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

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
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DECEMBER 31, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
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, 2019, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents. The basic financial statements of the business-type activities of the Commission, as of December 31, 2018, were audited by other auditors whose report dated June 28, 2019, expressed an unmodified opinion on those statements.

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

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 McDuffie County/City of Thomson, Georgia Water and Sewer Commission as of December 31, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of New Accounting Standard

As described in Note 9 to the financial statements, the Commission adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective January 1, 2018. The opinion of the prior year auditors was not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net pension liability and related ratios – retirement plan, schedule of contributions – retirement plan, and schedule of changes in the total OPEB liability and related ratios – other postemployment benefits 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 inquires, 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 October 23, 2020 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.



Thomson, Georgia
October 23, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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, 2019.

Financial Highlights

- Total assets and deferred outflows of resources of the Commission exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $ 29,093,503 (net position). Of this amount, $ 3,217,991 (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 $ 214,265 during 2019.

- For the year ended December 31, 2019, the Commission recognized net income from operations of $ 321,201. Non-operating revenues increased by $ 61,900, primarily due to an increase in insurance claims and interest earned, whereas, non-operating expenses increased by $ 14,992.

- The Commission's total long-term debt decreased by $ 484,196.

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 Fund Net Position-Proprietary Fund.* 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 Fund*, which reports how the Commission's net position changed during the current year.

The third financial statement is the *Statement of Cash Flows-Proprietary Fund*. This statement reports the cash provided by and used for 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 - 16 of this report.

(Continued)

Notes to the 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 17 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, 2019, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $ 29,093,503 (net position).

Effective January 1, 2018, the Commission implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The new standard significantly changed the Commission's accounting for other postemployment benefits. As a result of this change in accounting principle, the Commission was required to restate beginning net position as of January 1, 2018.

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

NET POSITION

	2019	2018	2017
Assets			
Unrestricted current assets	$ 4,467,054	$ 3,892,717	$ 3,485,066
Restricted assets	1,017,919	1,013,128	1,006,629
Water contracts	82,840	90,371	97,902
Capital assets, net of accumulated depreciation	33,568,115	34,394,797	34,970,955
Total assets	39,135,928	39,391,013	39,560,552
Deferred outflows of resources	148,010	141,017	112,551
Liabilities			
Current liabilities	924,443	892,270	835,783
Non-current liabilities	9,256,212	9,641,931	10,173,889
Total liabilities	10,180,655	10,534,201	11,009,672
Deferred inflows of resources	9,780	118,591	32,510
Net position			
Net investment in capital assets	24,857,593	25,195,864	25,375,068
Restricted for debt service	1,017,919	1,013,128	1,006,629
Unrestricted	3,217,991	2,670,246	2,249,224
Total net position	$ 29,093,503	$ 28,879,238	$ 28,630,921

(Continued)

Total net position increased by $ 214,265 during 2019. By far the largest portion of the Commission's net position (85.44 percent) reflects its investment in capital assets (e.g. land, buildings and improvements, plant and facilities, machinery and equipment, autos and trucks, and water capacity rights); 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 $ 1,017,919 (3.50 percent) represents resources that are restricted for debt service. The remaining net position totaling $ 3,217,991 (11.06 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, 2019, unrestricted current assets totaled $ 4,467,054, an increase of $ 574,337 from 2018. The increase is attributable to an increase in cash of $ 511,908, accounts receivable of $ 59,933, interest receivable of $ 4,201, inventories of $ 2,127, prepaids of $ 1,654 and a decrease in intergovernmental receivables of $ 5,486.

Restricted assets held under covenants prescribed by the bond document increased by $ 4,949 during 2019.

Deferred outflows of resources, which include pension plan payments made subsequent to the measurement date, the difference between expected and actual experience on pension plan demographic and economic changes, changes in assumptions, and the net difference between projected and actual earnings on pension plan investments totaled $ 148,010 at December 31, 2019, representing an increase of $ 6,993 from 2018.

Other liabilities, amounts due and payable within the next year, including current maturities of long-term debt, totaled $ 924,443 as of December 31, 2019, which represents an increase of $ 32,173 from 2018. The increase consists of increases in accounts payable, customer deposits, intergovernmental payables, accrued expenses, and the current portion of long-term debt of $ 6,980, $ 8,023, $ 3,161, $ 921, and $ 13,088, respectively.

The Commission is reporting deferred inflows of resources totaling $ 9,780 at December 31, 2019. These inflows represent deferred charges related to the pension plan and include the difference between expected and actual experience on pension plan demographic and economic changes totaling $ 9,780.

(Continued)

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

CHANGES IN NET POSITION

	2019	2018	2017
Revenues			
Operating revenues			
Charges for services	$ 5,516,187	$ 5,236,564	$ 4,883,148
Non-operating revenues			
Capital contributions	-	204,748	-
Special local option sales tax	67,375	74,154	-
Other	111,997	43,318	48,013
Total revenues	5,695,559	5,558,784	4,931,161
Expenses			
Operating expenses	5,194,986	5,046,869	4,915,479
Non-operating expenses			
Interest expense	262,068	271,316	281,525
Other	24,240	-	-
Total expenses	5,481,294	5,318,185	5,197,004
Change in net position	214,265	240,599	(265,843)
Net position, beginning of year, as originally reported	28,879,238	28,630,921	28,896,764
Implementation effect of GASB Statement No. 75	-	7,718	-
Net position, beginning of year, as restated	28,879,238	28,638,639	28,896,764
Net position, end of year	$ 29,093,503	$ 28,879,238	$ 28,630,921

Revenues for charges and services increased in 2019 by $ 279,623, which represents an increase of 5.34 percent.

The City of Thomson, Georgia (the "City") and McDuffie County, Georgia (the "County") contribute capital assets funded with capital grants awarded in their names to the Commission upon completion of the projects. There were no capital contributions to the Commission in 2019.

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 and sewer capital assets. The use of SPLOST funds is discretionary and is voted on and approved by the 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. SPLOST funding received during 2019 totaled $ 67,375.

Other non-operating revenues increased by $ 68,679 which is attributable to increases in sales of surplus property of $ 4,300, insurance claims of $ 13,193, and interest income of $ 51,186.

Operating expenses increased by $ 148,117 in 2019. This increase includes additional costs for personnel services and benefits of $ 1,579, professional and technical services of $ 7,863, other purchased services of $ 91,402, supplies of $ 121,163, intergovernmental of $ 26,399, depreciation of $ 30,482, and bad debts of $ 11,336. Costs incurred for repairs and maintenance and other costs decreased in 2019 by $ 109,305 and $ 32,802, respectively.

