low interest loans with extended repayment terms, and special local option sales tax that is funded in large part by individuals living outside of the community. The Commission, along with its participating local governments, actively pursues available low cost funding sources for future expansion and improvements to the system.

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.

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FINANCIAL STATEMENTS

McDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
STATEMENTS OF NET POSITION-PROPRIETARY FUNDS

	Business-type Activities-Enterprise Fund	
	2012	2011
ASSETS		
Current assets		
Cash	$ 2,081,058	$ 1,704,171
Restricted cash	110,425	223,888
Accounts receivable (net of allowance for uncollectibles of $ 231,184 for 2012 and $ 186,144 for 2011)	474,702	422,229
Interest receivable	1,297	2,334
Intergovernmental receivable	330,373	48,865
Inventories	12,390	11,833
Prepaid items	22,149	18,151
Total current assets	3,032,394	2,431,471
Noncurrent assets		
Restricted cash	39,204	383,703
Total restricted assets	39,204	383,703
Deferred charges		
Debt issuance costs	130,152	102,993
Water contracts	135,557	143,088
Total deferred charges	265,709	246,081
Capital assets		
Land	221,034	221,034
Buildings and improvements	18,321	18,321
Plant and facilities	46,318,765	45,654,371
Machinery and equipment	942,836	942,836
Autos and trucks	594,291	590,905
Construction in progress	667,074	190,662
Water capacity rights	6,083,014	-
Less accumulated depreciation	(16,517,490)	(15,414,553)
Total capital assets (net of accumulated depreciation)	38,327,845	32,203,576
Total noncurrent assets	38,632,758	32,833,360
Total assets	41,665,152	35,264,831

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McDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
STATEMENTS OF NET POSITION-PROPRIETARY FUNDS

	Business-type Activities-Enterprise Fund	
	2012	2011
LIABILITIES		
Current liabilities		
Accounts payable	83,510	78,656
Customer deposits	119,830	117,802
Intergovernmental payable	1,514	205,671
Accrued expenses	68,961	63,406
Accrued interest payable	-	12,226
Current portion of capital lease payable	-	36,212
Current portion of notes payable	-	178,259
Current portion of bonds payable	116,848	-
Current liabilities payable from restricted assets		
Current portion of revenue bonds payable	149,629	375,000
Accrued interest payable	-	31,404
Total current liabilities	540,292	1,098,636
Noncurrent liabilities		
Revenue bonds payable	11,318,527	1,360,000
Notes payable	-	3,914,376
Net OPEB obligation	168,433	123,024
Total noncurrent liabilities	11,486,960	5,397,400
Total liabilities	12,027,252	6,496,036
NET POSITION		
Net investment in capital assets	26,742,841	26,339,729
Restricted for debt service	149,629	607,591
Unrestricted	2,745,430	1,821,475
Total net position	$ 29,637,900	$ 28,768,795

The notes to the financial statements are an integral part of this statement.

McDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS

	Business-type Activities-Enterprise Fund	
	2012	2011
OPERATING REVENUES		
Charges for sales and services		
Water and sewer sales	$ 3,777,277	$ 3,439,854
Penalties	94,479	85,794
Other services	391,703	538,134
Total operating revenues	4,263,459	4,063,782
OPERATING EXPENSES		
Personal services and benefits	1,487,119	1,536,584
Professional and technical services	54,046	48,715
Repairs and maintenance	267,108	333,219
Other purchased services	620,709	652,300
Supplies	533,873	536,142
Intergovernmental	181,165	205,012
Other	8,002	52,134
Depreciation	1,115,437	1,016,871
Amortization	7,531	7,531
Bad debts	45,040	5,305
Total operating expenses	4,320,030	4,393,813
Operating loss	(56,571)	(330,031)
NON-OPERATING REVENUES (EXPENSES)		
Special local option sales tax	577,176	39,921
Insurance claims	4,745	31,395
Interest income	2,405	6,064
Interest expense	(240,463)	(219,909)
Amortization of bond and loan issuance costs	(52,673)	(12,255)
Total non-operating revenues (expenses)	291,190	(154,784)
Income (loss) before contributions	234,619	(484,815)
CAPITAL CONTRIBUTIONS	634,486	38,824
Change in net position	869,105	(445,991)
NET POSITION, BEGINNING OF YEAR	28,768,795	29,214,786
NET POSITION, END OF YEAR	$ 29,637,900	$ 28,768,795

The notes to the financial statements are an integral part of this statement.

