

**BRUNSWICK-GLYNN COUNTY JOINT  
WATER AND SEWER COMMISSION**

**FINANCIAL REPORT**

**JUNE 30, 2011**

**BRUNSWICK-GLYNN COUNTY JOINT  
WATER AND SEWER COMMISSION**

**FINANCIAL REPORT  
JUNE 30, 2011**

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## INDEPENDENT AUDITOR'S REPORT

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**To the Board of Commissioners of the  
Brunswick-Glynn County Joint Water and Sewer Commission  
Brunswick, Georgia**

We have audited the accompanying basic financial statements of **Brunswick-Glynn County Joint Water and Sewer Commission** (the "Commission"), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of June 30, 2011, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2011, 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* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 - 10 and the Schedule of Funding Progress on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Mauldin & Jenkins, LLC*

Macon, Georgia  
September 21, 2011

# BRUNSWICK-GLYNN COUNTY JOINT WATER AND SEWER COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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As management of the Brunswick-Glynn County Joint Water and Sewer Commission (the "Commission"), we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements.

### Proprietary Fund Accounting and Reporting

The Commission operates as a single fund in a business-like manner. Thus, the Commission uses the accrual approach to account for and report financial transactions. This means that revenues are recognized as they are earned and expenses are recognized as the liability is incurred, regardless of the timing of related cash inflows and outflows. All assets and liabilities that are measurable and probable are included in the financial statements. The full acquisition costs of all fixed assets are included in the Statement of Net Assets and are depreciated over their estimated useful life. Consequently, the Commission's accounting practices generally resemble a commercial entity's approach.

### Overview of the Financial Statements

**Net Assets:** The following table reflects the overall financial condition of the Commission as of the last two fiscal years.

	2011	2010
Current assets	\$ 5,952,903	\$ 11,409,648
Restricted assets	27,183,629	18,530,202
Capital assets	126,382,993	120,068,402
Other long-term assets	1,098,413	1,166,857
Total assets	<u>160,617,938</u>	<u>151,175,109</u>
Current liabilities	4,899,145	5,363,937
Long-term liabilities	49,038,296	50,805,555
Total liabilities	<u>53,937,441</u>	<u>56,169,492</u>
Invested in capital assets, net of related debt	80,127,191	72,861,685
Restricted	9,884,511	10,384,948
Unrestricted	16,668,795	11,758,984
Total net assets	<u>\$ 106,680,497</u>	<u>\$ 95,005,617</u>

In June 2009 the Commission adopted a five year rate plan and implemented the first year of that plan by adoption of a rate resolution for the fiscal year ended June 30, 2011. The rate plan and rate resolution included a provision for the funding of an operating reserve, a repair and replacement reserve and a capital reserve. The decrease in cash, included in current assets, and increase in restricted assets reflects the funding of these reserves. Accounts receivable, net of allowance for uncollectables, increased approximately 17% over the year due in large part to a composite rate increase of 13.46% as of July 1, 2010.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The following table reflects the balances of current and restricted assets for the last two fiscal years.

	2011	2010
<b>Current assets:</b>		
Cash	\$ 2,070,164	\$ 8,062,591
Accounts receivable, net of allowance for uncollectables	3,250,422	2,773,178
Inventory	393,735	385,742
Prepaid expenses	238,582	188,137
	\$ 5,952,903	\$ 11,409,648
<b>Restricted assets:</b>		
Customer deposits	\$ 3,459,255	\$ 3,443,944
Series 2010C Bond funds		
Bond construction fund	4,252,953	5,000,000
Cost of issuance fund	204,645	334,855
Sinking fund	1,622,373	1,245,574
Debt service reserve	3,804,540	3,804,519
Exit 29 retainage account	-	1,017,120
Capital tap fee reserves:		
City of Brunswick	458,706	413,541
Saint Simons Island	826,430	468,786
North Mainland	2,327,928	1,753,658
South Mainland	191,822	79,361
Operating, repair and replacement and capital reserves	10,034,977	968,844
	\$ 27,183,629	\$ 18,530,202

The increase in capital assets is largely due to the completion of the Exit 29 Waste Water Treatment Plant by Glynn County and the transfer of ownership of that facility to the Commission as a capital contribution. Additionally, the Commission purchased land in the City of Brunswick for the construction of an administration facility.

Current liabilities decreased primarily due to the payment of \$1,017,841 of retainage due to contractors at June 30, 2010. Increases in other liabilities such as accounts payable, accrued interest on bonds payable, an increase in the current portion of long term debt and increased customer deposits result in a net decrease in liabilities of \$464,792.

The Commission paid \$1,565,000 in principal and \$1,889,058 in interest expense on its Series 2010C Revenue Bond during the fiscal year ended June 30, 2011.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Revenues, Expenses and Changes in Net Assets:** The following table illustrates the history of revenues, expenses and changes in net assets for the past two years.