(Continued)

Capital Assets

The Commission's investment in capital assets as of December 31, 2019 totaled $ 33,568,115 (net of accumulated depreciation) which represents a net decrease of $ 826,682. This investment in capital assets includes land, buildings and improvements, plant and facilities, machinery and equipment, autos and trucks, construction in progress, and water capacity rights.

During 2012, the Commission assumed all water and sewer related debts of the County and the Town of Dearing, Georgia (the "Town") 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 the Town. These rights are described as "water capacity rights" and are accounted for as capital assets in accordance with GASB Statement No. 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 ended December 31, 2019 and is reported as part of depreciation expense in the financial statements.

Capital asset additions for 2019 include valve replacement at Dearing LAS totaling $ 60,757, rebuilding pumps at the Reese Road lift station totaling $ 16,005, replacement of a vertical turbine pump totaling $ 13,540, construction of a chlorine pump wash station totaling $ 14,523, the purchase of service trucks totaling $ 73,878, and the completion of the Maddox Creek dredging project totaling $ 317,657. Construction in progress as of December 31, 2019 totaled $ 216,751, which includes preliminary engineering costs for the Sills Branch/Germany Creek gravity main project, the Augusta Road Water Treatment Plant and Usry Pond raw water pump project, the advanced metering infrastructure project, and a new water treatment control panel.

These additions were funded with water and sewer revenues, funds held in the renewal and extension fund, SPLOST proceeds, and loan proceeds from the Georgia Environmental Finance Authority (GEFA).

Service trucks with an original cost basis of $ 120,549 and a book basis of $ 0 were sold for $ 4,300, resulting in a gain on the sale of surplus property totaling $ 4,300.

Annual depreciation expense, including amortization of water capacity rights described above, recorded in 2019 totaled $ 1,404,317.

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 and the County, passed a joint resolution calling for the issuance of water and sewerage revenue refunding bonds (Series 2012A) to refinance, in part, all existing water and sewer related debt of the Commission, the County and the Town. Proceeds from the Series 2012A Bonds, after discounts of $ 70,906, totaled $ 9,799,094. As of December 31, 2019, the principal balance of the Series 2012A bonds was $ 8,600,000.

During 2016, the Commission, in conjunction with the City, entered into a capital lease to purchase equipment and a service vehicle. The Commission's proportionate share of the lease proceeds and quarterly payments totaled $ 75,842 and $ 4,047, respectively. As of December 31, 2019 the outstanding principal balance on the capital lease was $ 19,832.

On June 8, 2018, the Commission entered into a capital lease to purchase equipment. Proceeds from the lease totaled $111,046 and the monthly payment of principal and interest is $ 2,005. As of December 31, 2019 the outstanding principal balance of the capital lease was $ 77,782.

(Continued)

On December 19, 2018, the City entered into a loan agreement with the Drinking Water State Revolving Fund administered by GEFA to finance upgrades and improvements at the Augusta Road Water Treatment Plant and the Usry Pond Raw Water Pump Station. Proceeds of this loan total $ 1,230,000 and will be drawn down as construction on the project progresses. As of December 31, 2019, $ 33,515 has been advanced on this loan.

On July 30, 2019, the City entered into a loan agreement with the Drinking Water State Revolving Fund administered by GEFA to purchase and install advanced metering infrastructure. Proceeds of this loan total $ 1,194,000 and will be drawn down as construction on the project progresses. As of December 31, 2019, $ 14,207 has been advanced on this loan.

Advances on the GEFA loans, totaling $ 47,722, are described as “construction loan advances” and are reported as a noncurrent liability in the Statements of Fund Net Position-Proprietary Fund.

There was no other outstanding debt as of December 31, 2019.

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 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 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 and 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 a 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 Kenneth Usry, Mayor, 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 FUND NET POSITION-PROPRIETARY FUND

	December 31, 2019	December 31, 2018
ASSETS		
Current assets		
Cash	$ 3,768,440	$ 3,256,532
Restricted cash	255,915	250,966
Accounts receivable (net of allowance for uncollectible accounts of $ 299,113 for 2019 and $ 283,900 for 2018)	631,855	571,922
Interest receivable	25,130	20,929
Intergovernmental receivables	610	6,096
Inventories	16,442	14,315
Prepaids	24,577	22,923
Total current assets	4,722,969	4,143,683
Noncurrent assets		
Restricted cash	762,004	762,162
Water contracts	82,840	90,371
Capital assets		
Land	246,026	246,026
Buildings and improvements	74,615	60,092
Plant and facilities	50,799,672	50,391,713
Machinery and equipment	1,077,499	1,077,499
Autos and trucks	697,559	744,230
Water capacity rights	6,083,014	6,083,014
Construction in progress	216,751	135,476
Less accumulated depreciation	(25,627,021)	(24,343,253)
Total capital assets (net of accumulated depreciation)	33,568,115	34,394,797
Total noncurrent assets	34,412,959	35,247,330
Total assets	39,135,928	39,391,013
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pension plan	148,010	141,017
Total deferred outflows of resources	148,010	141,017
Total assets and deferred outflows of resources	39,283,938	39,532,030

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 FUND NET POSITION-PROPRIETARY FUND

	December 31, 2019	December 31, 2018
LIABILITIES		
Current liabilities		
Accounts payable	98,320	91,340
Customer deposits	169,790	161,767
Intergovernmental payables	17,484	14,323
Accrued expenses	95,636	94,715
Current portion of capital lease payable	37,706	34,805
Current liabilities payable from restricted assets		
Current portion of revenue bonds payable	505,507	495,320
Total current liabilities	924,443	892,270
Noncurrent liabilities		
Capital lease payable	59,908	99,407
Revenue bonds payable	8,059,679	8,565,186
Construction loan advances	47,722	-
Net pension liability	783,617	602,922
Total OPEB liability	305,286	374,416
Total noncurrent liabilities	9,256,212	9,641,931
Total liabilities	10,180,655	10,534,201
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pension plan	9,780	118,591
Total liabilities and deferred inflows of resources	10,190,435	10,652,792
NET POSITION		
Net investment in capital assets	24,857,593	25,195,864
Restricted for debt service	1,017,919	1,013,128
Unrestricted	3,217,991	2,670,246
Total net position	$ 29,093,503	$ 28,879,238

