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

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
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DECEMBER 31, 2014 AND 2013

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INDEPENDENT AUDITOR'S REPORT

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elliott davis decosimo

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 business-type activities of the McDuffie County/City of Thomson, Georgia Water and Sewer Commission (the "Commission") as of and for the years ended December 31, 2014 and 2013, 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 the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Commission as of December 31, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress - retirement plan, 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 30, 2015 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 Decosimo, LLC

Augusta, Georgia
June 30, 2015

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, 2014

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, 2014.

Financial Highlights

- Total assets and deferred outflows of resources of the Commission exceeded its liabilities at the close of the most recent fiscal year by $ 29,239,268 (net position). Of this amount, $ 2,291,835 (unrestricted net position) may be used to meet the Commission's ongoing obligations to citizens and creditors.
- The Commission's total net position decreased by $ 355,066 during 2014.
- For the year ended December 31, 2014, the Commission experienced a net loss from operations of $ 548,477. This loss includes non-cash operating expenses such as depreciation, amortization, and allowances for bad debts totaling $ 1,344,127 and expenses related to other post employment benefits (OPEB) totaling $ 30,111. Non-operating revenues decreased by $ 659,720, primarily due to a reduction in funding from special purpose local option sales tax. Capital contributions increased by $ 356,683. Non-operating expenses decreased by $ 14,863.
- The Commission's total debt decreased by $ 455,038.

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 deferred outflows of resources and liabilities and deferred inflows of resources, 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 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 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, 2014, assets and deferred outflows of resources exceeded liabilities by $ 29,239,268 (net position).

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

NET POSITION

	2014		2013	2012
		Percentage of Total		
Assets				
Current assets	$ 2,685,295	6.59%	$ 2,835,439	$ 2,921,969
Restricted assets	578,629	1.42%	424,129	149,629
Water contracts	120,495	0.30%	128,026	135,557
Capital assests, net of accumulated depreciation	37,339,260	91.69%	38,045,217	38,327,845
Total assets	40,723,679	100.00%	41,432,811	41,535,000
Deferred outflows of resources	33,575	100.00%	66,740	109,390
Liabilities				
Other liabilities	789,724	6.86%	745,297	589,342
Long-term liabilities	10,728,262	93.14%	11,159,920	11,577,141
Total liabilities	11,517,986	100.00%	11,905,217	12,166,483
Net position				
Net investment in capital assets	26,368,804	90.18%	26,706,358	26,713,000
Restricted for debt service	578,629	1.98%	424,129	149,629
Unrestricted	2,291,835	7.84%	2,463,847	2,615,278
Total net position	$ 29,239,268	100.00%	$ 29,594,334	$ 29,477,907

Total net position decreased by $ 355,066 during 2014. By far the largest portion of the Commission's net position (90.18 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 $ 578,629 (1.98 percent) represents resources that are restricted for debt service. The remaining net position totaling $ 2,291,835 (7.84 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, 2014, unrestricted current assets totaled $ 2,685,295, a decrease of $ 150,144 from 2013. The decrease is attributable to a decrease in cash of $ 174,763, accounts receivable $ 27,650, and inventories of $ 1,200 which were offset by increases in intergovernmental receivables of $ 51,087, interest receivable of $ 1,443, and prepaid items of $ 939.

Restricted assets held under covenants prescribed by the bond document increased by $ 154,500 during 2014.

Unamortized charges on debt refunding, reported as a deferred outflow of resources, on the statements of net position, decreased by $ 33,165 in 2014. This decrease represents the current year amortization of those charges.

Other liabilities, amounts due and payable within the next year including current maturities of long-term debt, totaled $ 789,724 as of December 31, 2014, which represents an increase of $ 44,427 from 2013. The increase consists of increases in accounts payable of $ 28,973, intergovernmental payables of $ 5,461, customer deposits and accrued expenses of $ 3,262, and an increase in the current portion of long-term debt of $ 6,731.