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McDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
STATEMENTS OF CASH FLOWS-PROPRIETARY FUNDS

	Business-type Activities-Enterprise Fund	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	$ 4,151,340	$ 4,097,787
Payments to suppliers	(1,670,121)	(1,829,702)
Payments to employees	(1,431,275)	(1,496,606)
Net cash provided by operating activities	1,049,944	771,479
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from insurance claims	-	7,120
Proceeds from intergovernmental funds received	44,716	-
Net cash provided by noncapital financing activities	44,716	7,120
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from special local option sales tax	577,176	39,921
Proceeds from insurance claims	4,745	24,275
Purchase and construction of assets	(522,206)	(77,451)
Payments on long-term debt	(978,955)	(572,337)
Interest paid	(259,937)	(227,175)
Net cash used in capital and related financing activities	(1,179,177)	(812,767)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,442	8,499
Net cash provided by investing activities	3,442	8,499
Net decrease in cash	(81,075)	(25,669)
Cash, beginning of year	2,311,762	2,337,431
Cash, end of year	$ 2,230,687	$ 2,311,762
CASH PER STATEMENT OF NET POSITION		
Cash	$ 2,081,058	$ 1,704,171
Restricted cash-current	110,425	223,888
Restricted cash-noncurrent	39,204	383,703
	$ 2,230,687	$ 2,311,762

(Continued)

McDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
STATEMENTS OF CASH FLOWS-PROPRIETARY FUNDS

	Business-type Activities-Enterprise Fund	
	2012	2011
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	$ (56,571)	$ (330,031)
Adjustments to reconcile net operating loss to net cash provided by operating activities:		
Depreciation	1,115,437	1,016,871
Amortization	7,531	7,531
Other post employment benefits (OPEB)	45,409	38,408
(Increase) decrease in current assets		
Accounts receivable	(52,473)	19,511
Intergovernmental receivable	46,361	(8,538)
Inventory	(557)	2,888
Prepaid expenses	(3,998)	(919)
Increase (decrease) in current liabilities		
Accounts payable	4,854	(9,666)
Intergovernmental payables	(63,632)	30,599
Customer deposits	2,028	6,009
Accrued expenses	5,555	(1,184)
Total adjustments	1,106,515	1,101,510
Net cash provided by operating activities	$ 1,049,944	$ 771,479
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Contribution of capital assets from other government	$ 634,486	$ 38,824
Refinance long-term debt with proceeds from bond issue	4,884,893	-
Assumption of long-term debt in exchange for water capacity rights	6,083,014	-
Bond issuance costs funded with proceeds from bond issue	328,983	-
Total noncash investing, capital and financing activities	$ 11,931,376	$ 38,824

The notes to the financial statements are an integral part of this statement.

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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 adopted GASB Statement No. 20, *Accounting and Financial Reporting of Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, and 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

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. As of December 31, 2012 and 2011 unbilled receivables totaled $ 232,001 and $ 170,935, respectively.

Intergovernmental Receivables and Payables

The Water and Sewer Commission receives funding from federal, state, and local governments for capital projects and, operations. In addition, the Commission remits payment to the participating governments for the Commission's share of common operating costs. 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 greater 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012.

Depreciation of capital assets is charged as an expense against operations and accumulated depreciation is reported on the statement of net position. 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
Water capacity rights	5-20 years

Water capacity rights granted to the Commission for the exclusive use of other governmentally owned systems and revenues derived therefrom are accounted for as capital assets in accordance with GASB Statement Number 51 *Accounting and Financial Reporting for Intangible Assets*. Amortization is being provided for using the straight-line method.

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 $ 52,133 and $ 46,814 for the years ended December 31, 2012 and 2011, respectively. These amounts are included in accrued expenses on the statement of net position.