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 FUND

	For the Years Ended December 31,	
	2019	2018
OPERATING REVENUES		
Charges for sales and services		
Water and sewer sales	$ 5,298,392	$ 5,028,600
Penalties	105,072	116,228
Other services	112,723	91,736
Total operating revenues	5,516,187	5,236,564
OPERATING EXPENSES		
Personnel services and benefits	1,477,759	1,476,180
Professional and technical services	82,608	74,745
Repairs and maintenance	413,517	522,822
Other purchased services	883,604	792,202
Supplies	610,892	489,729
Intergovernmental	252,570	226,171
Other	46,974	79,776
Depreciation	1,404,317	1,373,835
Amortization	7,531	7,531
Bad debts	15,214	3,878
Total operating expenses	5,194,986	5,046,869
Operating income	321,201	189,695
NON-OPERATING REVENUES (EXPENSES)		
Special local option sales tax	67,375	74,154
Gain on sale of surplus property	4,300	-
Insurance claims	24,533	11,340
Interest income	83,164	31,978
Loan origination fees	(24,240)	-
Interest expense	(262,068)	(271,316)
Total non-operating expenses	(106,936)	(153,844)
Income before contributions	214,265	35,851
CAPITAL CONTRIBUTIONS	-	204,748
Change in net position	214,265	240,599
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY REPORTED	28,879,238	28,630,921
Implementation effect of GASB Statement No. 75	-	7,718
NET POSITION, BEGINNING OF YEAR, AS RESTATED	28,879,238	28,638,639
NET POSITION, END OF YEAR	$ 29,093,503	$ 28,879,238

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 CASH FLOWS-PROPRIETARY FUND

	For the Years Ended December 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	$ 5,454,549	$ 5,277,418
Payments to suppliers	(2,280,442)	(2,182,647)
Payments to employees	(1,480,248)	(1,504,091)
Net cash provided by operating activities	1,693,859	1,590,680
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from special local option sales tax	67,375	74,154
Proceeds from construction loan advances	47,722	-
Proceeds from insurance claims	24,533	11,340
Proceeds from sale of surplus property	4,300	-
Purchases and construction of capital assets	(581,850)	(477,668)
Payments on long-term debt	(536,598)	(517,077)
Interest paid	(257,365)	(266,470)
Loan origination fees paid	(24,240)	-
Net cash used in capital and related financing activities	(1,256,123)	(1,175,721)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	78,963	14,852
Net cash provided by investing activities	78,963	14,852
Net increase in cash	516,699	429,811
Cash, beginning of year	4,269,660	3,839,849
Cash, end of year	$ 4,786,359	$ 4,269,660
CASH PER STATEMENTS OF FUND NET POSITION-PROPRIETARY FUND		
Cash	$ 3,768,440	$ 3,256,532
Restricted cash-current	255,915	250,966
Restricted cash-noncurrent	762,004	762,162
	$ 4,786,359	$ 4,269,660

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 CASH FLOWS-PROPRIETARY FUND

	For the Years Ended December 31, 2019	2018
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 321,201	$ 189,695
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,404,317	1,373,835
Amortization	7,531	7,531
Other pension related charges	64,891	(20,379)
Other post employment benefits (OPEB)	(69,130)	(15,106)
(Increase) decrease in current assets		
Accounts receivable	(59,933)	29,552
Intergovernmental receivables	5,486	1,541
Inventories	(2,127)	(555)
Prepaids	(1,654)	2,249
Increase (decrease) in current liabilities		
Accounts payable	11,195	(3,494)
Intergovernmental payables	3,161	3,573
Customer deposits	8,023	13,639
Accrued expenses	898	8,599
Total adjustments	1,372,658	1,400,985
Net cash provided by operating activities	$ 1,693,859	$ 1,590,680
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Contribution of capital assets from other government	$ -	$ 204,748
Capital asset financed with capital lease	-	111,046
Total noncash investing, capital and financing activities	$ -	$ 315,794

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

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 (the "County") and the City of Thomson, Georgia (the "City") 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 (the "System") for the residents of the City and County. 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 County Commission Chairman, one County Commissioner, one resident of the County, the Mayor of the City, one City Council member, one City resident, and one County resident appointed by the Commission.

The County and City equally own and maintain the 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 GASB Statement No. 14, *The Financial Reporting Entity,* 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.

(Continued)

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 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 Commission's 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 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 the 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 GAAP 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 (personnel services, maintenance and operations, capital outlay, and 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. New Accounting Pronouncements

During June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

This Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 75 requires governments to report a liability on the face of the financial statements for the unfunded portion of the OPEB that they provide:

- Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a *net OPEB liability*—the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments.

- Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their *proportionate share of the collective OPEB liability* for all entities participating in the cost-sharing plan.

- Governments that do not provide OPEB through a trust that meets specified criteria will report the *total OPEB liability* related to their employees.

Statement No. 75 carries forward from Statement No. 45 the option to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). This option was retained in order to reduce costs for smaller governments.

Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new required supplementary information includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. Some governments are legally responsible to make contributions directly to an OPEB plan or make benefit payments directly as OPEB comes due for employees of other governments. In certain circumstances—called special funding situations – Statement No. 75 requires these governments to recognize in their financial statements a share of the other government's net OPEB liability.

The provisions of this Statement became effective for financial statements for periods beginning after June 15, 2017. Management implemented the provisions of this Statement in the Commission's financial statements as of and for the year ended December 31, 2018.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this Statement are effective for financial statement periods beginning after June 15, 2021. Earlier application is encouraged. Management is currently evaluating the potential effects of this Statement on the Commission's financial statements.

During April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The provisions of this Statement are effective for financial statement periods beginning after June 15, 2019. Earlier application is encouraged. Management is currently evaluating the potential effects of this Statement on the Commission's financial statements.

During June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The provisions of this Statement are effective for financial statement periods beginning after December 15, 2020. Earlier application is encouraged. Management implemented the provisions of this Statement in its financial statements as of and for the year ended December 31, 2018. These provisions had no effect on these financial statements.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During August 2018, the GASB issued Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The provisions of this Statement are effective for financial statement periods beginning after December 15, 2019. Earlier application is encouraged. The Commission will implement the requirements of this Statement when it becomes effective. Management is currently evaluating the potential effects of this Statement on the Commission's financial statements.

During May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations.* The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. It defines a conduit debt obligation and specifies that all conduit debt obligations involve the issuer making a limited commitment and that some issuers extend additional commitments or voluntary commitments to support debt service in the event the third-party is, or will be, unable to do so. An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

This Statement also addresses arrangements, often characterized as leases, that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements. Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. Additional provisions apply based on 1) if title passes to the third-party obligor at the end of the arrangement, 2) if title does not pass to the third-party obligor and they have exclusive use of the entire capital asset during the arrangement, and 3) if title does not pass to the third-party obligor and they have exclusive use of only portions of the capital asset during the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The provisions of this Statement are effective for financial statement periods beginning after December 15, 2021. Earlier application is encouraged. The Commission will implement the requirements of this Statement when it becomes effective. Management is currently evaluating the potential effects of this Statement on the Commission's financial statements.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, 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.

