

Brunswick – Glynn County
Joint Water and Sewer Commission
Brunswick, Georgia

Financial Statements
And
Auditors' Report

June 30, 2014

Brunswick – Glynn County
Joint Water and Sewer Commission
Annual Financial Report
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June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Brunswick – Glynn County
Joint Water and Sewer Commission
700 Gloucester St
Brunswick, Georgia 31520

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Brunswick – Glynn County Joint Water and Sewer Commission (Commission), Brunswick, Georgia as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 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 Commission as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis beginning on page 1 and the Schedule of Funding Progress and the Schedule of Valuation Details on pages 21-22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2014, 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 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.

KRT, CPA&P.C.

Savannah, Georgia
October 17, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Brunswick-Glynn County Joint Water and Sewer Commission (the JWSC), we offer readers of the JWSC's financial statements this narrative overview and analysis of the financial activities of the JWSC for the fiscal year ended June 30, 2014. 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 JWSC operates as a single fund in a business-like manner. Thus, the JWSC 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 capital assets are included in the Statement of Net Position and are depreciated over their estimated useful life. Consequently, the JWSC's accounting practices generally resemble a commercial entity's approach.

Overview of the Financial Statements

Net Position: The following table reflects the overall financial condition of the JWSC as of the last two fiscal years.

	2014	2013
Current assets	\$ 9,011,954	\$ 5,857,324
Restricted assets	31,047,357	31,669,028
Capital assets	122,091,216	123,692,045
Other long-term assets	280,058	293,394
Total assets	162,430,585	161,616,303
Current liabilities	5,775,504	5,160,847
Long-term liabilities	43,234,667	45,244,307
Total liabilities	49,010,171	50,405,154
Invested in capital assets, net of related debt	85,179,142	84,845,990
Restricted for Debt Service	422,163	1,725,768
Restricted for Capital Projects	4,443,952	3,994,708
Unrestricted	23,375,157	20,540,171
Total net position	\$ 113,420,414	\$ 111,511,791

MANAGEMENT'S DISCUSSION AND ANALYSIS

In June 2010 the JWSC adopted a five year rate plan and implemented the fourth year of that plan by adoption of a rate resolution for the fiscal year ended June 30, 2014. 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. An increase in restricted operating, repairs and replacement and capital reserves reflects the funding of these reserves.

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

	2014	2013
Current Assets:		
Cash	\$ 4,985,644	\$ 1,736,918
Accounts receivable, net of allowance for uncollectables	3,133,654	3,114,568
Inventory	575,976	675,129
Prepaid expenses	316,680	330,709
	\$ 9,011,954	\$ 5,857,324
 Restricted Assets:		
Customer Deposits	\$ 2,524,094	\$ 3,473,038
 Series 2010C Bond Funds:		
Bond Construction Fund	4,163,461	4,163,201
Cost of Issuance Fund	102,957	102,950
Sinking Fund	319,206	1,622,818
Debt Service Reserve	3,805,143	3,804,905
 Capital Tap Fee Reserves:		
City of Brunswick	535,369	460,542
Saint Simons Island	1,161,184	949,771
North Mainland	2,467,005	2,381,211
South Mainland	280,394	203,184
 Operating, Repair and Replacement and Capital Reserves:		
	15,688,544	14,507,408
	\$ 31,047,357	\$ 31,669,028

The decrease in capital assets is largely due to depreciation of capital assets and the amortization of bond insurance costs.

The JWSC paid \$1,800,000 in principal and \$2,000,119 in interest expense on its Series 2010C Revenue Bond during the fiscal year ended June 30, 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	2014	2013
Operating revenues:		
Charges for services:		
Water sales	\$ 7,367,998	\$ 7,040,229
Sewer Sales	13,988,980	13,406,945
Connection Fees	446,091	455,079
Other fees and charges	1,559,600	1,962,006
Total operating revenues	<u>23,362,669</u>	<u>22,864,259</u>
Operating expenses:		
Personnel services	7,158,637	6,802,414
Contractual services	3,641,457	3,906,801
Supplies	2,434,502	1,917,971
Electricity, natural gas and other fuel	1,599,001	1,628,275
Depreciation expense	5,187,881	5,130,406
Total operating expenses	<u>20,021,478</u>	<u>19,385,867</u>
Operating income	<u>3,341,191</u>	<u>3,478,392</u>
Non-operating revenues (expenses):		
Interest income	54,852	59,737
Other income	11,043	0
Interest expense and fiscal charges	(1,873,971)	(2,009,252)
Total non-operating revenues (expenses), net	<u>(1,808,076)</u>	<u>(1,959,515)</u>
Income before contributions	1,533,115	1,518,877
Capital contributions	<u>780,663</u>	<u>835,528</u>
Change in net position	2,313,777	2,354,405
Total net position, beginning	<u>111,106,637</u>	<u>108,752,232</u>
Total net position, ending	<u>\$ 113,420,414</u>	<u>\$ 111,106,637</u>