	2011	2010
Operating revenues:		
Charges for services:		
Water sales	\$ 7,938,079	\$ 7,205,423
Sewer sales	12,770,444	10,539,695
Connection fees	472,352	659,693
Other fees and charges	1,478,069	776,888
Total operating revenues	22,658,944	19,181,699
Operating expenses:		
Personnel services	5,613,800	5,334,538
Contractual services	4,742,985	5,030,625
Supplies	2,011,568	1,898,430
Electricity, natural gas, and other fuel	1,573,859	1,476,467
Other costs	4,771	5,664
Depreciation expense	5,262,349	4,956,876
Total operating expenses	19,209,332	18,702,600
Operating income	3,449,612	479,099
Non-operating revenues (expenses):		
Interest income	37,930	51,770
Interest expense and fiscal charges	(1,889,058)	(1,693,780)
Total non-operating revenues (expenses), net	(1,851,128)	(1,642,010)
Income before contributions	1,598,484	(1,162,911)
Capital contributions	10,076,396	11,044,666
Change in net assets	11,674,880	9,881,755
Total net assets, beginning	95,014,617	85,132,862
Total net assets, ending	\$ 106,689,497	\$ 95,014,617

Water and Sewer Revenues – As of June 30, 2011 the Commission utilized separate billing structures for the former City of Brunswick district and the former Glynn County districts. Customers are billed based on the infrastructure they utilize for provision of water and/or sewer service. All meters are read electronically (radio read) each month and customers receive a monthly statement based on that reading. As of June 30, 2011 the Commission has 26,858 billable service addresses: 14,337 in Brunswick, 9,187 on Saint Simons Island, 2,731 in the North Mainland and 603 in the South Mainland.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Water revenues - All water is metered and sold at a monthly base charge(s) plus a usage rate per thousand gallons. The rates in place for the year ended June 30, 2011 were:

### City of Brunswick District:

Administrative Base Charge – \$2.19 per customer

Residential Debt Recovery Charge – 3.93 per Residential Equivalent Unit (REU)

Commercial Debt Recovery Charge – \$6.27 per Residential Equivalent Unit (REU)

\$2.07 per thousand gallons for 5,000 or less total gallons – Residential

\$2.12 per thousand gallons for 10,000 or less total gallons – Residential

\$2.17 per thousand gallons for 15,000 or less total gallons – Residential

\$2.22 per thousand gallons for 20,000 or less total gallons – Residential

\$2.27 per thousand gallons for 21,000 or more total gallons – Residential

\$3.32 per thousand gallons for 5,000 or less total gallons – Commercial

\$3.40 per thousand gallons for 10,000 or less total gallons – Commercial

\$3.48 per thousand gallons for 15,000 or less total gallons – Commercial

\$3.56 per thousand gallons for 20,000 or less total gallons – Commercial

\$3.64 per thousand gallons for 21,000 or more total gallons – Commercial

### Glynn County Districts:

Water Base Charge – \$6.10 per Base Unit

\$1.50 per thousand for the first 9,000 gallons – Water with Sewer Connection

\$2.76 per thousand for all usage above 9,000 gallons – Water with Sewer Connection

\$1.50 per thousand for the first 9,000 gallons – Water Only Accounts

\$6.71 per thousand for all usage above 9,000 gallons – Water Only Accounts

Sewer charges are based on metered water usage. Base charges and rates for the year were:

### City of Brunswick District:

Administrative Base Charge – \$2.75 per customer

Residential Debt Recovery Charge – \$5.62 per Residential Equivalent Unit (REU)

Commercial Debt Recovery Charge – \$8.99 per Residential Equivalent Unit (REU)

\$4.06 per thousand gallons for 5,000 or less total gallons

\$4.12 per thousand gallons for 10,000 or less total gallons

\$4.17 per thousand gallons for 15,000 or less total gallons

\$4.23 per thousand gallons for 20,000 or less total gallons

\$4.29 per thousand gallons for 21,000 or more total gallons

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Glynn County Districts:

Sewer Base Charge – \$7.13 per Base Unit

\$4.67 per thousand – St. Simons Island and South Mainland Districts

\$6.54 per thousand – North Mainland District

Connection fees (Capital tap fees) – A connection fee is required for all new connections onto the system. The current charge is \$312.50 per REU and \$262.50 per REU for water in the City of Brunswick District and the Glynn County Districts, respectively. The connection fee for sewer is \$312.50 and \$600.00 per REU for the Brunswick and Glynn Districts, respectively. In addition, if the Commission is required to tap into the water or sewer main and run the service line to the customer's property, the Commission charges a fee to recover the cost for doing so. Connection fees from both residential and commercial connections continued to reflect a weak economy indicated by decreased construction of new houses and commercial development. In December 2010, the Commission reduced the connection fee charges by 50%, to the current rates, in an effort to encourage construction and development.