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 position. Bond issuance costs are being amortized over the life of the bonds using the effective interest rate method. Amortization expense is recorded as additional interest expense in accordance with GASB Statement Number 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. 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 statements of net position.

Net Position

In June 2011, the GASB approved Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement Number 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period. Concepts Statement Number 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amended the net asset reporting requirements in Statement Number 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Management does not expect the impact of this Statement to have a material effect on the Commission's financial statements.

The Commission's net position is classified as follows:

Net investment in capital assets: This represents the Commission's total investment in capital assets, net of debt related to those capital assets.

Restricted: This represents the net amount of assets subject to 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.

Unrestricted: This represents the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in any other category of net position.

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.

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 Covenants

As of December 31, 2012, management believes the Commission was 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, 2012, the carrying amount of the Commission's deposits was $ 2,230,687 and the bank balance totaled $ 2,196,612. Deposits of the Commission were fully collateralized as of year-end.

NOTE 3 - CASH (Continued)

Collateralization of the Commission's deposits as of December 31, 2012 is as follows:

Amount insured by FDIC	$ 600,000
Amount collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name	1,596,612
Total bank balance	$ 2,196,612

NOTE 4 - ACCOUNTS RECEIVABLE

As of December 31, 2012, accounts receivable totaled $ 474,702 net of an allowance for uncollectible accounts of $ 231,184 whereas, accounts receivable totaled $ 422,229 net of an allowance for uncollectible accounts of $ 186,144 as of December 31, 2011.

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2012, was as follows:

	Balance 1-1-12	Additions	Deletions	Balance 12-31-12
Capital assets not being depreciated				
Land	$ 221,034	$ -	$ -	$ 221,034
Construction in progress	190,662	506,320	(29,908)	667,074
Total capital assets not being depreciated	411,696	506,320	(29,908)	888,108
Capital assets being depreciated				
Buildings and improvements	18,321	-	-	18,321
Plant and facilities	45,654,371	664,394	-	46,318,765
Machinery and equipment	942,836	-	-	942,836
Autos and trucks	590,905	15,886	(12,500)	594,291
Water capacity rights	-	6,083,014	-	6,083,014
Total capital assets being depreciated	47,206,433	6,763,294	(12,500)	53,957,227
Less accumulated depreciation				
Buildings and improvements	(4,351)	(458)	-	(4,809)
Plant and facilities	(14,157,946)	(919,812)	-	(15,077,758)
Machinery and equipment	(702,094)	(70,063)	-	(772,157)
Autos and trucks	(550,162)	(27,385)	12,500	(565,047)
Water capacity rights	-	(97,719)	-	(97,719)
Less accumulated depreciation	(15,414,553)	(1,115,437)	12,500	(16,517,490)
Net capital assets being depreciated	31,791,880	5,647,857	-	37,439,737
Capital assets-net	$ 32,203,576	$ 6,154,177	$ (29,908)	$ 38,327,845

NOTE 5 - CAPITAL ASSETS (Continued)

Capital assets activity for the year ended December 31, 2011, was as follows:

	Balance 1-1-11	Additions	Deletions	Balance 12-31-11
Capital assets not being depreciated				
Land	$ 221,034	$ -	$ -	$ 221,034
Construction in progress	190,552	39,922	(39,812)	190,662
Total capital assets not being depreciated	411,586	39,922	(39,812)	411,696
Capital assets being depreciated				
Buildings and improvements	18,321	-	-	18,321
Plant and facilities	45,554,018	100,353	-	45,654,371
Machinery and equipment	943,719	-	(883)	942,836
Autos and trucks	588,086	15,812	(12,993)	590,905
Total capital assets being depreciated	47,104,144	116,165	(13,876)	47,206,433
Less accumulated depreciation				
Buildings and improvements	(3,893)	(458)	-	(4,351)
Plant and facilities	(13,243,230)	(914,716)	-	(14,157,946)
Machinery and equipment	(630,601)	(72,376)	883	(702,094)
Autos and trucks	(533,834)	(29,321)	12,993	(550,162)
Less accumulated depreciation	(14,411,558)	(1,016,871)	13,876	(15,414,553)
Net capital assets being depreciated	32,692,586	(900,706)	-	31,791,880
Capital assets-net	$ 33,104,172	$ (860,784)	$ (39,812)	$ 32,203,576

Depreciation expense totaled $ 1,115,437 for the year ended December 31, 2012 and $ 1,016,871 for the year ended December 31, 2011.