Water and Sewer Revenues – As of June 30, 2014 the JWSC utilized a standardized billing structure 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 for Debt Recovery Charges. Administrative and usage charges are standardized throughout the service area. All meters are read electronically (radio read) each month and customers receive a monthly statement based on that reading. As of June 30, 2014 the JWSC has 28,599 billable service addresses: 15,135 in Brunswick, 9,665 on Saint Simons Island, 3,036 in the North Mainland and 763 in the South Mainland.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Debt Recovery Charges

Brunswick District:

Debt Recovery Charge (Water) – \$2.63 per Residential Equivalent Unit (REU)

Debt Recovery Charge (Sewer) – \$2.85 per Residential Equivalent Unit (REU)

Glynn Districts:

Debt Recovery Charge (Water) – \$2.76 per Residential Equivalent Unit (REU)

Debt Recovery Charge (Sewer) – \$9.21 per Residential Equivalent Unit (REU)

Administrative Fees and Usage Charges

All Districts:

Administrative Base Charge (Water) - \$4.66 per customer

Administrative Base Charge (Sewer) - \$4.66 per customer

Water revenues - All water is metered and sold at a usage rate per thousand gallons on an increasing step rate. The rates in place for the year ended June 30, 2014 were:

Water Usage Charges:

\$1.18 per thousand gallons for 3,000 or less gallons

\$1.58 per thousand gallons for 4,000 to 6,000 gallons

\$1.97 per thousand gallons for 7,000 to 12,000 gallons

\$2.45 per thousand gallons for 13,000 to 20,000 gallons

\$3.70 per thousand gallons for 21,000 or more total gallons

Sewer charges are based on metered water usage at the rate of \$5.48 per thousand gallons.

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 Brunswick District and the Glynn 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 JWSC is required to tap into the water or sewer main and run the service line to the customer's property, the JWSC charges a fee to recover the cost for doing so. In December 2010, the JWSC reduced the connection fee charges by 50%, to the current rates, in an effort to encourage construction and development.

Other fees and charges-The JWSC charges 1.5% of arrears per month for late payments. Additionally, as in past years, the JWSC 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.

MANAGEMENT’S DISCUSSION AND ANALYSIS

Personnel Services – This is the cost of the JWSC for the salaries and wages of personnel and the related payroll taxes and benefits provided. The JWSC employs 127 full time employees in seven departments and divisions. Administration and management includes the Office of the Director, Planning and Construction and the Finance departments with 34 employees. Wastewater operations include the Systems Pumping and Maintenance, and Wastewater Treatment divisions with 76 employees. The Water Production and Water Distribution divisions employ 17 people. The JWSC 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 JWSC is fully insured for workers compensation and is self-insured for unemployment insurance.

Contractual Services –This cost consist of services that are required for the functions and operations of the JWSC 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 JWSC.

Supplies– Infrastructure and Pump Maintenance supplies increased approximately \$440,000 from fiscal year 2013 to 2014 due to increased efforts in the repairs and maintenance of water production facilities and wastewater lift stations. These costs consist of the following:

	2014	2013
Chemicals	\$ 589,682	\$ 577,642
Infrastructure and Pump Maintenance	1,418,680	976,808
Office, Computer and Lab Supplies	153,106	188,968
Maintenance Supplies	139,341	153,579
Small Equipment	88,633	125,642
Uniforms	44,059	36,538
	\$ 2,434,502	\$ 2,061,190

Depreciation - This is the JWSC’s second largest expense line item. It continues to grow each year as the JWSC continues to complete construction projects and bring them on line. Capital Assets before depreciation, increased by \$2.786 million from June 30, 2013 to June 30, 2014.