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 is determined by an 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, 2019 and 2018, unbilled receivables totaled $ 292,858 and $ 286,214, respectively.

Intergovernmental Receivables and Payables

The 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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaids

The Commission uses the allocation method for accounting for prepaids. 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 acquisition 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 the assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation of capital assets is charged as an expense against operations and accumulated depreciation is reported on the Statements of Fund 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 government-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 $ 38,114 and $ 36,557 for the years ended December 31, 2019 and 2018, respectively. These amounts are included in accrued expenses in the Statements of Fund 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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the proprietary fund's Statements of Fund 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 Fund 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 Commission reports deferred outflows related to its pension plan in this category. Deferred outflows related to the pension plan represent employer contributions made subsequent to the pension plan's measurement date for computing the net pension liability, the difference between expected and actual experience on pension plan demographic and economic changes, changes in assumptions, and the net difference between projected and actual earnings on pension plan investments. Contributions made subsequent to the pension plan's measurement date will be recognized as a reduction of the net pension liability in the following year, whereas demographic and economic changes, assumption changes, and investment changes are recognized as a reduction in pension expense over time instead of being recognized in the year of occurrence.

In addition to liabilities, the Statements of Fund 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 reports deferred inflows related to its pension plan in this category. Deferred inflows related to the pension plan represent the difference between expected and actual experience on pension plan demographic and economic changes. This inflow represents changes in the net pension liability that are recognized as pension expense over time instead of all being recognized in the year of occurrence.

Net Position

Net position represent the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in reporting which utilizes the economic resources measurement focus.

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.

G. Use of Estimates

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

NOTE 2 - CASH

State Statutes authorizes the Commission to make direct investment in obligations of the State 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 the State 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, 2019, the carrying amount of the Commission's deposits was $ 4,786,359 and the bank balance totaled $ 4,724,795. As of December 31, 2018, the carrying amount of the Commission's deposits was $ 4,269,660 and the bank balance totaled $ 4,240,614.

Deposits of the Commission were fully collateralized as of December 31, 2019 and 2018. Collateralization of the Commission's deposits as of December 31, 2019 and 2018 was as follows:

	2019	2018
Amount insured by FDIC	$ 500,000	$ 500,000
Amount collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name	4,224,795	3,740,614
Total bank balance	$ 4,724,795	$ 4,240,614

NOTE 3 - ACCOUNTS RECEIVABLE

As of December 31, 2019, accounts receivable totaled $ 631,855 including unbilled receivables of $ 292,858 and net of an allowance for uncollectible accounts of $ 299,113. Accounts receivable totaled $ 571,922 including unbilled receivables of $ 286,214 and net of an allowance for uncollectible accounts of $ 283,900 as of December 31, 2018.

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2019, was as follows:

	Balance 12/31/2018	Additions	Deletions	Balance 12/31/2019
Capital assets not being depreciated				
Land	$ 246,026	$ -	$ -	$ 246,026
Construction in progress	135,476	398,932	(317,657)	216,751
Total capital assets not being depreciated	381,502	398,932	(317,657)	462,777
Capital assets being depreciated				
Buildings and improvements	60,092	14,523	-	74,615
Plant and facilities	50,391,713	407,959	-	50,799,672
Machinery and equipment	1,077,499	-	-	1,077,499
Autos and trucks	744,230	73,878	(120,549)	697,559
Water capacity rights	6,083,014	-	-	6,083,014
Total capital assets being depreciated	58,356,548	496,360	(120,549)	58,732,359
Less accumulated depreciation				
Buildings and improvements	(8,526)	(1,684)	-	(10,210)
Plant and facilities	(20,983,238)	(1,023,925)	-	(22,007,163)
Machinery and equipment	(913,489)	(31,911)	-	(945,400)
Autos and trucks	(581,338)	(53,640)	120,549	(514,429)
Water capacity rights	(1,856,662)	(293,157)	-	(2,149,819)
Less accumulated depreciation	(24,343,253)	(1,404,317)	120,549	(25,627,021)
Net capital assets being depreciated	34,013,295	(907,957)	-	33,105,338
Capital assets-net	$ 34,394,797	$ (509,025)	$ (317,657)	$ 33,568,115

(Continued)

NOTE 4 - CAPITAL ASSETS (Continued)

Capital assets activity for the year ended December 31, 2018, was as follows:

	Balance 12/31/2017	Additions	Deletions	Balance 12/31/2018
Capital assets not being depreciated				
Land	$ 246,026	$ -	$ -	$ 246,026
Construction in progress	-	135,476	-	135,476
Total capital assets not being depreciated	246,026	135,476	-	381,502
Capital assets being depreciated				
Buildings and improvements	27,244	32,848	-	60,092
Plant and facilities	49,946,904	444,809	-	50,391,713
Machinery and equipment	959,953	117,546	-	1,077,499
Autos and trucks	677,232	66,998	-	744,230
Water capacity rights	6,083,014	-	-	6,083,014
Total capital assets being depreciated	57,694,347	662,201	-	58,356,548
Less accumulated depreciation				
Buildings and improvements	(7,434)	(1,092)	-	(8,526)
Plant and facilities	(19,971,330)	(1,011,908)	-	(20,983,238)
Machinery and equipment	(889,975)	(23,514)	-	(913,489)
Autos and trucks	(537,174)	(44,164)	-	(581,338)
Water capacity rights	(1,563,505)	(293,157)	-	(1,856,662)
Less accumulated depreciation	(22,969,418)	(1,373,835)	-	(24,343,253)
Net capital assets being depreciated	34,724,929	(711,634)	-	34,013,295
Capital assets-net	$ 34,970,955	$ (576,158)	$ -	$ 34,394,797

Depreciation expense totaled $ 1,404,317 for the year ended December 31, 2019 and $ 1,373,835 for the year ended December 31, 2018.

NOTE 5 - LONG-TERM DEBT

Capital Leases

On February 26, 2016, the Commission, in conjunction with the City, entered into a capital lease with the Georgia Municipal Association to purchase equipment and service vehicles. The lease was subsequently assigned and transferred to Branch Banking & Trust Company. Original terms of the lease required 20 quarterly payments, including principal and interest at 2.21%, beginning May 26, 2016 with the final payment being due February 26, 2021. Effective February 26, 2018 and in accordance with the Master Lease Agreement, the stated interest rate was increased to 2.69% due to the enactment of recent tax laws that changed the federal corporate tax rate. The Commission's proportionate share of lease proceeds totaled $ 75,842. The Commission's revised quarterly payments are $ 4,047 as of February 26, 2018.