Generally accepted accounting principles require that interest expenditures incurred during construction of assets be capitalized and that 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) should include capitalized interest only to the extent that interest cost exceeds interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowing. No interest was capitalized during the years ended December 31, 2012 and 2011.

NOTE 6 - LONG-TERM DEBT

Capital Leases

The Commission entered into various lease agreements as lessee for financing the acquisition of various capital assets. The original principal on all leases totaled $ 169,950. The leases called for quarterly payments of principal and interest at 3.39%. The final maturity date of the leases was December 2012. Total principal payments on the leases for 2012 were $ 36,212 and interest thereon totaled $ 724. All capital leases were paid off as of year-end.

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	(119,230)
Total	$ 50,720

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 and expansion of the sewer system. Each of these notes were paid off in 2012 with proceeds from the Series 2012A Bonds as discussed below.

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 was to be made in 240 monthly payments of $ 15,764, including principal and interest computed at 3.00%. Total principal paid during 2012 was $ 2,429,410.

The City of Thomson and McDuffie County, Georgia entered into a loan agreement with the Georgia Environmental Facilities Authority to each borrow $ 879,061 to expand the water treatment capacity of the Big Creek treatment facility and extend existing sewer lines. Proceeds of the loans were used to fund the expansion of the water treatment facility and extension of existing sewer line and include construction period interest totaling $ 78,456. Repayment of the outstanding principal was to be made in 240 monthly payments of $ 11,028, including principal and interest computed at 4.40%. Total principal paid during 2012 was $ 1,663,225.

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. The unamortized balance of $ 42,776 was written off upon loan payoff in 2012. Amortization of the loan closing cost totaled $ 45,597 for 2012 and $ 2,820 for 2011 and is included in amortization of bond and loan issuance costs in the non-operating section of the statements of revenues, expenses, and changes in net position.

Advance Refunding and Prepayment of Other Long-Term Debt

On August 31, 2012 it was resolved, by way of a joint resolution of the City of Thomson, Georgia (the “City”) and McDuffie County, Georgia (the “County”), that due to present market conditions and in order to restructure the existing debt service on all water sewer system indebtedness that all of the outstanding Series 2005 Bonds be refunded through an advance refunding resulting in defeasance of the Series 2005 Bonds. To achieve substantial debt service savings it was further resolved to prepay certain promissory notes in favor of the Georgia Environmental Finance Authority (GEFA), bonds issued by the County to Rural Development, U.S.D.A, (“Rural Development”) and bonds issued by the Town of Dearing, Georgia (“Dearing”) to Rural Development.

NOTE 6 - LONG-TERM DEBT (Continued)

Refunding of the 2005 Series Bonds and prepayment of other debts was accomplished by the issuance of City of Thomson, Georgia and McDuffie County Water and Sewerage Revenue Refunding Bonds, Series 2012A Bonds (the "Series 2012A Bonds"), totaling $ 9,870,000 and issuance of City of Thomson, Georgia and McDuffie County Water and Sewerage Taxable Revenue Refunding Bonds, Series 2012B Bonds (the "Series 2012B Bonds"), totaling $ 1,940,000, and additional funds provided by the Commission and County totaling $ 1,245,238.

The Commission advance refunded the existing bonds and prepaid other long-term debt to shorten the debt repayment schedule by 15 years, resulting in debt service savings of approximately $ 4,568,674 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $ 1,177,259.

Series 2005 Revenue Bonds Payable

On August 31, 2012, the City and County refunded all of the outstanding Series 2005 Bonds, maturing on July 1, 2018 with an aggregate principal balance of $ 1,360,000, resulting in defeasance of the Series 2005 Bonds. A portion of the proceeds from the Series 2012B Bonds, totaling $ 1,006,574, along with sinking fund and debt service reserve funds, totaling $ 458,006 were deposited with Regions Bank, as Escrow Agent. These funds were used to acquire certain direct obligations of the United States of America in amounts sufficient to fully refund the Series 2005 Bonds outstanding for 2013 thru 2018. With provisions having been duly and legally made for the acquisition of all the Series 2005 Bonds, the 2005 Resolution is null and void and all liens created thereunder on the net revenues of the System are fully and completely discharged.