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 JWSC Series 2010C Revenue Bond issued dated June 30, 2010. Fiscal charges for the year ended June 30, 2014 were paid in the amount of \$500.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Contributions –Capital contributions are received by the dedication of privately constructed infrastructure to the JWSC and the JWSC's acceptance of that infrastructure. These contributions totaled \$780,662 for the year. In all cases, the assets are recorded at fair market value and are capitalized by the JWSC.

Capital Asset and Debt Administration

Capital Assets:

The JWSC's investment in capital assets as of June 30, 2014 amounts to \$122,091,216 (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:

	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	3,475	4,368	7,843
Sewer lift stations	60	93	153

	Brunswick District	Glynn District	Total
Water wells	7	15	22
Elevated water storage towers	6	4	10
Water pumping facilities	6	6	12
Miles of water lines	257	289	546
Fire hydrants	1,612	2,648	4,260

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Debt Administration:

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

On June 30, 2010, the JWSC 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 JWSC. The JWSC 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 JWSC. The initial ratings for this insured issue are AAA from Standard & Poor's and Aa3 from Moody's.

The 2010C Revenue Bonds include a Rate Covenant containing the requirement that Net Revenues are at least equal to 1.10 times Debt Service in the then current Sinking Fund Year. For the current fiscal year this debt coverage ratio has been computed to be 2.26 as follows:

Income Before Contributions	\$	1,533,115
Add: Depreciation Expense		5,187,881
Amortization of Bond Insurance		13,336
Bond Interest (before amortization of premium)		<u>1,860,636</u>
	\$	8,594,968
Less: Interest on Construction Fund		<u>(260)</u>
	\$	8,594,708
2014 Debt Service	\$	3,800,119
Debt Coverage Ratio		2.26

MANAGEMENT'S DISCUSSION AND ANALYSIS

Currently Known Conditions Affecting Future Operations

On June 16, 2011, the JWSC adopted a revised five-year rate plan, based on the plan adopted in June 2010. On June 20, 2013 the JWSC implemented a rate resolution consistent with year three of that plan. The rate plan includes a restructuring of the components of rates to identify revenue streams and to match those revenues to specific cost pools. All JWSC customers are billed based on a uniform rate structure effective July 1, 2012.

Inclusion of a Repair and Replacement Reserve in the rate plan provided funding for \$1.392 million of expenditure on projects during the fiscal year and \$2.512 million of projects in progress as of June 30, 2014.

Further Information

This financial overview is designed to provide readers with a general overview of the JWSC'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 JWSC located at 700 Gloucester St, Suite 300, Brunswick, Georgia 31520.

This financial overview is designed to provide readers with a general overview of the JWSC'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 JWSC located at 700 Gloucester St, Suite 300, Brunswick, Georgia 31520.

BRUNSWICK – GLYNN COUNTY
JOINT WATER AND SEWER COMMISSION
Statement of Net Position
June 30, 2014

Assets	
Current assets	
Cash and cash equivalents.....	\$ 4,985,644
Accounts receivable, net of allowance for uncollectibles.....	3,133,654
Inventory.....	575,976
Prepaid expenses.....	316,680
Restricted cash and cash equivalents.....	31,047,357
Total current assets.....	<u>40,059,311</u>
Noncurrent assets	
Capital Assets:	
Nondepreciable assets.....	4,282,933
Depreciable assets.....	214,430,861
Less: accumulated depreciation.....	<u>(96,622,578)</u>
Capital assets, net of accumulated depreciation.....	<u>122,091,216</u>
Total noncurrent assets.....	<u>122,091,216</u>
Total assets.....	<u>162,150,527</u>
Deferred outflow of resources	
Bond insurance cost, net of \$53,344 accumulated amortization.....	280,058
Total assets and deferred outflow of resources.....	<u>\$ 162,430,585</u>
Liabilities	
Current liabilities	
Payable from current assets	
Accounts payable.....	\$ 901,493
Retainage payable.....	1,195
Accrued liabilities.....	203,717
Compensated absences.....	154,126
	<u>1,260,531</u>
Payable from restricted assets	
Customer Deposit Payable.....	2,484,296
Accrued bond interest.....	160,677
Revenue bond payable - current portion.....	1,870,000
	<u>4,514,973</u>
Total current liabilities	<u>5,775,504</u>
Noncurrent liabilities	
Compensated absences.....	223,989
Revenue bond payable, net.....	<u>43,010,678</u>
Total noncurrent liabilities.....	<u>43,234,667</u>
Total liabilities.....	<u>49,010,171</u>
Net Position	
Net investment in capital assets.....	85,179,142
Restricted for debt service.....	422,163
Restricted for capital projects.....	4,443,952
Unrestricted.....	23,375,157
Total net position.....	<u>113,420,414</u>
Total liabilities and net position.....	<u>\$ 162,430,585</u>