Other fees and charges – In July 2010, the Commission began charging 1.5% of arrears per month for late payments, which accounts for the increase on this line. Additionally, as in past years, the Commission maintains various fees for services and actions taken in collection efforts. Other revenues such as tower rentals and inspection fees are also included in this line item.

Personnel Services – This is the cost of the Commission for the salaries and wages of personnel and the related payroll taxes and benefits provided. The Commission employs 106 full time employees in six departments and divisions. Administration and management includes the Office of the Director, Planning and Construction and the Finance departments with 35 employees. Wastewater operations include the Systems Pumping and Maintenance, and Wastewater Treatment divisions with 60 employees. The Water Production and Distribution divisions employ 11 people. The Commission provides eligible employees with health insurance, on a participatory basis, long-term disability insurance and a defined benefit retirement plan administered by the Georgia Municipal Association. The Commission is fully insured for workers' compensation and is a reimbursable employer for unemployment benefits.

Contractual Services – This cost consists of services that are required for the functions and operations of the Commission which are necessary to purchase from outside sources, such as legal, auditing and insurance services. Purchasing other types of services, such as personnel administration and printing, inserting and mailing of bills has been found to be the most cost effective by the Commission. The largest single contractual service in this expense is an Operations and Maintenance Contract with United Water with an annual cost of \$2.5 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Supplies – These costs consist of the following:

	2011	2010
Chemicals	\$ 1,116,266	\$ 1,027,591
Pumps and pump maintenance	394,902	212,432
Office, computer and lab supplies	316,940	385,738
Maintenance supplies	115,225	114,083
Small equipment	46,830	78,997
Uniforms	19,803	26,365
Other supplies	1,602	53,224
	<u>\$ 2,011,568</u>	<u>\$ 1,898,430</u>

Depreciation – This is the Commission's second largest expense line item. It continues to grow each year as the Commission continues to complete construction projects and bring them on line. Capital Assets, before depreciation, increased by more than \$11 million (exclusive of Construction in Progress) from June 30, 2010 to June 30, 2011.

Interest Income – Funds are invested as permitted in accordance with Chapter 83 of Title 36 of the *Official Code of Georgia*, which establishes guidelines for local government investment procedures. As interest rates have continued to decrease, so has our interest income.

Interest Expense – Interest expense consists solely of the interest on the Commission Series 2010C Revenue Bond issued dated June 30, 2010. Fiscal charges for the year ended June 30, 2011 were paid in advance from the bond proceeds on June 30, 2010.

Capital Contributions – Capital contributions are received from multiple sources. The City of Brunswick contributed \$154,234 of interest income received on Revenue Bond investments subsequent to June 30, 2010. Glynn County retained funds to complete projects it had begun prior to the formation of the Commission on January 1, 2008. Glynn County also is responsible for the completion of Special Purpose Local Option Sales Tax (SPLOST) projects. Upon completion of construction, Glynn County transfers ownership of the asset to the Commission. Glynn County contributions totaled \$9,839,012 for the year. Capital contributions are also received by the dedication of privately constructed infrastructure to the Commission and the Commission's acceptance of that infrastructure. These contributions totaled \$83,150 for the year. In all cases, the assets are recorded at fair market value and are capitalized by the Commission.

### Capital Asset and Debt Administration

#### Capital Assets:

The Commission's investment in capital assets as of June 30, 2011 amounts to \$126,382,993 (net of accumulated depreciation). This investment in capital assets includes land and easements, buildings, water wells, elevated storage tanks, wastewater treatment plants, system improvements, vehicles and equipment. A summary of the major infrastructure is as follows:

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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	Brunswick District	Glynn District	Total
Wastewater treatment facilities	1	2	3
Miles of gravity sewer lines	157	159	316
Miles of forced main sewer lines	38	69	107
Sewer manholes	3,459	4,368	7,827
Sewer lift stations	60	88	148
Water wells	7	15	22
Elevated water storage towers	6	4	10
Water pumping facilities	6	5	11
Miles of water lines	210	249	459
Fire hydrants	1,592	2,575	4,167

Although the Commission has scaled back on its aggressive capital improvement program because of the relatively flat population growth over the last three years, it is imperative that the Commission be poised to accommodate a steeper growth rate that may be somewhat similar to that of previous years.

### **Debt Administration:**

As an entity created by an act of the General Assembly of the State of Georgia, long-term borrowing by the Commission is provided through Revenue Bonds issued by the Commission and loans from the Georgia Environmental Finance Authority (GEFA).