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

CHANGES IN NET POSITION

	2014	2013	2012
Revenues			
Operating revenues			
Charges for services	$ 4,281,122	$ 4,327,277	$ 4,263,459
Non-operating revenues			
Capital contributions	356,683	-	634,486
Special local option sales tax	166,612	828,429	577,176
Other	4,640	2,543	7,150
Total revenues	4,809,057	5,158,249	5,482,271
Expenses			
Operating expenses	4,829,599	4,692,435	4,320,030
Non-operating expenses			
Interest expense	334,524	349,387	233,882
Bond issuance costs	-	-	135,529
Total expenses	5,164,123	5,041,822	4,689,441
Increase (decrease) in net position	(355,066)	116,427	792,830
Net position, beginning of year	29,594,334	29,477,907	28,685,077
Net position, end of year	$ 29,239,268	$ 29,594,334	$ 29,477,907

Revenues for charges and services decreased in 2014 by $ 46,155, which represents a decrease of approximately 1.07 percent.

Capital contributions for the year ended December 31, 2014 totaled $ 356,683. The City of Thomson contributed sewer facilities with a cost basis of $ 339,730 to the Commission upon completion of a Community Development Block Grant (CDBG). In addition, the Commission was awarded a non-capital grant totaling $ 16,953 from the Georgia Department of Natural Resources Environmental Protection Division to develop a watershed management plan for Brier Creek.

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 2014 was $ 166,612, which included capital projects at the wastewater treatment plant totaling $ 132,022 and at the Big Creek fresh water intake totaling $ 34,590.

Other non-operating revenues increased by $ 2,097 which is attributable to an increase in interest income earned on investments of $ 1,647 and an increase in insurance claims of $ 450.

Operating expenses increased by $ 137,164 in 2014. This increase includes additional costs for professional and technical services of $ 11,150, repairs and maintenance of $ 42,243, other purchased services of $ 37,043, supplies of $ 72,054, depreciation of $ 14,868, and bad debts of $ 4,668. These increases were offset with a net decrease in personnel services and benefits, intergovernmental expenses, and other expenses totaling $ 44,862.

Capital Assets

The Commission's investment in capital assets as of December 31, 2014 totaled $ 37,339,260 (net of accumulated depreciation) which represents a net decrease of $ 705,957. This investment in capital assets includes land, buildings, plant and facilities, equipment, service vehicles, construction in progress, and water capacity rights.

During 2012, 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 $ 293,157 for the year and is reported as part of depreciation expense in the financial statements.

Construction in progress as of December 31, 2014 totaled $ 234,767 which represents an increase of $103,866 over 2013. The Commission incurred $ 174,587 in additional construction costs in 2014 and completed construction projects totaling $ 70,721.

Transfers from construction in progress and other capital asset additions include replacement of a fresh water raw intake pump totaling $ 34,590, upgrades to various water sewer lines totaling $ 73,803, and the purchase of a service truck, other equipment, and drilling of ground-water monitoring wells totaling $65,222. In addition, the City transferred sewer facilities costing $339,730 to the Commission upon completion of Community Development Block Grant (CDBG).

These projects were funded with SPLOST proceeds, capital grants, and revenues from operations. Funding for the completed projects is comprised of SPLOST proceeds totaling $ 70,721, water sewer revenues totaling $ 102,894, and intergovernmental transfers of $ 339,730.

No capital assets were disposed of in 2014.

Annual depreciation expense, including amortization of water capacity rights discussed above, recorded in 2014 totaled $ 1,323,168.

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

Additional information on capital assets can be found in Note 4 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 $ 345,881. 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, 2014, the principal balance of the Series 2012A bonds was $ 9,870,000 and the principal balance of the Series 2012B bonds was $ 1,145,000. There was no other outstanding debt as of December 31, 2014.

Additional information on long-term debt can be found in Note 5 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.

FINANCIAL STATEMENTS

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

	Business-type Activities-Enterprise Fund	
	2014	2013
ASSETS		
Current assets		
Cash	$ 2,072,253	$ 2,247,016
Restricted cash	235,425	232,925
Accounts receivable (net of allowance for uncollectibles of $ 250,736 for 2014 and $ 239,944 for 2013)	517,562	545,212
Interest receivable	3,418	1,975
Intergovernmental receivable	55,623	4,536
Inventories	13,847	15,047
Prepaid items	22,592	21,653
Total current assets	2,920,720	3,068,364
Noncurrent assets		
Restricted cash	343,204	191,204
Water contracts	120,495	128,026
Capital assets		
Land	221,034	221,034
Buildings and improvements	18,321	18,321
Plant and facilities	48,302,054	47,847,331
Machinery and equipment	988,614	960,013
Autos and trucks	613,708	583,687
Construction in progress	234,767	130,901
Water capacity rights	6,083,014	6,083,014
Less accumulated depreciation	(19,122,252)	(17,799,084)
Total capital assets (net of accumulated depreciation)	37,339,260	38,045,217
Total noncurrent assets	37,802,959	38,364,447
Total assets	40,723,679	41,432,811
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized charges on debt refunding	33,575	66,740
Total assets and deferred outflows	40,757,254	41,499,551