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

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

**Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014**

Operating revenues:	
Water charges.....	\$ 7,367,998
Sewer charges.....	13,988,980
Connection Fees.....	446,091
Other fees and charges.....	1,559,600
Total operating revenue.....	23,362,669
 Operating expenses:	
Personnel services.....	7,158,637
Contractual services.....	3,641,457
Supplies.....	2,434,502
Electricity, natural gas, and other fuel.....	1,599,001
Depreciation.....	5,187,881
Total operating expenses.....	20,021,478
Income from operations.....	3,341,191
 Nonoperating revenues (expenses):	
Interest income.....	54,852
Other income.....	11,043
Interest expense and fiscal charges.....	(1,873,971)
Total nonoperating revenues (expenses).....	(1,808,076)
Income before contributions.....	1,533,115
Capital contributions.....	780,662
Change in net position.....	2,313,777
Total net position, beginning of year.....	111,106,637
Total net position, end of year.....	\$ 113,420,414

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

**Statement of Cash Flows
For the Year Ended June 30, 2014**

Cash flows from operating activities:	
Cash received from customers.....	\$ 23,343,583
Cash payments to suppliers for goods and services.....	(7,022,804)
Cash payments to employees and related benefits.....	(7,153,111)
Net cash provided by operating activities.....	9,167,668
Cash flows from noncapital financing activities:	
Other.....	11,043
Net cash provided (used) by noncapital financing activities.....	11,043
Cash flows from capital and related financing activities:	
Purchases of capital assets.....	(2,806,389)
Principal payments on long-term borrowings.....	(1,800,000)
Interest paid on long-term borrowings.....	(2,000,119)
Net cash (used) by capital and related financing activities.....	(6,606,508)
Cash flows from investing activities:	
Interest received	54,852
Net cash provided by investing activities.....	54,852
Net increase (decrease) in cash and cash equivalents.....	2,627,055
Cash and cash equivalents, beginning of year.....	33,405,946
Cash and cash equivalents, end of year.....	\$ 36,033,001
Reconciliation of operating income to net cash provided by operating activities:	
Operating income.....	\$ 3,341,191
Adjustments to reconcile operating income to net cash provided by operating activities..	
Depreciation.....	5,187,881
Changes in assets and liabilities:	
Increase in accounts receivable.....	265,328
Decrease in allowance for bad debts.....	(284,414)
Decrease in inventory.....	99,153
Decrease in prepaid expenses.....	14,029
Increase in accounts payable.....	371,041
Increase in retainage payable.....	1,195
Increase in customer deposits payable.....	166,738
Increase in accrued liabilities.....	15,920
Decrease in compensated absences.....	(10,394)
Total adjustments.....	5,826,477
Net cash provided by operating activities.....	\$ 9,167,668
Supplemental schedule of noncash capital and related financing activities	
Amortization of insurance costs	\$ 13,336
Amortization of bond premium	\$ 133,483
Contributed assets	\$ 780,662

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

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

NOTES TO FINANCIAL STATEMENTS

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. The Act creating the Commission was amended in 2012 to change the structure of the governing body. As of January 1, 2013, the governing body consists of one member appointed by the City of Brunswick and one member appointed by Glynn County from their respective Boards of Commissioners; three members selected by the Grand Jury of Glynn County and two members elected in the state-wide general election. The Commission provides and accounts for the provision of water and sewer services to the residents of Glynn County and the City of Brunswick.

The Commission complies with GASB Statement No. 14, "The Financial Reporting Entity", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units" and GASB Statement No. 61 "The Financial Reporting Entity: Omnibus". These statements establish standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Commission does not have any component units as defined by the GASB Statements.

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 position. Net position is segregated into net investment in capital assets and restricted and unrestricted net position 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.