On June 8, 2018, the Commission entered into a capital lease with Regions Equipment Finance Corporation to purchase equipment. Terms of the lease require 60 monthly payments of $ 2,005, including principal and interest at 3.20%, beginning July 8, 2018 with the final payment being due June 8, 2023.

(Continued)

NOTE 5 - LONG-TERM DEBT (Continued)

Future minimum lease payments to maturity are as follows:

Year Ending		
2020	$	40,251
2021		28,110
2022		24,063
2023		10,026
Total minimum lease payments		102,450
Less amount representing interest		(4,836)
Present value of minimum lease payments	$	97,614

Assets acquired through the capital lease and accumulated depreciation thereon was as follows as of December 31, 2019:

Asset		
Autos and trucks	$	47,319
Machinery and equipment		154,569
Less accumulated depreciation		(78,681)
Total	$	123,207

Revenue Bonds

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 (the “Series 2012A Bonds”) 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 Town of 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 Town of 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. Interest is computed using varying rates ranging from 2.00% to 3.00%. The outstanding principal balance on the Series 2012A Bonds was $ 8,600,000 as of December 31, 2019, of which $ 510,000 is due within one year.

(Continued)

NOTE 5 - LONG-TERM DEBT (Continued)

Series 2012A 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 $ 379,226 at December 31, 2019. As of December 31, 2019, the balance in the Debt Service Account totaled $ 255,915 after payment of interest due January 1, 2020 totaling $ 124,226. 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, 2019, the required balance to be deposited into the Reserve Account was $ 760,000, whereas actual deposits held in the Reserve Account totaled $ 762,004.

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, 2019 were $ 2,081,131, whereas the required minimum balance was $ 378,314. 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 effect 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").

For the year ended December 31, 2019, adjusted net revenues available for debt service totaled $ 1,816,213 and the total debt service requirement was $ 753,453 resulting in a debt service ratio of 241% (rounded). The Commission met this requirement for the year ended December 31, 2019. 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.

The bonds are revenue bonds and are not considered debts of either the City or County. 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 totaling $ 70,906 are being amortized over the life of the bonds using the effective interest-rate method. Amortization of bond discounts totaled $ 4,680 and $ 4,862 for the years ended December 31, 2019 and 2018, respectively, and is included in interest expense in the Statements of Revenues, Expenses, and Changes in Fund Net Position.

(Continued)

NOTE 5 - LONG-TERM DEBT (Continued)

Annual requirements to fully amortize the Series 2012A bonds outstanding as of December 31, 2019 are as follows:

Year Ending	Principal	Interest	Total
2020	$ 510,000	$ 248,453	$ 758,453
2021	520,000	238,253	758,253
2022	535,000	222,652	757,652
2023	550,000	206,602	756,602
2024	570,000	190,102	760,102
2025 thru 2029	3,095,000	689,250	3,784,250
2030 thru 2033	2,820,000	214,500	3,034,500
	$ 8,600,000	$ 2,009,812	$ 10,609,812

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 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.

Construction Loan Advances

On December 19, 2018 the City entered into a loan agreement with the Drinking Water State Revolving Fund administered by Georgia Environmental Finance Authority (GEFA) to finance upgrades and improvements at the Augusta Road Water Treatment Plant and the Usry Pond Raw Water Pump Station. Total cost of the project is estimated to be $1,230,000. Accrued interest is payable monthly on the first day of each calendar month, as proceeds are drawn down, and will continue until the first day of the calendar month following the earlier of (1) the completion date, (2) May 1, 2021, or (3) the date that the loan is fully disbursed. At that time, principal and interest payments will be made in 239 consecutive monthly installments on the first day of the calendar month and a final installment equal to the entire remaining unpaid principal balance and accrued interest thereon will be due on the maturity date. As of December 31, 2019, $ 33,515 has been drawn down on this note.

On July 30, 2019 the City entered into a loan agreement with the Drinking Water State Revolving Fund administered by Georgia Environmental Finance Authority (GEFA) to purchase and install advanced metering infrastructure. Total cost of the project is estimated to be $1,194,000. Accrued interest is payable monthly on the first day of each calendar month, as proceeds are drawn down, and will continue until the first day of the calendar month following the earlier of (1) the completion date, (2) March 1, 2023, or (3) the date that the loan is fully disbursed. At that time, principal and interest payments will be made in 239 consecutive monthly installments on the first day of the calendar month and a final installment equal to the entire remaining unpaid principal balance and accrued interest thereon will be due on the maturity date. As of December 31, 2019, $ 14,207 has been drawn down on this note.

As of December 31, 2019, construction loan advances received totaled $ 47,722 and are reported as noncurrent liabilities in the Statements of Fund Net Position-Proprietary Fund. Loan origination fees related to the issuance of the loans totaled $ 24,240 and reported as a non-operating expense in the Statements of Revenues, Expenses, and Changes in Fund Net Position-Proprietary Fund.

(Continued)

NOTE 5 - LONG-TERM DEBT (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2019, was as follows:

	Balance 12/31/2018	Additions	Reductions	Balance 12/31/2019	Due Within One Year
Capital leases	$ 134,212	$ -	$ (36,598)	$ 97,614	$ 37,706
Revenue bonds payable	9,100,000	-	(500,000)	8,600,000	510,000
Less bond discounts	(39,494)	-	4,680	(34,814)	(4,493)
Revenue bonds payable-net	9,060,506	-	(495,320)	8,565,186	505,507
Construction loan advances	-	47,722	-	47,722	-
Long-term liabilities	$ 9,194,718	$ 47,722	$ (531,918)	$ 8,710,522	$ 543,213

Long-term liability activity for the year ended December 31, 2018, was as follows:

	Balance 12/31/2017	Additions	Reductions	Balance 12/31/2018	Due Within One Year
Capital lease	$ 50,243	$ 111,046	$ (27,077)	$ 134,212	$ 34,805
Revenue bonds payable	$ 9,590,000	$ -	$ (490,000)	$ 9,100,000	$ 500,000
Less bond discounts	(44,356)	-	4,862	(39,494)	(4,680)
Revenue bonds payable-net	9,545,644	-	(485,138)	9,060,506	495,320
Long-term liabilities	$ 9,595,887	$ 111,046	$ (512,215)	$ 9,194,718	$ 530,125

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 the 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, 2019 and 2018, amortization expense related to this project totaled $ 7,531 per year. In addition to the above cost, the Commission is required to pay 0.074 percent of the annual experienced joint-use operation and maintenance expense of the project. The Commission will also be required to pay 0.074 percent of the joint-use cost associated with major replacement and rehabilitation program costs. The additional costs associated with the contract totaled $ 2,611 and $ 2,661 for the years ended December 31, 2019 and 2018, respectively.