The reacquisition price of the Series 2005 Bonds totaled $ 1,464,580 and the net carrying amount of the Series 2005 Bonds was $ 1,309,680 at the refunding date. The net difference of $ 154,900 represents deferred charges on debt refunding and is shown as a component of bonds payable on the statements of net position. Amortization of deferred charges on debt refunding is being provided for over the life of the Series 2012B Bonds (4.75 years) using the effective interest rate method. Amortization of deferred charges on debt refunding totaled $ 15,104 for the year ended December 31, 2012 and is included in interest expense on the statements of revenues, expenses, and changes in fund net position.

Series 2012A Revenue Bonds Payable

On August 31, 2012, the City and County issued *City of Thomson, Georgia and McDuffie County Water and Sewerage Revenue Refunding Bonds, Series 2012A* in the principal amount of $ 9,870,000. Proceeds of the Series 2012A Bonds were used to prepay notes payable to the Georgia Environmental Facilities Authority (GEFA), bonds issued by the County and Dearing to Rural Development, and to pay expenses related to the issuance of the Series 2012A Bonds.

Proceeds from the Series 2012A Bonds, after discounts of $ 70,906, totaled $ 9,799,094. Of this amount, $ 3,970,130 was used to prepay notes payable to GEFA, $ 4,920,857 and $ 786,325 was used to refund bonds issued by the County and Dearing to Rural Development, $ 111,296 was used to pay issuance costs of the Series 2012A Bonds, and $ 10,486 was transferred to the Thomson-McDuffie Sinking Fund.

The initial interest payment on the Series 2012A Bonds, due January 1, 2013, was prepaid. Future interest payments are payable semiannually on the 1st days of January and July of each year. The initial principal payment is due July 1, 2013 and on the 1st day of July of each year with the final payment being due July 1, 2033.

NOTE 6 - LONG-TERM DEBT (Continued)

Series 2012B Revenue Bonds Payable

On August 31, 2012, the City and County issued *City of Thomson, Georgia and McDuffie County Water and Sewerage Taxable Revenue Refunding Bonds, Series 2012B* in the principal amount of $ 1,940,000. Proceeds of the Series 2012B Bonds were used to advance refund the Series 2005 Bonds and advance refund a portion of the County USDA Series 2008 Bonds, as well as, to pay expenses related to the issuance of the Series 2012B Bonds

Proceeds from the Series 2012B Bonds, after discounts of $ 17,967, totaled $ 1,922,033. The Commission and County provided additional funding of $ 458,006 and $ 800,000, respectively. Total funds provided to achieve the foregoing were $ 3,180,039. Of this amount $ 1,464,580 was used to advance refund the Series 2005 Bonds, $ 1,688,943 was used to refund a portion of the County USDA Series 2008 Bonds, $ 24,233 was used to pay issuance costs of the Series 2012B Bonds, and $ 2,283 was transferred to the Thomson-McDuffie Sinking Fund.

The initial interest payment on the Series 2012B Bonds, due January 1, 2013, was prepaid. Future interest payments are payable semiannually on the 1st days of January and July of each year. The initial principal payment is due July 1, 2013 and on the 1st day of July of each year with the final payment being due July 1, 2017.

Bond Covenants

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 consisting of two accounts designated as the “Debt Service Account” and “Reserve Account” 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 $ 187,556 at December 31, 2012. As of December 31, 2012 the balance in the Debt Service Account totaled $ 110,425 after payment of interest due January 1, 2013 totaling $ 77,556. The resolution stipulates that substantially equal monthly payments be deposited into the Reserve Account within 60 months from the date of issuance to create a reserve equal to the debt service reserve requirement on all bonds then outstanding. As of December 31, 2012 the required balance to be deposited into the Reserve Account was $ 38,000, whereas actual deposits held in the Reserve Account totaled $ 39,204.