On June 30, 2010, the Commission issued \$50,125,000 of Revenue Bonds at an average yield of 4.389086% and a final maturity of 2035. The proceeds from these bonds were used primarily to retire the outstanding water and sewer debt of the City of Brunswick (\$11,365,000) and of Glynn County (\$32,780,000) to enable transfer of ownership of the respective governments' water and sewer assets to the Commission. The Commission borrowed an additional \$5,000,000 to acquire an administrative facility and for other infrastructure projects. Other costs paid from the bond proceeds at issuance amounted to \$980,000.

The Series 2010C Revenue Bonds are the first debt issue by the Commission. The initial ratings for this insured issue are AAA from Standard & Poor's and Aa3 from Moody's.

On May 12, 2011, the Commission entered into an agreement with GEFA to borrow \$100,000 on GEFA loan #DWSRF 10-024, to replace segments of deteriorated cast iron pipe and to purchase state of the art leak detection equipment. The loan carries a 3% interest rate, a 2% closing cost and a 50% forgiveness of principal and interest. No amount was actually drawn on the loan during the year. Repayment of the loan will be made in monthly amounts over 5 years beginning one month after the completion of the project, currently estimated to be November, 2011.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **Currently Known Conditions Affecting Future Operations**

On June 16, 2011, the Commission adopted a revised five-year rate plan, based on the plan adopted in June 2010 and implemented a rate resolution consistent with that plan. The rate plan included a restructuring of the components of rates to identify revenue streams and to match those revenues to specific cost pools. All Commission customers are billed based on a uniform rate structure effective July 1, 2011.

In August, 2011 the Operations and Maintenance contract with United Water was terminated effective August 31, 2011. Commission personnel, supplemented by an estimated 19 additional employees, will perform the functions performed under that contract. The adopted budget for the fiscal year ending June 30, 2012 estimates a savings of approximately \$1,200,000, after a two month extension of the contract from July 1 to August 31, 2011.

### **Further Information**

This financial overview is designed to provide readers with a general overview of the Commission's finances, and to show accountability. If you have questions or would like further information about this financial report, you may contact officials at the Commission located at 700 Gloucester St, Suite 300, Brunswick, Georgia 31520.

**BRUNSWICK-GLYNN COUNTY JOINT  
WATER AND SEWER COMMISSION**

**STATEMENT OF NET ASSETS  
JUNE 30, 2011**

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<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 2,070,164
Accounts receivable, net of allowance for uncollectibles	3,250,422
Inventory	393,735
Prepaid expenses	238,582
Restricted assets:	
Cash	26,199,410
Investments	970,017
Accrued interest	14,202
	<hr/>
Total current assets	33,136,532
	<hr/>
<b>NON-CURRENT ASSETS</b>	
Capital assets:	
Land	1,592,148
Buildings	3,059,018
Improvements other than buildings	201,340,249
Vehicles	349,483
Machinery and equipment	1,004,639
	<hr/>
	207,345,537
Less accumulated depreciation	80,962,544
Total capital assets, net of accumulated depreciation	<hr/> 126,382,993
	<hr/>
Bond issuance costs, net of \$74,944 accumulated amortization	1,098,413
	<hr/>
Total non-current assets	127,481,406
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Total assets	160,617,938
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**See Notes to Financial Statements.**

<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Payable from current assets:	
Accounts payable	\$ 648,033
Retainage payable	19,843
Compensated absences payable	144,184
Accrued expenses and other liabilities	232,400
	<u>1,044,460</u>
 Payable from restricted assets:	
Accrued interest payable	176,659
Customer deposits payable	1,998,026
Current portion of revenue bonds payable	1,680,000
	<u>3,854,685</u>
 Total current liabilities	<u>4,899,145</u>
<b>LONG-TERM LIABILITIES</b>	
Revenue bonds payable, net	48,828,755
Compensated absences payable	209,541
Total long-term liabilities	<u>49,038,296</u>
 Total liabilities	<u>53,937,441</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	80,127,191
Restricted	9,884,511
Unrestricted	16,668,795
	<u>106,680,497</u>
Total net assets	<u>\$ 106,680,497</u>

**BRUNSWICK-GLYNN COUNTY JOINT  
WATER AND SEWER COMMISSION**

**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2011**

**Operating revenues:**

Charges for services:

Water sales	\$ 7,938,079
Sewer sales	12,770,444
Connection fees	472,352
Other fees and charges	1,478,069
Total operating revenues	22,658,944

**Operating expenses:**

Personnel services	5,613,800
Contractual services	4,742,985
Supplies	2,011,568
Electricity, natural gas, and other fuel	1,573,859
Other costs	4,771
Depreciation expense	5,262,349
Total operating expenses	19,209,332

Operating income	3,449,612
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**Non-operating revenues (expenses):**