NOTE 7 - RETIREMENT PLAN

The Commission participates in the City of Thomson Retirement Plan (the "Plan") which is affiliated with the Georgia Municipal Employees Benefit System (GMEBS). The Commission does not maintain its own account status with the GMEBS. The Commission's net pension liability, deferred outflows and inflows related to the Plan, and pension expense are based on the Commission's proportionate share of its contributions to the Plan to total contributions of the City and Commission. For the year ended December 31, 2019, the Commission's proportionate share was thirty-three percent (rounded).

Plan Description

The Plan is a defined benefit pension plan affiliated with the GMEBS, an agent multiple-employer pension plan administered by the Georgia Municipal Association (GMA). Contributions made by the City are pooled with contributions made by other members of GMEBS for investment purposes, and the City does not own any securities on its own. There are no employer or related party securities or loans included in plan assets. The GMA issues a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained by writing to Georgia Municipal Association, The Burgess Building, 201 Pryor Street, SW, Atlanta, GA 30303, or by calling (404) 688-0472.

The City established the Plan January 1, 1972 through an agreement adopting the GMEBS Master Plan and Joint Trust Agreement (the "Adoption Agreement"). The Adoption Agreement establishes the types of benefits available under the Plan and the City's obligation to contribute to the Plan. The City 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 as the adopting employer. The City cannot amend the Master Plan or the Joint Trust Agreement.

Benefits Provided

As provided by Georgia State law, benefit provisions for participants in GMEBS are established by the respective employers. As authorized by City Council, the Plan provides pension benefits and death and disability benefits for plan members and beneficiaries. All full-time employees of the City and the Commission working at least twenty hours per week, are eligible to participate immediately. Elected officials became eligible to participate immediately as of January 1, 2019. Benefits are fully vested after ten years of service. Normal retirement age is sixty-five (65) with a minimum of five years of service, and early retirement is age fifty-five (55) with a minimum of ten years of total credited service. Monthly benefits are based on (a) the average annual earnings paid to a participant during any consecutive five-year period preceding the actual date of retirement in which the earnings were highest and (b) the total years of service. Elected officials monthly benefit is $ 26 for each year of service.

As of July 1, 2019, the last valuation date, there were 222 participants consisting of the following:

Retired participants and beneficiaries currently receiving benefits	69
Terminated vested participants entitled to but not yet receiving benefits	61
Active participants-vested	59
Active participants-not vested	33
Total number of participants	222

(Continued)

NOTE 7 - RETIREMENT PLAN (Continued)

Contributions

The Plan is subject to minimum funding standards of the Public Retirement Systems Standards Law (Georgia Code Section 47-20-10). GMEBS has adopted an actuarial funding policy that requires a different funding level than the estimated minimum annual contribution to minimize fluctuations in annual contribution amounts and to accumulate sufficient funds to secure benefits under the Plan. If the City contributes the recommended contribution developed under the actuarial funding policy each year, the Plan will meet applicable State funding standards. Employees do not contribute to the Plan.

For 2019, the Commission's contribution to the Plan totaled $ 115,684, or 10.56% of covered-employee payroll. This contribution was equal to the recommended annual contribution determined as part of the July 1, 2018 actuarial valuation.

Net Pension Liability

The Commission's net pension liability was measured as of March 31, 2019.

Actuarial Assumptions. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

Net investment rate of return	7.50%, on going basis, based on long-term expected rate of return on pension plan investments
Projected salary increases	2.75%, plus service based merit increases
Inflation	2.75%
Cost of living adjustments	0.00%

The mortality and economic actuarial assumptions used in the July 1, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through June 30, 2014.

Mortality rates for the July 1, 2019 valuation were based on the RP-2000 Combined Healthy Mortality Table with sex-distinct rates, set forward two years for males and one year for females.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of March 31, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic equity	45.00%	6.40%
International equity	20.00%	7.40%
Real estate	10.00%	5.10%
Global fixed income	5.00%	3.03%
Domestic fixed income	20.00%	1.75%
Cash	0.00%	0.00%
Total	100.00%	

* Rates shown are net of the 2.75% assumed rate of inflation

(Continued)

NOTE 7 - RETIREMENT PLAN (Continued)

Discount Rate. The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that the Commission's contributions will be made at rates equal to the actuarially determined contribution rates and the member rate. Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all of the projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability of the Commission. The changes in the components of the net pension liability of the Commission for the year ended December 31, 2019 were as follows:

	Total Pension Liability (TPL) (a)	Fiduciary Net Position (FNP) (b)	Net Pension Liability (NPL) (a) - (b)
Balances at March 31, 2018	$ 3,157,811	$ 2,554,889	$ 602,922
Changes for the year:			
Service cost	44,613	-	44,613
Interest	228,164	-	228,164
Differences between expected and actual experience	27,573	-	27,573
Contributions-employer	-	109,657	(109,657)
Contributions-employee	-	-	-
Net investment income	-	88,755	(88,755)
Benefit payments, including refunds of employee contributions	(190,216)	(190,216)	-
Administrative expense	-	(7,415)	7,415
Other	71,342	-	71,342
Net changes	181,476	781	180,695
Balances at March 31, 2019	$ 3,339,287	$ 2,555,670	$ 783,617

The required schedule of changes in the Commission's net pension liability and related ratios immediately following the notes to the financial statements presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the total liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following table presents the net pension liability of the Commission, calculated using the discount rate of 7.50 percent, as well as what the Commission's net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.50 percent) or 1 percent higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Commission's Net Pension Liability	$ 1,159,931	$ 783,617	$ 464,772

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of March 31, 2019 and the current sharing pattern of costs between employer and employee.