(Continued)

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

	Business-type Activities-Enterprise Fund	
	2014	2013
LIABILITIES		
Current liabilities		
Accounts payable	112,332	83,359
Customer deposits	128,652	125,414
Intergovernmental payable	9,816	4,355
Accrued expenses	77,154	77,130
Current portion of bonds payable	-	30,910
Current liabilities payable from restricted assets		
Current portion of revenue bonds payable	461,770	424,129
Total current liabilities	789,724	745,297
Noncurrent liabilities		
Revenue bonds payable	10,488,791	10,950,560
Net OPEB obligation	239,471	209,360
Total noncurrent liabilities	10,728,262	11,159,920
Total liabilities	11,517,986	11,905,217
NET POSITION		
Net investment in capital assets	26,368,804	26,706,358
Restricted for debt service	578,629	424,129
Unrestricted	2,291,835	2,463,847
Total net position	$ 29,239,268	$ 29,594,334

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	
	2014	2013
OPERATING REVENUES		
Charges for sales and services		
Water and sewer sales	$ 4,109,660	$ 4,155,752
Penalties	88,641	88,010
Other services	82,821	83,515
Total operating revenues	4,281,122	4,327,277
OPERATING EXPENSES		
Personnel services and benefits	1,572,620	1,576,453
Professional and technical services	55,199	44,049
Repairs and maintenance	342,296	300,053
Other purchased services	696,375	659,332
Supplies	644,211	572,157
Intergovernmental	158,710	173,975
Other	16,061	41,825
Depreciation	1,323,168	1,308,300
Amortization	7,531	7,531
Bad debts	13,428	8,760
Total operating expenses	4,829,599	4,692,435
Operating loss	(548,477)	(365,158)
NON-OPERATING REVENUES (EXPENSES)		
Special local option sales tax	166,612	828,429
Insurance claims	450	-
Interest income	4,190	2,543
Interest expense	(334,524)	(349,387)
Total non-operating revenues (expenses)	(163,272)	481,585
Income (loss) before contributions	(711,749)	116,427
CAPITAL CONTRIBUTIONS	356,683	-
Change in net position	(355,066)	116,427
NET POSITION, BEGINNING OF YEAR	29,594,334	29,477,907
NET POSITION, END OF YEAR	$ 29,239,268	$ 29,594,334

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	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	$ 4,303,118	$ 4,251,559
Payments to suppliers	(1,937,088)	(1,793,703)
Payments to employees	(1,537,024)	(1,524,516)
Net cash provided by operating activities	829,006	933,340
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from intergovernmental funds received	14,800	327,869
Proceeds from insurance claims	450	-
Net cash provided by noncapital financing activities	15,250	327,869
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from special local option sales tax	113,142	828,429
Purchase and construction of assets	(224,011)	(1,025,672)
Payments on long-term debt	(465,000)	(330,000)
Interest paid	(291,397)	(295,373)
Net cash used in capital and related financing activities	(867,266)	(822,616)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	2,747	1,865
Net cash provided by investing activities	2,747	1,865
Net (decrease) increase in cash	(20,263)	440,458
Cash, beginning of year	2,671,145	2,230,687
Cash, end of year	$ 2,650,882	$ 2,671,145
CASH PER STATEMENT OF NET POSITION		
Cash	$ 2,072,253	$ 2,247,016
Restricted cash-current	235,425	232,925
Restricted cash-noncurrent	343,204	191,204
	$ 2,650,882	$ 2,671,145

(Continued)