Interest income	37,930
Interest expense and fiscal charges	(1,889,058)
Total non-operating revenues (expenses), net	(1,851,128)

Income before contributions	1,598,484
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**Capital contributions**

10,076,396

Change in net assets	11,674,880
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<b>Total net assets, beginning</b>	95,005,617
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<b>Total net assets, ending</b>	\$ 106,680,497
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**See Notes to Financial Statements.**

**BRUNSWICK-GLYNN COUNTY JOINT  
WATER AND SEWER COMMISSION**

**STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2011**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers and users	\$ 22,181,700
Payments to suppliers	(9,195,834)
Payments to employees	(5,520,335)
Net cash provided by operating activities	7,465,531

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Transfer in from City of Brunswick	154,234
Transfer in from Glynn County	46,000
Net cash provided by noncapital financing activities	200,234

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Payments for bond issuance costs	(6,500)
Purchases of capital assets	(1,478,879)
Principal payments on long-term borrowings	(1,565,000)
Interest paid on long-term borrowings	(1,992,316)
Net cash used in capital and related financing activities	(5,042,695)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchases of investments	(22,745)
Interest received	45,300
Net cash provided by investing activities	22,555

Net increase in cash 2,645,625

Cash and cash equivalents, beginning of year 25,623,949

Cash and cash equivalents, end of year \$ 28,269,574

**Classified as:**

Cash	\$ 2,070,164
Restricted assets, cash	26,199,410
	\$ 28,269,574

**BRUNSWICK-GLYNN COUNTY JOINT  
WATER AND SEWER COMMISSION**

**STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2011**

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**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED  
BY OPERATING ACTIVITIES**

Operating income	\$ 3,449,612
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	5,262,349
Changes in assets and liabilities:	
Increase in accounts receivable	(1,734,514)
Increase in allowance for bad debts	1,257,270
Increase in inventory	(7,993)
Increase in prepaid expenses	(50,445)
Increase in accounts payable and accrued expenses	78,767
Decrease in retainage payable	(997,998)
Increase in customer deposits payable	158,580
Increase in accrued compensated absences	49,903
Net cash provided by operating activities	<u>\$ 7,465,531</u>

**SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND  
CAPITAL AND RELATED FINANCING ACTIVITIES**

Capital contributions - capital assets	<u>\$ 9,876,162</u>
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**See Notes to Financial Statements.**

# BRUNSWICK-GLYNN COUNTY JOINT WATER AND SEWER COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Reporting Entity:**

The Brunswick-Glynn County Joint Water and Sewer Commission (the "Commission") was established by an act of the Georgia State Assembly in 2006 and approved by referendum on July 18, 2006. The Commission is governed by a five-member board of Commissioners. Members of the board are made up of two Glynn County, Georgia Commissioners, two City of Brunswick, Georgia Commissioners, and one citizen member. The Commission provides and accounts for the provision of water and sewer services to the residents of Glynn County and the City of Brunswick.

#### **Fund Accounting:**

The Commission uses one fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The fund presented in this report is a Proprietary Fund Type - *Enterprise Fund*. Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

#### **Measurement Focus:**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the statement of net assets. Net assets are segregated into capital assets net of related debt and restricted and unrestricted net asset components. Proprietary fund operating statements present increases (revenues) and decreases (expenses) in net total assets. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission are charges for goods and services provided. Operating expenses of the Commission include the cost of these goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Basis of Accounting:**

In accounting and reporting for its proprietary operations, the Commission applies all Governmental Accounting Standards Board (GASB) pronouncements, and applies all Financial Accounting Standards Board (FASB) pronouncements and interpretations issued on or before November 30, 1989. Such FASB pronouncements are applied unless they conflict or contradict GASB pronouncements. The Commission also has the option of following subsequent private-sector guidance, subject to the same limitation. The Commission has elected not to follow subsequent private-sector guidance.

#### **Management Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 period. Actual results could differ from those estimates.

#### **Cash and Investments:**

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Commission.

For purposes of the statement of cash flows, the Commission considers all highly liquid investments (including restricted assets) with an original maturity date of three months or less, and customer deposits to be cash equivalents.

Investments are stated at fair value.

#### **Customer Accounts Receivable:**

Customer accounts receivable include billed but uncollected amounts and unbilled receivables based upon a pro rata amount of subsequent monthly billings. Allowances for doubtful accounts are maintained based on historical results adjusted to reflect current conditions.

#### **Inventories:**

Inventories of materials and supplies are stated at cost, which approximates market, using the first-in, first-out (FIFO) method. The Commission uses the consumption method of accounting for inventory, in that as materials are purchased, they are coded to inventory and then as subsequently used, they are expensed in the fund.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Restricted Assets:**

Restricted cash and cash equivalents consist of two restricted fund types. Funds received in payment of customer deposits and refunds of customer deposits are recorded in this category. Funds received in payment of capital tap fees are also recorded in this category.