(Continued)

NOTE 7 - RETIREMENT PLAN (Continued)

Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued GMEBS financial report.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Pension Plan. For the year ended December 31, 2019, the Commission recognized pension expense of $ 179,471. The Commission reported the following deferred outflows of resources and deferred inflows of resources related to the Plan as of December 31, 2019:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made subsequent to the measurement date	$ 85,664	$ -
Difference between expected and actual experience	32,957	9,780
Changes of assumptions	23,195	-
Net difference between projected and actual earnings on pension plan investments	6,194	-
Total	$ 148,010	$ 9,780

Contributions made subsequent to the measurement date totaling $ 85,664 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to the Plan will be recognized in pension expense as follows:

	Year Ending December 31,				
	2020	2021	2022	2023	Total
Fiscal Year Outflows					
Demographic	$ 19,291	$ 6,833	$ 6,833	$ -	$ 32,957
Assumptions	11,597	11,598	-	-	23,195
Investment	10,640	(22,021)	(1,904)	19,479	6,194
Total	$ 41,528	$ (3,590)	$ 4,929	$ 19,479	$ 62,346
Fiscal Year Inflows					
Demographic	$ 4,890	$ 4,890	$ -	$ -	$ 9,780
Total	$ 4,890	$ 4,890	$ -	$ -	$ 9,780

Changes in Methods and Assumptions

There were no changes in methods or assumptions from the prior valuation.

Benefit Changes

Effective January 1, 2019, elected officials became eligible to participate in the plan.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Effective January 1, 2018, the Commission implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly changed the Commission's accounting for other postemployment benefits. The information disclosed below is presented in accordance with this new standard.

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. The Retiree Health Plan provides health benefits for certain retired employees as per a personnel policy adopted December 7, 1992 and affirmed by resolution of the Mayor and City 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 of sixty-two (62) while working for the City, and have a minimum of twenty-five (25) years of full time service upon retirement. Benefits were also offered to eligible employees through a one-time Early Retirement Incentive Program (ERIP). To be eligible for benefits under the ERIP, employees had to have attained the age of fifty-five (55) as of January 1, 2016 with a minimum of twenty-eight (28) years of full time service. Qualification for benefits under the ERIP closed March 31, 2016. Benefits continue in effect until the retirees reach the age of sixty-five (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. The cost of these benefits is recognized as an expenditure on a pay-as-you-go basis. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans.

As of December 31, 2019, the last measurement date, there were 47 participants in the Retiree Health Plan consisting of the following:

Retired participants currently receiving benefits	3
Active participants	44
Total number of participants	47

There were no retired Commission employees that received benefits during 2019. Benefits paid on behalf of one retired Commission employee totaled $ 5,337 for the year ended December 31, 2018. That participant attained the age of 65 during 2018 and no longer participates in the plan.

Total OPEB Liability

The Commission's proportionate share of its total OPEB liability is based on the Commission's proportionate share of eligible employees to total eligible employees of the City and Commission. For the year ended December 31, 2019, the Commission's proportionate share was twenty-seven percent (rounded). The Commission's total OPEB liability of $ 305,286 was measured as of December 31, 2019, and was determined by using the alternative measurement method for employers in plans with fewer than one hundred total plan members, as provided for in GASB Statement No. 75.

(Continued)

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial Assumptions and Other Inputs. The total OPEB liability as of the December 31, 2019 measurement date was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Projected salary increases	1.66%	
Discount rate	3.26%	
Heathcare cost trend rate	4.60%	for 2019, 4.70% for 2020, 4.80% for years 2021 through 2024, and 4.70% for 2025 and later years
Retiree's share of benefit-related costs	0.00%	of projected health insurance premiums for retirees

Projected salary increases were based on the Consumer Price Index-Urban Wage Earners and Clerical Workers CPI-W.

The discount rate was based on the S&P Municipal Bond 20 Year High Grade Rate Index for the quarter ended December 31, 2019.

Mortality rates were based on the RP-2000 Mortality Table for Males and Females Projected 18 years; this assumption does not include a margin for future improvements in longevity.

Employee turnover was derived from data maintained by the U.S. Office of Personnel Management regarding the most recent experience of the employee group covered by the Federal Employees Retirement System.

Changes in the Total OPEB Liability of the Commission. The changes in the components of the total OPEB liability of the Commission for the year ended December 31, 2019 were as follows:

	Total OPEB Liability
Balance at December 31, 2018	$ 374,416
Changes for the year:	
Service cost	17,438
Interest	15,180
Differences between expected and actual experience	(114,984)
Effect of assumption changes or inputs	13,236
Contributions-employer	-
Net changes	(69,130)
Balance at December 31, 2019	$ 305,286

(Continued)

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following table presents the total OPEB liability of the Commission, calculated using the discount rate of 3.26 percent, as well as what the Commission's total OPEB liability would be if it were calculated using a discount rate that is 1 percent lower (2.26 percent) or 1 percent higher (4.26 percent) than the current discount rate:

	1% Decrease (2.26%)	Current Discount Rate (3.26%)	1% Increase (4.26%)
Commission's Total OPEB Liability	$ 341,594	$ 305,286	$ 274,358

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following table presents the total OPEB liability of the Commission, calculated using a healthcare cost trend rate of 4.60 percent, as well as what the Commission's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percent lower (3.60 percent) or 1 percent higher (5.60 percent) than the current healthcare cost trend rate:

	1% Decrease (3.60%)	Current Healthcare Rate (4.60%)	1% Increase (5.60%)
Commission's Total OPEB Liability	$ 267,176	$ 305,286	$ 351,039

OPEB Expense

The Commission's total OPEB liability was last measured as of December 31, 2018. Since that date, there have been changes in the number of eligible employees and significant demographic and assumption changes that resulted in the Commission recognizing a negative OPEB expense of $ 69,130 for the year ended December 31, 2019.

NOTE 9 - CHANGE IN ACCOUNTING PRINCIPLE

As described in Note 8 above, the Commission implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the year ended December 31, 2018. This Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. As a result, the Commission's beginning net position as of January 1, 2018 was restated by $ 7,718.

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 the 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.

(Continued)

NOTE 10 - RISK MANAGEMENT (Continued)

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 – NET INVESTMENT IN CAPITAL ASSETS

The net investment in capital assets represents the Commission's total investment in capital assets, net of debt related to those assets. Amounts reported for net investment in capital assets at December 31, 2019 and 2018 are as follows:

	2019	2018
Capital assets, net of accumulated depreciation	$ 33,568,115	$ 34,394,797
Less construction payables	-	(4,215)
Less construction loan advances	(47,722)	-
Less capital lease payable	(97,614)	(134,212)
Less revenue bonds payable	(8,565,186)	(9,060,506)
Net investment in capital assets	$ 24,857,593	$ 25,195,864

NOTE 12 - CONTINGENT LIABILITIES

Federal and State Grants

The Commission receives federal and state financial assistance through various grant programs that are passed through the City, County, and the Town of Dearing. 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, 2019, the Commission was not involved in any pending or threatened litigation.