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

NOTES TO FINANCIAL STATEMENTS

Proprietary funds distinguished 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.

Basis of Accounting:

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Commission exclusively follows the standards set for by the GASB for its proprietary operations.

Management Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of American 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.

Restricted Assets:

Some of the Commission's assets have certain constraints that have been placed on how they can be used. By definition, restricted assets are cash or other assets whose use in whole or in part are restricted for specific purposes bound by virtue of contractual agreements, legal requirements or enabling legislation. Restricted cash and cash equivalents consist of three restricted fund types. Funds received in payment of customer deposits. Funds received in payment of capital tap fees are also recorded in this category and unspent bond proceeds restricted for construction.

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

NOTES TO FINANCIAL STATEMENTS

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 at least \$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.

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

<u>Asset Classification</u>	<u>Asset life</u>
Buildings	10- 50 years
Infrastructure	5-50 years
Machinery and Equipment	2-25 years
Vehicles	5 years

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 Position. 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.

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.

Long-Term Obligations:

The Commission has issued revenue bonds to finance capital construction. The outstanding balance is reported as a liability on the statement of net position. The amount of the obligation that is due within one year is shown as a current liability and the balance as a noncurrent liability.

Bond premiums, as well as bond insurance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium. Bond insurance costs are reported as a deferred outflow of resources and amortized over the term of the related debt.

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

NOTES TO FINANCIAL STATEMENTS

Net Position:

As required by Government Accounting Standards Board, the Commission classified net position into three components; net investment in capital assets, restricted, and unrestricted. These classifications of net position are defined as follows:

- Net investment in capital assets consists of all capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets. If there are significant unspent proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Instead, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted net position consists of constraints placed on net position through external restrictions imposed by creditors (e.g. debt covenants), grantors, contributors, laws, or regulations of other governments.
- Unrestricted net position consists of all other assets that do not meet the definition of 'restricted' or of 'net investment in capital assets'. Generally, net position represents those financial resources that are available to the Commission to meet any future obligations that might arise.

NOTE 2. DEPOSITS AND INVESTMENTS

Total deposits and investments as of June 30, 2014, are summarized as follows:

Cash	\$ 4,985,644
Restricted Cash:	
Series 2010C Bond Funds:	
Bond construction fund	4,163,461
Cost of issuance fund	102,957
Sinking fund	319,206
Debt service reserve	3,805,143
Capital Tap Fee Reserves:	
City of Brunswick	535,369
Saint Simons Island	1,161,184
North Mainland	2,467,005
South Mainland	280,394
Operating, Repair and Replacement and Capital Reserves	15,688,544
Customer Deposits	2,524,094
Total Restricted	31,047,357
Cash deposited with financial institutions	\$ 36,033,001

\$8,390,767 of the amount reported as restricted cash is held in money market mutual funds. The mutual funds limits its investments to short-term U.S. Treasury securities. However, these funds are not insured or guaranteed by the FDIC.

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

NOTES TO FINANCIAL STATEMENTS

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.

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, 2014, the Commission's deposits were included in a collateral pool and the Commission did not have any deposits which were uninsured or under collateralized as defined by GASB pronouncements.

NOTE 3. RECEIVABLES

Receivables, including the applicable allowances for uncollectible accounts, consisted of the following at June 30, 2014:

Outstanding Utility Bills	\$ 3,017,105
Unbilled Revenue	1,167,803
Total Gross Accounts Receivable	<u>4,184,908</u>
Less: Allowance for Doubtful Accounts	<u>(1,051,254)</u>
Net Accounts Receivable	<u><u>\$ 3,133,654</u></u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014 as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
<u>Capital assets, not being depreciated:</u>				
Land	\$ 1,770,658	\$ -	\$ -	\$ 1,770,658
Construction in progress	1,711,531	1,391,716	(590,972)	2,512,275
Total capital assets, not being depreciated	<u>3,482,189</u>	<u>1,391,716</u>	<u>(590,972)</u>	<u>4,282,933</u>
<u>Capital assets, being depreciated:</u>				
Buildings	337,363	846,403	-	1,183,766
Site Improvements	-	34,650	-	34,650
Infrastructure	200,795,318	1,336,984	-	202,132,302
Machinery and equipment	7,964,284	426,993	-	8,391,277
Vehicles	2,547,339	141,527	-	2,688,866
Total capital assets being depreciated	<u>211,644,304</u>	<u>2,786,557</u>	<u>-</u>	<u>214,430,861</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(146,974)	(13,378)	-	(160,352)
Infrastructure	(83,075,405)	(4,735,562)	-	(87,810,967)
Machinery and equipment	(6,303,806)	(304,764)	-	(6,608,570)
Vehicles	(1,908,513)	(134,176)	-	(2,042,689)
Total accumulated depreciation	<u>(91,434,698)</u>	<u>(5,187,880)</u>	<u>-</u>	<u>(96,622,578)</u>
Total capital assets being depreciated, net	<u>120,209,606</u>	<u>(2,401,323)</u>	<u>-</u>	<u>117,808,283</u>
Total capital assets, net	<u>\$ 123,691,795</u>	<u>\$ (1,009,607)</u>	<u>\$ (590,972)</u>	<u>\$ 122,091,216</u>