#### **Capital Assets:**

Capital assets are carried at cost. Donated capital assets are recorded at their estimated fair value at the date of donation. These assets are depreciated over the estimated useful life using the straight-line method. The Commission defines its capitalization policy as assets costing \$5,000 and having an estimated useful life of greater than three years.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. During the fiscal year ended June 30, 2011, \$221,899 of interest was capitalized.

Capital assets are depreciated using the straight line method over the following useful lives:

<u>Asset Category</u>	<u>Years</u>
Buildings	10-50
Improvements other than buildings	5-50
Vehicles	5
Machinery and equipment	2-25

#### **Capital Contributions:**

Capital contributions consist of contributions from Glynn County, the City of Brunswick, and local developers.

#### **Compensated Absences:**

The liability for compensated absences has been accrued and reported in the Statement of Net Assets. The Commission permits employees to accumulate earned but unused vacation and sick pay benefits. Employees may carry over a maximum of 400 hours of vacation time from year to year. Accumulated vacation benefits will be liquidated in future years as employees elect to use them or will be paid upon termination of employment. Accumulated sick pay benefits are not payable upon termination of employment. In the normal course of business, all payments of accumulated benefits will be funded by revenues of the year in which the benefits are paid. All compensated absences are accrued when earned by employees.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Compensated Absences (Continued):

An employee may accrue an unlimited amount of sick leave. Sick leave may be taken only for personal illness or illness of an immediate family member.

### NOTE 2. DEPOSITS AND INVESTMENTS

Total deposits and investments as of June 30, 2011, are summarized as follows:

As reported in the Statement of Net Assets:	
Cash	\$ 2,070,164
Restricted:	
Cash	26,199,410
Investments	970,017
	<u>\$ 29,239,591</u>
Cash deposited with financial institutions	<u>\$ 29,239,591</u>

**Credit risk.** State statutes authorize the Commission to invest in obligations of the State of Georgia or other states; obligations issued by the U.S. government; obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States; obligations of any corporation of the U.S. government; prime bankers' acceptances; the local government investment pool established by state law; repurchase agreements; and obligations of other political subdivisions of the State of Georgia. At June 30, 2011, the Commission's sole investment was a certificate of deposit issued by a local bank. The certificate matures on July 31, 2011.

**Interest Rate Risk.** The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Custodial Credit Risk – Deposits.** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2011, the Commission did not have any deposits which were uninsured or under collateralized as defined by GASB pronouncements.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 3. RECEIVABLES

Receivables, including the applicable allowances for uncollectible accounts, consisted of the following at June 30, 2011:

Receivables	\$ 6,445,443
Less allowance for uncollectibles	3,195,021
Net total receivables	<u><u>\$ 3,250,422</u></u>

### NOTE 4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011 is as follows:

	Beginning Balance	Increases	Transfers	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 623,079	\$ 969,069	\$ -	\$ 1,592,148
Construction in progress	13,450,335	-	(13,450,335)	-
Total	<u>14,073,414</u>	<u>969,069</u>	<u>(13,450,335)</u>	<u>1,592,148</u>
Capital assets, being depreciated:				
Buildings	3,042,478	16,540	-	3,059,018
Infrastructure	175,552,347	10,235,764	15,552,138	201,340,249
Machinery and equipment	2,750,875	355,567	(2,101,803)	1,004,639
Vehicles	349,483	-	-	349,483
Total	<u>181,695,183</u>	<u>10,607,871</u>	<u>13,450,335</u>	<u>205,753,389</u>
Less accumulated depreciation for:				
Buildings	(2,358,030)	(59,715)	-	(2,417,745)
Infrastructure	(71,089,957)	(5,006,564)	-	(76,096,521)
Machinery and equipment	(2,181,898)	(154,228)	-	(2,336,126)
Vehicles	(70,310)	(41,842)	-	(112,152)
Total	<u>(75,700,195)</u>	<u>(5,262,349)</u>	<u>-</u>	<u>(80,962,544)</u>
Total capital assets, being depreciated, net	<u>105,994,988</u>	<u>5,345,522</u>	<u>13,450,335</u>	<u>124,790,845</u>
Total capital assets, net	<u><u>\$ 120,068,402</u></u>	<u><u>\$ 6,314,591</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 126,382,993</u></u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5. LONG-TERM DEBT