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

	Business-type Activities-Enterprise Fund	
	2014	2013
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	$ (548,477)	$ (365,158)
Adjustments to reconcile net operating loss to net cash provided by operating activities:		
Depreciation	1,323,168	1,308,300
Amortization	7,531	7,531
Other post employment benefits (OPEB)	30,111	40,927
(Increase) decrease in current assets		
Accounts receivable	27,650	(70,510)
Intergovernmental receivable	4,536	(2,032)
Inventory	1,200	(2,657)
Prepaid expenses	(939)	496
Increase (decrease) in current liabilities		
Accounts payable	(24,497)	(151)
Intergovernmental payables	5,461	2,841
Customer deposits	3,238	5,584
Accrued expenses	24	8,169
Total adjustments	1,377,483	1,298,498
Net cash provided by operating activities	$ 829,006	$ 933,340
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Contribution of capital assets from other government	$ 339,730	$ -
Total noncash investing, capital and financing activities	$ 339,730	$ -

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.

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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.

E. Assets, Liabilities, and Net Position

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

All receivables are reported at their net realizable value. The Commission uses the allowance method for recording bad debts. The allowance for bad debt reserves for amounts owed from customers that have purchased services from the Commission and is determined by analysis of the year-end receivable balances for those accounts which the Commission believes will not be collected based on past history.

Unbilled utility service receivables are recorded at year end. As of December 31, 2014 and 2013 unbilled receivables totaled $ 219,955 and $ 241,147, 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.

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, 2014.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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 $ 41,868 and $ 51,647 for the years ended December 31, 2014 and 2013, respectively. These amounts are included in accrued expenses in 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. Bonds payable are reported net of applicable bond discounts which are amortized over the life of the bonds using the effective interest rate method. Amortization expense is recorded as additional interest expense.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The only item that qualifies for reporting in this category is deferred charges on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the Statements of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission does not have any reportable items in this category.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

In March 2012, GASB approved Statement Number 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of major fund classifications and limiting the use of the term deferred in the financial statement presentation. In addition, this Statement requires that bond issuance cost be expensed in the year incurred and that all years presented in the financial statements be restated to reflect the provisions of this Statement which are effective for financial statement periods beginning after December 15, 2012. The provisions of this statement were implemented January 1, 2013.

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 has 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 - 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, 2014, the carrying amount of the Commission's deposits was $ 2,650,882 and the bank balance totaled $ 2,656,661. As of December 31, 2013, the carrying amount of the Commission's deposits was $ 2,671,145 and the bank balance totaled $ 2,621,785.

(Continued)

NOTE 2 – CASH (Continued)

Deposits of the Commission were fully collateralized as of December 31, 2014 and 2013. Collateralization of the Commission's deposits as of December 31, 2014 and 2013 is as follows:

	2014	2013
Amount insured by FDIC	$ 500,000	$ 600,000
Amount collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name	2,156,661	2,021,785
Total bank balance	$ 2,656,661	$ 2,621,785

NOTE 3 - ACCOUNTS RECEIVABLE

As of December 31, 2014, accounts receivable totaled $ 517,562 net of an allowance for uncollectible accounts of $ 250,736 whereas, accounts receivable totaled $ 545,212 net of an allowance for uncollectible accounts of $ 239,944 as of December 31, 2013.

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2014, was as follows:

	Balance 12-31-13	Additions	Deletions	Balance 12-31-14
Capital assets not being depreciated				
Land	$ 221,034	$ -	$ -	$ 221,034
Construction in progress	130,901	174,587	(70,721)	234,767
Total capital assets not being depreciated	351,935	174,587	(70,721)	455,801
Capital assets being depreciated				
Buildings and improvements	18,321	-	-	18,321
Plant and facilities	47,847,331	454,723	-	48,302,054
Machinery and equipment	960,013	28,601	-	988,614
Autos and trucks	583,687	30,021	-	613,708
Water capacity rights	6,083,014	-	-	6,083,014
Total capital assets being depreciated	55,492,366	513,345	-	56,005,711
Less accumulated depreciation				
Buildings and improvements	(5,267)	(458)	-	(5,725)
Plant and facilities	(16,019,067)	(963,421)	-	(16,982,488)
Machinery and equipment	(833,704)	(53,570)	-	(887,274)
Autos and trucks	(550,170)	(12,562)	-	(562,732)
Water capacity rights	(390,876)	(293,157)	-	(684,033)
Less accumulated depreciation	(17,799,084)	(1,323,168)	-	(19,122,252)
Net capital assets being depreciated	37,693,282	(809,823)	-	36,883,459
Capital assets-net	$ 38,045,217	$ (635,236)	$ (70,721)	$ 37,339,260