Capital asset beginning balances are different than 2013 ending balances due to a review and re-categorization of assets among categories. Overall, total beginning balances are the same as ending balances from 2013.

NOTE 5. LONG-TERM LIABILITIES

The following is a summary of long-term liabilities activity for the year ended June 30, 2014:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Revenue Bonds payable	\$ 45,145,000	\$ -	\$ (1,800,000)	\$ 43,345,000	\$ 1,870,000
Premium on revenue bonds	1,669,161	-	133,483	1,535,678	-
Total bonds payable	<u>46,814,161</u>	<u>-</u>	<u>(1,666,517)</u>	<u>44,880,678</u>	<u>1,870,000</u>
Compensated absences	<u>388,509</u>	<u>34,953</u>	<u>(45,347)</u>	<u>378,115</u>	<u>154,126</u>
Total long-term liabilities	<u>\$ 47,202,670</u>	<u>\$ 34,953</u>	<u>\$ (1,711,864)</u>	<u>\$ 45,258,793</u>	<u>\$ 2,024,126</u>

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

NOTES TO FINANCIAL STATEMENTS

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>
2015	\$ 3,798,119	\$ 1,870,000	\$ 1,928,119
2016	3,797,069	1,940,000	1,857,069
2017	3,799,469	2,020,000	1,779,469
2018	3,798,669	2,100,000	1,698,669
2019	3,795,919	2,170,000	1,625,919
2020-2024	16,285,194	9,380,000	6,905,194
2025-2029	14,129,850	9,385,000	4,744,850
2030-2034	14,124,663	11,775,000	2,349,663
2035-2039	2,826,725	2,705,000	121,725
Totals	<u>\$ 63,528,952</u>	<u>\$ 43,345,000</u>	<u>\$ 23,010,677</u>

NOTE 6. NET INVESTMENT IN CAPITAL ASSETS AND RESTRICTED NET POSITION

Financial statements prepared on the accrual basis of accounting show restrictions of net position as follows:

Restricted for debt service – These funds are set aside for the retirement of future debt payments in accordance with bond requirements.

Restricted for capital projects – These funds are capital tap fees collected that are restricted for the improvement of the water and sewer system infrastructure.

Net investment in capital assets – This amount is reported in the financial statements as follows:

Net Capital Assets	\$ 122,091,216
Unspent bond proceeds	4,163,461
Bond debt service reserve	3,805,143
Less: Capital related debt	(44,880,678)
Net investment in capital assets	<u>\$ 85,179,142</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 7. 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 Benefits 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 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 of 8.12% of annual covered payroll.

Annual Pension Cost

The Commission's annual recommended contribution for the pension plan year beginning July 1, 2013 was \$386,177. The recommended contribution was determined as part of the January 1, 2014 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 3.5% per year, and (c) no post-retirement 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, 10 years for temporary retirement incentive programs, 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 party 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.

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

NOTES TO FINANCIAL STATEMENTS

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	Actual Commission Contribution	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
6/30/2014	\$ 386,177	\$ 386,177	100%	100%	\$ -
6/30/2013	312,344	312,344	100%	100%	-
6/30/2012	316,895	316,895	100%	100%	-

As of the most recent valuation date, January 1, 2014, 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
1/1/2014	\$ 2,070,511	\$ 3,334,701	\$ 1,264,190	62.09%	\$ 4,365,506	28.96%

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 position is increasing or decreasing over time relative to the actuarial accrued liability. Actuarial valuations involved 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 a the future. Actuarial calculations reflect long-term perspective. Calculations are based on the substantive plan in effect as of January 1, 2014.