The following is a summary of long-term debt activity for the year ended June 30, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable	\$ 50,125,000	\$ -	\$ (1,565,000)	\$ 48,560,000	\$ 1,680,000
Premium on revenue bonds	2,081,717	-	(132,962)	1,948,755	-
Total bonds payable	<u>52,206,717</u>	<u>-</u>	<u>(1,697,962)</u>	<u>50,508,755</u>	<u>1,680,000</u>
Compensated absences	<u>303,822</u>	<u>128,353</u>	<u>(78,450)</u>	<u>353,725</u>	<u>144,184</u>
Total long-term liabilities	<u>\$ 52,510,539</u>	<u>\$ 128,353</u>	<u>\$ (1,776,412)</u>	<u>\$ 50,862,480</u>	<u>\$ 1,824,184</u>

#### Revenue Bonds

In June 2010, the Commission issued Series 2010C Revenue Bonds in the amount of \$50,125,000. Principal payments are due each year on June 1, beginning June 1, 2011. Interest payments are due each December 1 and June 1, beginning December 1, 2010. The bonds are secured by a pledge of and lien on revenues of the water and sewer system and yield 3.0% to 5.0% interest.

Debt service requirements to maturity on the revenue bonds are as follows:

<u>Fiscal Year Payable</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 3,799,919	\$ 1,680,000	\$ 2,119,919
2013	3,804,519	1,735,000	2,069,519
2014	3,800,119	1,800,000	2,000,119
2015	3,798,119	1,870,000	1,928,119
2016	3,797,069	1,940,000	1,857,069
2017 - 2021	18,414,201	10,285,000	8,129,201
2022 - 2026	14,919,250	8,890,000	6,029,250
2027 - 2031	14,127,413	10,260,000	3,867,413
2032 - 2035	11,299,625	10,100,000	1,199,625
	<u>\$ 77,760,234</u>	<u>\$ 48,560,000</u>	<u>\$ 29,200,234</u>

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 6. DEFINED BENEFIT PENSION PLAN

#### Plan Description

The Commission's defined benefit pension plan, Brunswick-Glynn County Joint Water and Sewer Commission Retirement Plan, provides retirement, disability, and death benefits to plan members and beneficiaries. The Commission's pension plan is affiliated with the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer pension plan administered by the Georgia Municipal Association. The benefit provisions and all other requirements are established by the Commission. GMEBS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Georgia Municipal Association, Employee Benefit Section, 201 Pryor Street, SW, Atlanta, Georgia 30303.

#### Funding Policy

The funding policy for the Brunswick-Glynn County Joint Water and Sewer Commission Retirement Plan is to contribute an actuarially determined amount equal to the recommended contribution each year. The Commission makes all contributions to the Plan. The Commission is required to contribute at an actuarially determined rate; the current rate is 8.52% of annual covered payroll.

#### Annual Pension Cost

The Commission's annual recommended contribution for the pension plan year beginning July 1, 2010 was \$280,716. The recommended contribution was determined as part of the January 1, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return, (b) projected salary increases for inflation of 3.0% per year and for merit or seniority of .5% per year, and (c) no postretirement benefit increases or cost of living adjustments. The period, and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years, and current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provisions, and 30 years for actuarial assumptions and cost methods as a level dollar amount. These amortization periods, if applicable, are closed for this plan year. The method for determining the actuarial value of assets is part of GMEBS actuarial funding policy. It produces an adjusted actuarial value of assets. The smoothing technique gradually incorporates investment performance that exceeds or falls short of the expected return of 7.75%, which is the valuation's investment return assumption.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

#### Trend Information

Trend information which gives an indication of the progress made in accumulating sufficient assets to pay benefits when due, is presented below.

Fiscal Year Ending	Annual Pension Cost	Actual Commission Contribution	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
6/30/2011	\$ 280,716	\$ 280,716	100 %	\$ -

As of the most recent valuation date, January 1, 2011, the funded status of the Brunswick-Glynn County Joint Water and Sewer Commission Retirement Plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
01/01/11	\$ 931,611	\$ 2,108,420	\$ 1,176,809	44.2 %	\$ 3,657,603	32.2 %

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the actuarial accrued liability. 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 long-term perspective. Calculations are based on the substantive plan in effect as of January 1, 2011.

### NOTE 7. RISK MANAGEMENT

The Commission is exposed to various risks of loss related to: torts; theft of assets; damage to and destruction of assets; errors and omissions; and natural disasters. The Commission carries commercial insurance for these risks of loss, as well as other risks of loss such as workers' compensation insurance and general property and liability insurance.

## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 8. RELATED PARTY TRANSACTIONS**

Effective January 1, 2008, the water and wastewater functions of the City of Brunswick and Glynn County, Georgia, were assumed by the Commission. As a result, substantially all assets and liabilities related to these functions were transferred to the Commission. Capital contributions in the form of cash and assets from the City and County during the year ended June 30, 2011 totaled \$154,234 and \$9,839,012, respectively.