(Continued)

NOTE 4 - CAPITAL ASSETS (Continued)

Capital assets activity for the year ended December 31, 2013, was as follows:

	Balance 12-31-12	Additions	Deletions	Balance 12-31-13
Capital assets not being depreciated				
Land	$ 221,034	$ -	$ -	$ 221,034
Construction in progress	667,074	828,429	(1,364,602)	130,901
Total capital assets not being depreciated	888,108	828,429	(1,364,602)	351,935
Capital assets being depreciated				
Buildings and improvements	18,321	-	-	18,321
Plant and facilities	46,318,765	1,528,566	-	47,847,331
Machinery and equipment	942,836	17,177	-	960,013
Autos and trucks	594,291	16,102	(26,706)	583,687
Water capacity rights	6,083,014	-	-	6,083,014
Total capital assets being depreciated	53,957,227	1,561,845	(26,706)	55,492,366
Less accumulated depreciation				
Buildings and improvements	(4,809)	(458)	-	(5,267)
Plant and facilities	(15,077,758)	(941,309)	-	(16,019,067)
Machinery and equipment	(772,157)	(61,547)	-	(833,704)
Autos and trucks	(565,047)	(11,829)	26,706	(550,170)
Water capacity rights	(97,719)	(293,157)	-	(390,876)
Less accumulated depreciation	(16,517,490)	(1,308,300)	26,706	(17,799,084)
Net capital assets being depreciated	37,439,737	253,545	-	37,693,282
Capital assets-net	$ 38,327,845	$ 1,081,974	$ (1,364,602)	$ 38,045,217

Depreciation expense totaled $ 1,323,168 for the year ended December 31, 2014 and $ 1,308,300 for the year ended December 31, 2013.

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, 2014 and 2013.

NOTE 5 - LONG-TERM DEBT

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 and 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.

(Continued)

NOTE 5 - 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 were 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 as restated pursuant to GASB 65 was $ 1,343,101 at the refunding date. The net difference of $ 121,479 represents unamortized charges on debt refunding and is shown, net of accumulated amortization, as a deferred outflow of resources on the Statements of Net Position in accordance with GASB 65. Amortization of unamortized 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 unamortized charges on debt refunding totaled $ 33,165 for the year ended December 31, 2014 and $ 42,650 for the year ended December 31, 2013 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.

Interest payments are payable semiannually on the 1st day of January and July of each year, whereas principal payments are due on the 1st day of July of each year with final payment being due July 1, 2033.

(Continued)

NOTE 5 - 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.

Interest payments are payable semiannually on the 1st day of January and July of each year, whereas principal payments are due on the 1st day of July of each year with 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 $ 379,536 at December 31, 2014. As of December 31, 2014 the balance in the Debt Service Account totaled $ 235,425 after payment of interest due January 1, 2015 totaling $ 144,236. 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, 2014 the required balance to be deposited into the Reserve Account was $ 342,000, whereas actual deposits held in the Reserve Account totaled $ 343,204.

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, 2014 were $ 1,530,822, whereas the required minimum balance was $ 349,890. 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 (the “bond rate covenant”).

The bond rate covenant was not met in 2014. For the year ended December 31, 2014, adjusted net revenues available for debt service totaled $ 786,412 and the total combined debt service requirement was $ 758,722 resulting in a debt service ratio of 104% (rounded). Failure to meet this covenant could result in any bondholder bringing appropriate legal action to compel the Commission to revise its rates to meet this requirement.

All other requirements of the bond resolution were met for the year ended December 31, 2014.

(Continued)

NOTE 5 - 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.