NOTE 13 – COMMITMENTS AND SUBSEQUENT EVENTS

Commitments

On May 20, 2014, citizens of the County 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. The County and City have prioritized the spending of SPLOST VI proceeds based upon the order of importance and need. Accordingly, it is not known when the funds committed for System improvements will be available.

As of December 31, 2019, the Commission had undertaken four construction projects that were not completed as of year-end. Cost incurred on these projects, totaling $ 216,751, is reported as construction in progress on the Statements of Fund Net Position. The water treatment control panel project has been completed and meter replacements have begun on the advanced metering infrastructure project. The Sills Branch/Germany Creek gravity sewerage main and Augusta Road water treatment plant and Usry Pond raw water pump station projects remain in the preliminary engineering and design phase.

As of December 31, 2019, amounts spent to date and estimated remaining commitments on these projects are as follows:

Project Description	Spent To Date	Remaining Commitment
Sills Branch/Germany Creek gravity sewerage main	$ 111,754	$ 1,338,246
Water treatment control panel	43,250	43,250
Augusta Road water treatment plant and Usry Pond raw water pump station	47,540	1,182,460
Advanced metering infrastructure (AMI)	14,207	1,179,793
	$ 216,751	$ 3,743,749

Subsequent Events

In preparing these financial statements, the Commission's management has evaluated events and transactions for potential recognition or disclosure through October 23, 2020, the date the financial statements were available for issuance.

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REQUIRED SUPPLEMENTARY INFORMATION

MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
RETIREMENT PLAN

	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	$ 44,613	$ 46,684	$ 46,729	$ 53,277	$ 50,978
Interest	228,164	220,259	211,299	208,328	207,224
Differences between expected and actual experience	27,573	(17,731)	49,621	(29,684)	(27,298)
Changes of assumptions	-	-	-	25,569	(15,354)
Benefit payments, including refunds of employee contributions	(190,216)	(187,211)	(180,809)	(150,916)	(147,551)
Other	71,342	46,761	-	-	-
Net change in total pension liability	181,476	108,762	126,840	106,574	67,999
Total pension liability, beginning	3,157,811	3,049,049	2,922,209	2,815,635	2,747,636
Total pension liability, ending (a)	3,339,287	3,157,811	3,049,049	2,922,209	2,815,635
Plan Fiduciary Net Position					
Contributions-employer	109,657	101,648	103,070	112,542	126,203
Net investment income	88,755	279,532	260,693	6,160	198,970
Benefit payments, including refunds of employee contributions	(190,216)	(187,211)	(180,809)	(150,916)	(147,551)
Administrative expenses	(7,415)	(7,213)	(7,405)	(5,378)	(5,054)
Net change in fiduciary net position	781	186,756	175,549	(37,592)	172,568
Plan fiduciary net position, beginning	2,554,889	2,368,133	2,192,584	2,230,176	2,057,608
Plan fiduciary net position, ending (b)	2,555,670	2,554,889	2,368,133	2,192,584	2,230,176
Net pension liability, ending (a)-(b)	$ 783,617	$ 602,922	$ 680,916	$ 729,625	$ 585,459
Plan's fiduciary net position as a percentage of the total pension liability	76.58%	81.05%	77.69%	74.96%	79.21%
Covered employee payroll during the measurement period	$ 1,095,635	$ 996,110	$ 967,450	$ 1,041,512	$ 1,064,704
Net pension liability as a percentage of covered payroll	71.52%	60.53%	70.38%	70.05%	54.99%

Notes to the Schedule:

(1) Historical information prior to the implementation of GASB Statement Nos. 67/68 is not required. The schedule will present 10 years of information as it is accumulated.

MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
RETIREMENT PLAN

	2019	2018	2017	2016	2015
Actuarially determined contribution	$ 115,684	$ 111,584	$ 103,900	$ 107,574	$ 115,300
Contributions in relation to the actuarially determined contribution	115,684	111,584	103,900	107,574	115,878
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ (578)
Covered employee payroll during the measurement period	$ 1,095,635	$ 996,110	$ 967,450	$ 1,041,512	$ 1,064,704
Contributions as a percentage of covered employee payroll	10.56%	11.20%	10.74%	10.33%	10.88%

Notes to the Schedule:

(1) Actuarial Assumptions:

Valuation Date	July 1, 2019
Cost Method	Projected Unit Credit
Asset Valuation Method	Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at the end of the year. The actuarial value is adjusted if necessary, to be within 20% of market value.
Assumed Rate of Return	7.50%
Projected Salary Increases	2.75%
Cost of Living Adjustments	0.00%
Amortization Method	Closed level dollar for remaining unfunded liability
Remaining Amortization Period	Varies, with a net effective amortization period of 10 years

(2) Historical information prior to the implementation of GASB Statement Nos. 67/68 is not required. The schedule will present 10 years of information as it is accumulated.

MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFITS PLAN

	2019	2018
Total OPEB Liability		
Service cost	$ 17,438	$ 13,633
Interest	15,180	10,708
Differences between expected and actual experience	(114,984)	(17,038)
Changes of assumptions	13,236	(17,072)
Benefit payments	-	(5,337)
Net change in total OPEB liability	(69,130)	(15,106)
Total OPEB liability, beginning	374,416	389,522
Total OPEB liability, ending	$ 305,286	$ 374,416
Covered employee payroll during the measurement period	$ 997,767	$ 1,026,932
Total OPEB liability as a percentage of covered payroll	30.60%	36.46%

Notes to the Schedule:

(1) No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

(2) See the notes to the financial statements for the actuarial methods and significant assumptions used to determine the total OPEB liability.

(3) Historical information prior to the implementation of GASB Statement No. 75 is not required. The schedule will present 10 years of information as it is accumulated.

COMPLIANCE SECTION

BARMORE HAMMOND
CERTIFIED PUBLIC ACCOUNTANTS
LIMITED LIABILITY PARTNERSHIP

Benjamin B. Barmore, CPA, PC
W. Lee Hammond, CPA, PC

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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*

The Board of Commissioners
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, 2019, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated October 23, 2020. The basic financial statements of the business-type activities of the Commission, as of December 31, 2018, were audited by other auditors whose report dated June 28, 2019, expressed an unmodified opinion on those statements.

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 a 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 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.



Thomson, Georgia
October 23, 2020

MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA
WATER AND SEWER COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019

SECTION I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:			Unmodified	
Internal control over financial reporting:				
• Material weakness(es) identified?	_____	Yes	X	No
• Significant deficiency(ies) identified?	_____	Yes	X	None reported
Noncompliance material to financial statements noted?	_____	Yes	X	No
SECTION II. FINANCIAL STATEMENT FINDINGS	_____	Yes	X	None reported