## **REQUIRED SUPPLEMENTARY INFORMATION**

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**BRUNSWICK-GLYNN COUNTY JOINT  
WATER & SEWER COMMISSION**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability</b>	<b>Unfunded Actuarial Accrued Liability</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll</b>
05/01/09	\$ 201,410	\$ 1,455,636	\$ 1,254,226	13.8 %	\$ 2,818,385	44.5 %
01/01/10	634,435	1,658,252	1,023,817	38.3	3,550,891	28.8
01/01/11	931,611	2,108,420	1,176,809	44.2	3,657,603	32.2

The assumptions used in the preparation of the above schedule are disclosed in Note 6 in the Notes to the Financial Statements. Information for prior years is not available as the plan was newly effective as of January 1, 2008.

**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***

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**To the Board of Commissioners of the  
Brunswick-Glynn County Joint Water and Sewer Commission  
Brunswick, Georgia**

We have audited the basic financial statements of the Brunswick-Glynn County Joint Water and Sewer Commission (the "Commission"), as of and for the year ended June 30, 2011, and have issued our report thereon dated September 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as items 2011-1 and 2011-2, that we consider to be significant deficiencies in internal control over financial reporting. 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 the attention by those charged with governance.

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**Compliance and Other Matters**

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

We noted certain matters that we reported to management of the Commission in a separate letter dated September 21, 2011.

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Commission's responses and, accordingly, we express no opinion on them.

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

*Mauldin & Jenkins, LLC*

Macon, Georgia  
September 21, 2011

**BRUNSWICK-GLYNN COUNTY JOINT  
WATER AND SEWER COMMISSION**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION I  
SUMMARY OF AUDIT RESULTS**

**Financial Statements**

Type of auditor's report issued Unqualified

Internal control over financial reporting:  
Material weaknesses identified?  yes  no

Significant deficiencies identified not considered  
to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Not applicable as a single audit was not performed for the year ended June 30, 2011 due to the Commission not expending \$500,000 or more of federal funds.

**SECTION II  
FINANCIAL STATEMENT FINDINGS AND RESPONSES**

**2011 - 1. Management of Capital Asset Accounts**

Criteria: Generally accepted accounting principles require that assets donated by outside parties be recorded at the estimated fair value on the date of donation.

Condition: The Commission did not properly address the above criteria as of June 30, 2011 as it relates to the contribution of certain infrastructure assets during the year ended June 30, 2011.

Context: See above condition.

Effect: An audit adjustment to increase capital assets and capital contributions by \$83,150 was required.

Recommendation: We recommend the Commission closely review all capital asset activity and record all appropriate entries.

Views of Responsible Officials and Planned Corrective Action: The Commission concurs with the finding. Contributed capital asset activity will be reviewed and properly recorded.

**BRUNSWICK-GLYNN COUNTY JOINT  
WATER AND SEWER COMMISSION**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION II  
FINANCIAL STATEMENT FINDINGS AND RESPONSES (Continued)**

**2011 - 2. Management of Accounts Payable**

Criteria: Generally accepted accounting principles require reporting of all current liabilities whose liquidation is expected to require the use of current assets when the goods have been received or services have been performed.

Condition: The Commission did not properly address the above criteria as of June 30, 2011 as it relates to accounts payable items.

Context: We addressed this matter with Commission officials, and they were able to determine the amount of accounts payable that should be recorded as of June 30, 2011.

Effect: An audit adjustment to increase accounts payable in the amount of \$51,278 was required for reporting as of June 30, 2011.

Recommendation: We recommend the Commission begin recognizing and recording accounts payable liabilities as required, and record the necessary adjustments to reflect the accounts payable balances at the conclusion of each financial reporting cycle.

Views of Responsible Officials and Planned Corrective Action: The Commission concurs with the finding. Data input and reconciliation processes have been instituted to correct this condition.

**SECTION III  
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

Not applicable.

# **BRUNSWICK-GLYNN COUNTY JOINT WATER AND SEWER COMMISSION**

## **SCHEDULE OF PRIOR YEAR FINDINGS FOR THE YEAR ENDED JUNE 30, 2011**

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### **2010 - 1. Management of Allowance for Doubtful Accounts**

Criteria: Generally accepted accounting principles require that an allowance be established for those amounts in accounts receivable that are not expected to be collected.

Condition: The Commission did not properly address the above criteria as of June 30, 2010 as it relates to the allowance for uncollectible accounts.

Auditee Response/Status: Resolved.

### **2010 - 2. Management of Accounts Payable and Accrued Liabilities**

Criteria: Generally accepted accounting principles require reporting of all current liabilities whose liquidation is expected to require the use of current assets when the goods have been received or services have been performed.

Condition: The Commission did not properly address the above criteria as of June 30, 2010 as it relates to accounts payable and accrued liability items.

Auditee Response/Status: Unresolved. See current year finding number 2011-2.