Bond Discounts and Unamortized Charges

Bond discounts on the Series 2012A Bonds totaled $ 70,906, whereas bond discounts attributable to the Series 2012B Bonds totaled $ 17,967. Unamortized charges related to the Series 2005 refunding totaled $ 121,479. Bond discounts and unamortized charges on refunding are being amortized over the life of the bonds using the effective interest-rate method. Amortization attributable to the 2012 Bonds totaled $ 43,127 and $ 54,015 for the years ended December 31, 2014 and 2013, respectively and is included in interest expense in 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, 2014 are as follows:

Year Ending	Principal	Interest	Total
2015	$ 470,000	$ 289,073	$ 759,073
2016	475,000	283,903	758,903
2017	480,000	277,252	757,252
2018	490,000	268,253	758,253
2019	500,000	258,453	758,453
2020 thru 2024	2,685,000	1,106,062	3,791,062
2025 thru 2029	3,095,000	689,250	3,784,250
2030 thru 2033	2,820,000	214,500	3,034,500
	$ 11,015,000	$ 3,386,746	$ 14,401,746

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.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Balance 12-31-13	Additions	Reductions	Balance 12-31-14	Due Within One Year
Revenue bonds payable	$ 11,480,000	$ -	$ (465,000)	$ 11,015,000	$ 470,000
Less bond discounts	(74,401)	-	9,962	(64,439)	(8,230)
Revenue bonds payable-net	11,405,599	-	(455,038)	10,950,561	461,770
Long-term liabilities	$ 11,405,599	$ -	$ (455,038)	$ 10,950,561	$ 461,770

NOTE 6 - 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, 2014 and 2013, 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 $ 1,585 and $ 1,714 for the years ended December 31, 2014 and 2013, respectively.

NOTE 7 - 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 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.

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.

(Continued)

NOTE 7 - RETIREMENT PLAN (Continued)

As of July 1, 2014, the most recent valuation date, there were eighty-seven active participants, fifty-six retirees and beneficiaries receiving benefits, and forty-one 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.

Annual Pension Cost

For 2014, the annual pension cost of $ 352,660 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, 2013 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) expected annual inflation rate of 3.5%, (d) no cost of living adjustments, and (e) 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.

Schedule of Employer Contributions

Fiscal Year	Annual Pension Cost (APC)	% APC Funded	Net Pension Obligation
2012	$ 325,620	100%	None
2013	$ 339,395	100%	None
2014	$ 352,660	100%	None

(Continued)

NOTE 7 - 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 Ratio (a/b)	Covered Payroll (c)	UAAL (Funding Excess) as a % of Covered Payroll ((b-a)/c)
07/01/12	$ 5,969,848	$ 6,784,233	$ 814,385	88.00%	$ 3,059,653	26.62%
07/01/13	$ 6,295,351	$ 7,165,820	$ 870,469	87.85%	$ 3,146,402	27.67%
07/01/14	$ 6,630,940	$ 7,501,329	$ 870,389	88.40%	$ 3,011,032	28.91%

The Schedule of Funding Progress - Retirement Plan, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 8 - 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 and affirmed by resolution of mayor and council on November 8, 2012. 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 2014.

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.

(Continued)

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

The Commission's annual OPEB costs and the net OPEB obligation for December 31, 2014 was as follows (information prior to 2009 is not available since the actuarial valuation was first performed as of December 31, 2008):

	2014	2013
Employer normal costs	$ 39,211	$ 39,211
Amortization of UAAL	17,360	17,360
Annual required contribution (ARC)	56,571	56,571
Interest on net obligation	691	556
Annual OPEB costs	57,262	57,127
Contributions made	(27,151)	(16,200)
	30,111	40,927
Net OPEB obligation-beginning of year	209,360	168,433
Net OPEB obligation-end of year	$ 239,471	$ 209,360

* 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
2012	$ 56,977	20.30%	$ 168,433
2013	$ 57,127	28.36%	$ 209,360
2014	$ 57,262	47.42%	$ 239,471

Funded Status and Funding Progress

The funded status of the plan as of December 31, 2014 and 2013 was as follows:

	2014	2013
Actuarial accrued liability	$ 491,806	$ 491,806
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability	$ 491,806	$ 491,806
Funded ratio	0.00%	0.00%
Covered payroll	$ 884,617	$ 946,209
Unfunded actuarial accrued liability as a percentage of covered payroll	55.60%	51.98%

(Continued)

NOTE 8 - 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. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities.

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 7.5% health and dental care trend inflation rate for 2014 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 9 - 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 10 - 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, 2014, the McDuffie County/City of Thomson, Georgia Water and Sewer Commission was not involved in any pending or threatened litigation.