NOTE 8. 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.

**Brunswick – Glynn County
Joint Water and Sewer Commission**

**Required Supplementary Information
Schedule of Funding Progress**

June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded Actuarial Accrued Liability (UAAL) (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	Percentage of Covered Payroll (B - A)/C
5/1/2009	\$ 201,410	\$ 1,455,636	\$ 1,254,226	13.8%	\$ 2,818,385	44.5%
1/1/2010	634,435	1,658,252	1,023,817	38.26%	3,550,891	28.8%
1/1/2011	931,611	2,108,420	1,176,809	44.19%	3,657,603	32.2%
1/1/2012	1,248,505	2,411,772	1,163,267	51.77%	3,728,983	31.2%
1/1/2013	1,608,086	3,003,915	1,395,829	53.53%	4,673,334	29.9%
1/1/2014	2,070,511	3,334,701	1,264,190	62.09%	4,365,506	29.0%

**Brunswick – Glynn County
Joint Water and Sewer Commission**

**Required Supplementary Information
Schedule of Valuation Details**

June 30, 2014

Valuation Date	January 1, 2014
Actuarial cost method	Projected Unit Credit
Amortization method	Closed level dollar for remaining unfunded liability
Remaining Amortization period	Remaining amortization period varies for the bases, with a net effective amortization period of 21 years.
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 end of year. The actuarial value is adjusted, if necessary, to be within 50% of market value for 2009, 44% of market value for 2010, 38% of market value for 2011, 32% of market value for 2012, 26% of market value for 2013, and 20% of market value for 2014 and later years.
Actuarial assumptions:	
Net investment rate of return	7.75%
Projected Salary Increases	3.50% plus age and service based merit increases
Inflation	3.50%
Cost of Living Adjustments	0.00%



INDEPENDENT AUDITORS' 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

To the Brunswick – Glynn County
Joint Water and Sewer Commission
700 Gloucester St
Brunswick, Georgia 31520

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 Brunswick – Glynn County Joint Water and Sewer Commission (Commission) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated October 17, 2014.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as items 2014-001 – 2014-004.

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*.

We noted certain other matters that we reported to management of the Commission in a separate letter dated October 17, 2014.

Tel 912-232-0475 Fax 912-232-0478

6600 Abercorn Street, Suite 200 | Savannah, GA 31405 | P.O. Box 16149 | Savannah, GA 31416 | krtcpa.com

Commission's Response to Findings

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs, and these responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KRT, CPA&P.C.

Savannah, Georgia
October 17, 2014

BRUNSWICK – GLYNN COUNTY
JOINT WATER AND SEWER COMMISSION
JUNE 30, 2014

I. SCHEDULE OF FINDINGS AND RESPONSES

A. Summary of Auditors' Results

Financial Statements

1. The auditors' report expresses an unmodified opinion on the basic financial statements of Brunswick - Glynn County Joint Water and Sewer Commission (Commission).
2. Internal control over financial reporting:
 - a Material weakness(es) identified? _____ yes X no
 - b Significant deficiency(ies) identified that are not considered to be material weaknesses? X yes _____ none reported
3. Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Not applicable as a single audit was not performed for the year ended June 30, 2014 due to the Commission not expending \$500,000 or more of federal funds.

B. FINDINGS AND RESPONSES -- FINANCIAL STATEMENT AUDIT

Finding 2014-001: Management of Customer Account Adjustments (Recurring)

Condition and Background: Cashiers have the ability and access to enter account adjustments in GEMS. They also have access to un-numbered manual receipt books which are not tracked or controlled. Also, no adjustment report is reviewed to determine if all of the adjustments entered were approved.

Criteria: Best business practices would require a review of adjustments made to determine that no unauthorized adjustments are posted to customer accounts. Also, manual receipt books should be pre-numbered and locked up unless needed due to system failure. In the event of manual receipts book usage, receipts should be reconciled to the daily collections.

Effect: Unauthorized adjustments could be posted to customer accounts. In addition, uncontrolled manual receipts could provide opportunity for errors and irregularities.