The resolution requires that a “Renewal and Extension Fund” be maintained with a balance equal to at least 10% of the operating expenses of the System for the preceding fiscal year. Total deposits held in the Renewal and Extension Account as of December 31, 2012 were $ 986,309, whereas the required minimum balance was $ 319,706. 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 120% of the debt service requirements of the Series 2012 Bonds.

Management believes all requirements of the bond resolution were met for the year ended December 31, 2012.

NOTE 6 - LONG-TERM DEBT (Continued)

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 2012A Bonds and Series 2012B Bonds totaled $ 111,296 and $ 24,233, respectively. Bond discounts on the Series 2012A Bonds totaled $ 70,906, whereas bond discounts attributable to the Series 2012B Bonds totaled $ 17,967. Unamortized deferred charges related to the Series 2005 refunding totaled $ 154,900. Issuance cost, bond discounts, and deferred charges are being amortized over the life of the bonds using the effective interest rate method. Amortization of bond costs and discounts attributable to the 2012 Bonds totaled $ 24,154 for the year ended December 31, 2012 and is included in interest expense in the statements of revenues, expenses, and changes in net position. Amortization of Series 2005 Bond cost, prior to refunding, totaled $ 7,076 and is included in amortization of bond and loan issuance costs in the non-operating section of the statements of revenues, expenses, and changes in net position.

Annual requirements to fully amortize the Series 2012A and Series 2012B bonds outstanding as of December 31, 2012 are as follows:

Year Ending	Principal	Interest	Total
2013	$ 330,000	$ 226,067	$ 556,067
2014	465,000	293,723	758,723
2015	470,000	289,072	759,072
2016	475,000	283,902	758,902
2017	480,000	277,252	757,252
2018 thru 2022	2,555,000	1,236,063	3,791,063
2023 thru 2027	2,925,000	862,613	3,787,613
2028 thru 2032	3,375,000	415,793	3,790,793
2033	735,000	22,050	757,050
	$ 11,810,000	$ 3,906,535	$ 15,716,535

The Series 2012A Bonds maturing on or after July 1, 2023, may be redeemed prior to their respective maturities at the option of the City and the County on or after July 1, 2022, in whole or in part at any time, at the redemption price of par plus accrued interest to the redemption date. The Series 2012B Bonds are not subject to optional redemption prior to maturity.

The Series 2012A Bonds maturing on July 1, 2031 are subject to mandatory redemption on July 1, 2030 and 2031. Series 2012A Bonds maturing on July 1, 2033 are also subject to mandatory redemption on July 1, 2032 and 2033.

NOTE 6 - LONG-TERM DEBT (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Balance 1-1-12	Additions	Reductions	Balance 12-31-12	Due Within One Year
Capital leases	$ 36,212	$ -	$ (36,212)	$ -	$ -
Notes payable	4,092,635	-	(4,092,635)	-	-
Revenue bonds payable	1,735,000	11,810,000	(1,735,000)	11,810,000	330,000
Less deferred amount on refunding	-	(154,900)	15,104	(139,796)	(53,596)
Less bond discounts	-	(88,873)	3,673	(85,200)	(9,927)
Revenue bonds payable-net	1,735,000	11,566,227	(1,716,223)	11,585,004	266,477
Long-term liabilities	$ 5,863,847	$ 11,566,227	$ (5,845,070)	$ 11,585,004	$ 266,477

NOTE 7 - WATER CONTRACTS

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 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, 2012 and 2011, 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. The additional costs associated with the contract totaled $ 1,516 and $ 2,935 for the years ended December 31, 2012 and 2011, respectively.

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.

Actuarial valuations are done as of July 1 of each year and are based on a twelve month period. Payment of the recommended contribution to the Plan, as determined in the July 1 valuation, will begin January 1 of the following year.

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.

NOTE 8 - RETIREMENT PLAN (Continued)

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.

All full-time employees, excluding officials, working at least 20 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 July 1, 2012, the most recent valuation date, there were ninety-three active participants, fifty retirees and beneficiaries receiving benefits, and thirty-four terminated participants with deferred vested benefits. There were 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 2011 was 10.69% of annual covered payroll, and the rate for 2012 will be 10.90% of covered payroll. Total covered payroll was $ 3,059,653 and $ 2,992,897 for 2012 and 2011. Total payroll was $ 3,413,736 for 2012 and $ 3,485,767 for 2011. Employees do not contribute to the plan.