NOTE 11 - COMMITMENTS/SUBSEQUENT EVENTS

The Commission is committed to evaluate, assess, and improve the water sewer system on a continuous basis. No material commitments have been approved as of the report date. Costs associated with various projects to maintain, relocate, and improve various systems totaled $ 234,767 as of December 31, 2014 and are included in construction in progress. These projects are funded with SPLOST proceeds and water sewer revenues. Projects currently in progress include evaluation of Usry Pond water intake, watershed assessment, wastewater sludge de-watering, and wastewater aeriation basin.

On May 20, 2014, citizens of McDuffie County, Georgia voted to extend the special purpose local option sales tax (SPLOST VI). The SPLOST VI referendum provides an additional $ 1,655,000 to be used for water sewer projects. Planned projects include additional improvements to the wastewater treatment plant totaling $ 1,175,000, grant matching funds for sewer main improvements totaling $ 250,000, and equipment purchases of $ 230,000.

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REQUIRED SUPPLEMENTARY INFORMATION

MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
SCHEDULE OF FUNDING PROGRESS
RETIREMENT PLAN

Funded Status and Funding Progress

The following 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. The funded status of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Acturial 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)
01/01/05	$ 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%
07/01/10	$ 5,384,062	$ 6,137,390	$ 753,328	87.73%	$ 3,128,809	24.08%
07/01/11	$ 5,660,066	$ 6,439,099	$ 779,033	87.90%	$ 2,992,897	26.03%
07/01/12	$ 5,969,848	$ 6,784,233	$ 814,385	88.00%	$ 3,059,653	26.62%
07/01/13	$ 6,295,351	$ 7,165,820	$ 870,469	87.85%	$ 3,146,402	27.67%
07/01/14	$ 6,630,940	$ 7,501,329	$ 870,389	88.40%	$ 3,011,032	28.91%

See the notes to the financial statements for the actuarial methods and significant assumptions used to determine the funded status of the plan.

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

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%
2012	2013	$ 491,806	$ -	$ 491,806	0.00%	$ 946,209	51.98%
2012	2014	$ 491,806	$ -	$ 491,806	0.00%	$ 884,617	55.60%

See the notes to the financial statements for the actuarial methods and significant assumptions used to determine the funded status of the plan.

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OTHER AUDITOR'S REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS

elliott davis decosimo

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 business-type activities of the McDuffie County/City of Thomson, Georgia Water and Sewer Commission (the "Commission"), as of and for the year ended December 31, 2014, 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 30, 2015.

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 opinions 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 entity'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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* which is described in the accompanying schedule of findings and responses as item 2014-001.

Commission's Response to the Finding

The Commission's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Decosimo, LLC

Augusta, Georgia
June 30, 2015

MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2014

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiency identified?	None Reported
Noncompliance material to financial statements noted?	Yes

II. FINANCIAL STATEMENT FINDINGS

2014-001 – Noncompliance with bond rate covenant requirement

***Condition and Criteria*:** The Commission was not in compliance with its bond rate covenant requirement as of December 31, 2014. The bond rate covenant requires the Commission to maintain rates, fees, and charges to provide net revenues (revenue after payment of reasonable and necessary expenses of operating, maintaining, and repairing the system, but excluding depreciation, amortization, and interest expense) equal to 120% of the principal and interest payments required to be made during the year.

Effect: The Commission was not in compliance with the bond rate covenant requirement as of December 31, 2014.

Cause: The Commission was aware of the policy, however rates that were already approved to be implemented in 2013 were projected to result in a slight annual decrease in net revenues of approximately $100,000. The rate adjustments also included a projected modest increase in the customer base which has not been met to date. The water revenues were also affected by decreased usage resulting from wetter than normal summers in 2013 and 2014.

Auditor's Recommendation: The Commission should reevaluate its rates to be in compliance with the covenant requirement.

View of Responsible Officials and Planned Corrective Action: The Commission understands the deficiency as reported and agrees the Commission was not in compliance with the covenant requirement as of December 31, 2014. Management has already submitted preliminary calculations on the ratios to the financial institution to make them aware of the deficiency. Management is also in the process of performing a rate study for upcoming capital projects and will consider these requirements in its analysis.

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