Recommendation: We recommend computer controls be implemented to restrict the access for making customer account adjustments. Only certain personnel should have the ability to post adjustments to customer accounts. Additionally, a monthly reconciliation of adjustments made should be performed to ensure that no unauthorized adjustments have been posted. Pre-numbered receipts should be used when necessary and the numeric sequence should be monitored.

Management's Response: Management concurs with this finding. This condition is largely the result of the current software capabilities and functions. JWSC staff is currently in the process of implementation of a new customer service software and expects to resolve this finding.

BRUNSWICK – GLYNN COUNTY
JOINT WATER AND SEWER COMMISSION
JUNE 30, 2014

Finding 2014-002: Segregation of Duties over the Disbursement Process

Condition and Background: The finance department does not have adequate segregation of duties over disbursements. The CFO and accounts payable processor have system access to input and approve the entire cash disbursement cycle, including requisitions, purchase orders, creation of vendors, entry of invoices, cash disbursements, general ledger entry, and bank reconciliations. Also, there is no indication of bank reconciliation review or approval by management.

Criteria: Adequate internal controls over cash disbursements should be maintained.

Cause: Limited staff size of the finance department and assignment of duties.

Effect: Errors or irregularities could occur without detection.

Recommendation: Job duties should be reviewed and controls put in place to improve segregation of duties over disbursements. Also, documentation of a thorough review of bank reconciliations and cash disbursements should be completed by someone other than the accounts payable processor.

Management's Response: Management concurs with this finding. The JWSC implemented a new financial accounting software on May 1, 2014. This software implements internal software controls and approvals to greatly reduce this condition. Additional controls will be investigated.

Finding 2014-003: Utility Billing (RMS) Interface (Recurring)

Condition and Background: The utility billing interface with the general ledger does not appear to be properly posting transactions to the general ledger. In reviewing the transaction code / general ledger account association list, it appears that the transaction codes not related to a particular general ledger account has been associated with the general ledger account. This creates a difference between the amount that posts to the general ledger and the billing register or cash receipts journal. In reconciling the revenue cash account, the Commission must typically post an entry to adjust cash and revenue. Also, we noted that the customer accounts receivable account is consistently adjusted at month end to the actual customer accounts receivable listing. The net adjustments were immaterial to the financial statements.

Criteria: Transactions posting from a subsystem to the general ledger should be easily traceable to a billing or cash receipts listing.

Effect: This condition could result in errors or irregularities occurring and not detected in a timely manner.

Recommendation: We recommend that staff review the posting of the RMS and contact the computer system vendor to obtain the necessary information to trace the data through to the general ledger. Procedures should be established to ensure that transactions are properly recorded and processed on a monthly basis. We do understand that the Commission is in the process of implementing a new utility billing system. All data should be thoroughly tested and data reconciled to the supporting documentation.

Management's Response: Management concurs with this finding. This condition is largely the result of the current software capabilities and functions. JWSC staff is currently in the process of implementation of a new customer service software and expects to resolve this finding.

BRUNSWICK – GLYNN COUNTY
JOINT WATER AND SEWER COMMISSION
JUNE 30, 2014

Finding 2014-004: Parts Expenditures

Condition and Background: During our analytical review of expenditure accounts, it was noted the parts expense increased by 50%, an increase of over \$355,000 from the prior year. Over \$270,000 of this increase was attributed to inventory variance accounts. Management has asserted that this is most likely due to an account mapping issue with the new software, in which all parts ordered caused an increase to inventory, even if the part is ordered for a specific job and should not have been posted to inventory. Management is currently in the process of attempting to rectify this issue with the software vendor. There is no documented evidence by management of the invoices which caused this issue. The entire variance was posted to inventory variance accounts without investigation of individual purchases.

Criteria: Adequate internal controls over inventory and general ledger postings should be maintained.

Cause: Possible software implementation issue

Effect: Errors or irregularities could occur without detection and be posted to variance accounts.

Recommendation: We recommend maintaining a detailed listing of invoices related to the variances and additional monitoring of inventory balances, purchase orders and invoice processing until the software issue is resolved.

Management's Response: Management concurs with this finding. The JWSC is currently working to establish an electronic interface between the financial software and a separate software that records work orders for maintenance, repair and upkeep of infrastructure to automate the recording of the use of materials and supplies. This interface will replace the manual processes currently in place.