Annual Pension Cost

For 2012, the annual pension cost of $ 325,620 for the Plan was equal to the recommended annual contribution. The annual required contribution for the current year was determined as part of the July 1, 2011 actuarial valuation using the projected unit credit method. The actuarial assumptions included (a) 7.75% investment rate of return, (b) projected salary increases of 3.5% 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.

NOTE 8 - RETIREMENT PLAN (Continued)

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.

Schedule of Employer Contributions

Fiscal Year	Annual Pension Cost (APC)	% APC Funded	Net Pension Obligation
1993	$ 104,699	100%	None
1994	$ 99,482	100%	None
1995	$ 90,727	100%	None
1996	$ 117,354	100%	None
1997	$ 123,448	100%	None
1998	$ 117,558	100%	None
1999	$ 94,361	100%	None
2000	$ 90,703	100%	None
2001	$ 102,568	100%	None
2002	$ 131,666	100%	None
2003	$ 186,692	100%	None
2004	$ 208,736	100%	None
2005	$ 229,890	100%	None
2006	$ 240,900	100%	None
2007	$ 238,696	100%	None
2008	$ 250,372	100%	None
2009	$ 301,733	100%	None
2010	$ 318,390	100%	None
2011	$ 335,009	100%	None
2012	$ 325,620	100%	None

NOTE 8 - RETIREMENT PLAN (Continued)

Schedule of Funding Progress for the Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Acturial Accrued Liability (AAL) Entry Age (b)	Unfunded (Funding Excess) AAL (UAAL) (b-a)	Funded Ration (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	90.19%	$ 1,155,935	15.11%
01/01/95	$ 1,642,249	$ 1,741,836	$ 99,587	94.28%	$ 1,318,064	7.56%
01/01/96	$ 1,864,536	$ 2,017,348	$ 152,812	92.43%	$ 1,595,948	9.57%
01/01/97	$ 1,933,299	$ 2,124,547	$ 191,248	91.00%	$ 1,697,220	11.27%
01/01/98	$ 2,176,425	$ 2,239,217	$ 62,792	97.20%	$ 1,818,812	3.45%
01/01/99	$ 2,719,434	$ 2,393,700	$ (325,734)	113.61%	$ 1,784,577	-18.25%
01/01/00	$ 2,931,878	$ 2,651,347	$ (280,531)	110.58%	$ 1,814,450	-15.46%
01/01/01	$ 3,148,907	$ 2,940,816	$ (208,091)	107.08%	$ 1,988,052	-10.47%
01/01/02	$ 3,317,375	$ 3,291,305	$ (26,070)	100.79%	$ 2,246,049	-1.16%
01/01/03	$ 3,291,482	$ 3,611,180	$ 319,698	91.15%	$ 2,594,302	12.32%
01/01/04	$ 3,533,233	$ 3,905,186	$ 371,953	90.48%	$ 2,638,147	14.10%
01/01/05	$ 3,794,735	$ 4,305,729	$ 510,994	88.13%	$ 2,610,741	19.57%
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%
01/01/10	$ 5,384,062	$ 6,137,390	$ 753,328	87.73%	$ 3,128,809	24.08%
01/01/11	$ 5,660,066	$ 6,439,099	$ 779,033	87.90%	$ 2,992,897	26.03%
01/01/12	$ 5,969,848	$ 6,784,233	$ 814,385	88.00%	$ 3,059,653	26.62%

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description, Contribution Information and Funding Policies

In addition to providing pension benefits, the Commission participates in a single-employer defined benefit healthcare plan (“the Retiree Health Plan”) administered by the City of Thomson. The Retiree Health Plan provides certain health and dental care benefits for certain retired employees as per a personnel policy adopted December 7, 1992. Substantially all of the City’s employees may become eligible for those benefits if they reach normal retirement age while working for the Commission. Benefit provisions are established and amended solely at the discretion of the elected City Council. The Retiree Health Plan does not issue a publicly available report.

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. There were four retired employees that received benefits during 2012.

Annual OPEB costs and Net OPEB Obligation

The Commission has elected to calculate information of an actuarial nature using the alternative measurement method permitted by GASB 43 for plans with fewer than 100 employees.

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

The Commission's annual OPEB costs and the net OPEB obligation for December 31, 2012 was as follows (information prior to 2009 is not available since the actuarial valuation was first performed as of December 31, 2008):

	2012	2011
Employer normal costs	$ 39,211	$ 30,652
Amortization of UAAL	17,360	11,654
Annual required contribution (ARC)	56,571	42,306
Interest on net obligation	406	1,151
Annual OPEB costs	56,977	43,457
Contributions made	(11,568)	(5,049)
	45,409	38,408
Net OPEB obligation-beginning of year	123,024	84,616
Net OPEB obligation-end of year	$ 168,433	$ 123,024

* 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 are as follows:

Fiscal Year	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2009	$ 37,540	0.00%	$ 37,540
2010	$ 49,374	4.65%	$ 84,616
2011	$ 43,457	11.62%	$ 123,024
2012	$ 56,977	20.30%	$ 168,433

Schedule of Funding Progress for the Plan

Fiscal Year	Actuarial Accrued Liability (AAL) (a)	Accrued Value of Plan Assets (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((a-b)/c)
2009	$ 351,833	$ -	$ 351,833	0.00%	$ 861,892	40.82%
2010	$ 351,833	$ -	$ 351,833	0.00%	$ 907,105	38.79%
2011	$ 351,833	$ -	$ 351,833	0.00%	$ 866,368	40.61%
2012	$ 491,806	$ -	$ 491,806	0.00%	$ 858,206	57.31%

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

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 actuarial valuation, the projected unit credit cost method was used. The UAAL amortization payment is the level percent of payroll required to fully amortize the UAAL over a 30 year closed period. The actuarial assumptions included 0.33% rate of investment return. The valuation assumes a 9.5% health and dental care trend inflation rate for 2012 and decreases 1.0% each year until 2015, then 0.5% decrease in 2016 and 2017, and thereafter a 5.0% rate 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.

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.

For those risks covered by insurance, claims did not exceed coverage during the past three years.

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, 2012, 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

The Commission has committed to various improvements to the water sewer system that are expected to be completed within the next one to two years. Among them are upgrades to the water filtration system at the Augusta Road water treatment plant and upgrades to the waste water treatment plant. The cost of the filtration system is expected to be $ 250,000 and cost associated with the waste water treatment improvements is estimated to be $ 1,000,000. Both projects are being funded with proceeds from SPLOST. Construction has begun on these projects. As of December 31, 2012, costs incurred on the Augusta Road water treatment plant project totaled $ 176,663 and costs incurred on the waste water treatment plant project totaled $ 395,641.

Other projects funded with SPLOST proceeds and included in construction in progress at year end include evaluation of Usry Pond water intake and watershed assessment totaling $ 10,580 and $ 84,190, respectively.

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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 required contribution (ARC), the percent funded, and the actual contribution are as follows:

Fiscal Year Ended	Annual Required Contribution	Percent Funded	Actual Contribution
2009	$ 37,540	0.00%	$ -
2010	48,607	4.73%	2,298
2011	42,306	11.93%	5,049
2012	56,571	20.45%	11,568

Funded Status and Funding Progress

The funded status of the plan is as follows:

Valuation Date	Fiscal Year Ended	Actuarial Accrued Liability (AAL) (a)	Accrued Value of Plan Assets (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((a-b)/c)
2009	2009	$ 351,833	$ -	$ 351,833	0.00%	$ 861,892	40.82%
2009	2010	351,833	-	351,833	0.00%	907,105	38.79%
2009	2011	351,833	-	351,833	0.00%	866,368	40.61%
2012	2012	491,806	-	491,806	0.00%	858,206	57.31%

OTHER AUDITOR'S REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS

elliott davis

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the McDuffie County/City of Thomson, Georgia Water and Sewer Commission (the "Commission"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated June 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's, internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Elliott Davis, LLC

Greenwood, South Carolina
June 27, 2013

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