

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

Financial Statements
And
Auditors' Report

June 30, 2012

Brunswick – Glynn County
Joint Water and Sewer Commission
Annual Financial Report
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June 30, 2012

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KARP, RONNING & TINDOL

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

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, 2012, which collectively comprise the Commission's basic financial statements 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 respective financial position of the Commission as of June 30, 2012, and the respective changes in financial position and cash flows thereof 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 October 10, 2012, 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* and should be considered in assessing the results of our audit.

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 on page 20 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.

Karp, Ronning & Tindol, P.C.

October 10, 2012

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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, 2012. 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 fixed assets are included in the Statement of Net Assets 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 Assets:The following table reflects the overall financial condition of the JWSC as of the last two fiscal years.

	2012	2011
Current assets	\$ 5,462,664	\$ 5,952,903
Restricted assets	31,119,098	27,183,629
Capital assets	124,015,872	126,382,993
Other long-term assets	1,018,669	1,098,413
Total assets	<u>161,616,303</u>	<u>160,617,938</u>
Current liabilities	5,044,968	4,899,145
Long-term liabilities	47,171,676	49,038,296
Total liabilities	<u>52,216,644</u>	<u>53,937,441</u>
Invested in capital assets, net of related debt	83,296,215	80,127,191
Restricted	5,746,195	9,884,511
Unrestricted	20,357,249	16,668,795
Total net assets	<u>\$ 109,399,659</u>	<u>\$ 106,680,497</u>

In June 2010 the JWSC adopted a five year rate plan and implemented the second year of that plan by adoption of a rate resolution for the fiscal year ended June 30, 2012. 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 assets reflects the funding of these reserves. Accounts receivable, net of allowance for uncollectables, decreased approximately 9.1% over the year due in part to increased collection efforts.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	2012	2011
Current Assets:		
Cash	\$ 1,666,279	\$ 2,070,164
Accounts receivable, net of allowance for uncollectables	2,953,947	3,250,422
Inventory	557,864	393,735
Prepaid expenses	275,543	238,582
	\$ 5,453,633	\$ 5,952,903
 Restricted Assets:		
Customer Deposits	\$ 3,466,180	\$ 3,459,255
 Series 2010C Bond Funds:		
Bond Construction Fund	4,162,946	4,252,953
Cost of Issuance Fund	136,052	204,645
Sinking Fund	1,623,394	1,622,373
Debt Service Reserve	3,804,673	3,804,519
 Capital Tap Fee Reserves:		
City of Brunswick	459,624	458,706
Saint Simons Island	947,879	826,430
North Mainland	2,376,467	2,327,928
South Mainland	202,779	191,822
 Operating, Repair and Replacement and Capital Reserves:		
	13,948,135	10,034,977
	\$ 31,128,129	\$ 27,183,629

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

Current liabilities increased \$212,482 due to an increase in the current portion of 2010C Revenue Bonds and an increase in the amount of customer deposits held. Decreases totaling \$66,659 in other liabilities such as accounts payable, accrued interest on bonds payable, retainage payable and accrued compensated absences result in a net increase of \$145,823.

The JWSC paid \$1,680,000 in principal and \$2,119,919 in interest expense on its Series 2010C Revenue Bond during the fiscal year ended June 30, 2012.

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.

	2012	2011
Operating revenues:		
Charges for services:		
Water sales	\$ 6,987,843	\$ 7,938,079
Sewer Sales	13,045,234	12,770,444
Connection Fees	341,950	472,352
Other fees and charges	1,418,910	1,478,069
Total operating revenues	21,793,937	22,658,944
Operating expenses:		
Personnel services	6,499,104	5,613,800
Contractual services	3,428,196	4,742,985
Supplies	1,718,765	2,016,339
Electricity, natural gas and other fuel	1,643,544	1,573,859
Depreciation expense	5,341,497	5,262,349
Total operating expenses	18,631,106	19,209,332
Operating income	3,162,831	3,449,612
Non-operating revenues (expenses):		
Interest income	52,275	37,930
Grant income	50,000	0
Interest expense and fiscal charges	(2,048,326)	(1,889,058)
Total non-operating revenues (expenses), net	(1,946,051)	(1,851,128)
Income before contributions	1,216,780	1,598,484
Capital contributions	1,502,382	10,076,396
Change in net assets	2,719,162	11,674,880
Total net assets, beginning	106,680,497	95,005,617
Total net assets, ending	\$ 109,399,659	\$ 106,680,497

Water and Sewer Revenues – As of June 30, 2012 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, 2012 the JWSC has 28,020 billable service addresses: 15,085 in Brunswick, 9,349 on Saint Simons Island, 2,910 in the North Mainland and 676 in the South Mainland.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Debt Recovery Charges

City of Brunswick District:

Debt Recovery Charge (Water) – \$2.46 per Residential Equivalent Unit (REU)

Debt Recovery Charge (Sewer) – \$2.84 per Residential Equivalent Unit (REU)

Glynn County Districts:

Debt Recovery Charge (Water) – \$2.50 per Residential Equivalent Unit (REU)

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

Administrative Fees and Usage Charges

All Districts:

Administrative Base Charge (Water) - \$4.56 per customer

Administrative Base Charge (Sewer) - \$4.56 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, 2012 were:

Water Usage Charges:

\$1.16 per thousand gallons for 3,000 or less gallons

\$1.55 per thousand gallons for 4,000 to 6,000 gallons

\$1.94 per thousand gallons for 7,000 to 12,000 gallons

\$2.42 per thousand gallons for 13,000 to 20,000 gallons

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

Sewer charges are based on metered water usage at the rate of \$5.17 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. 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 JWSC reduced the connection fee charges by 50%, to the current rates, in an effort to encourage construction and development.

MANAGEMENT’S DISCUSSION AND ANALYSIS

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.

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 six 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 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. On August 31, 2011 the JWSC cancelled an Operations and Maintenance Contract with United Water with an annual cost of \$2.5 million. With the cancellation of the contract the JWSC added 19 employees and assumed the operation and maintenance of the systems which resulted in a savings in excess of \$1.4 million.

Supplies– These costs consists of the following:

	2012	2011
Chemicals	\$ 699,150	\$ 1,116,266
Pumps and Pump Maintenance	452,801	394,902
Office, Computer and Lab Supplies	245,280	316,940
Maintenance Supplies	156,754	115,225
Small Equipment	130,099	46,830
Uniforms	34,681	21,405
	\$ 1,718,765	\$ 2,013,579

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 \$2.974 million from June 30, 2011 to June 30, 2012.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2012 were paid in the amount of \$500.

Capital Contributions – Capital contributions are received from multiple sources. Glynn County retained funds to complete projects it had begun prior to the formation of the JWSC 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 JWSC. Glynn County contributions totaled \$1,469,112 for the year. Capital contributions are also received by the dedication of privately constructed infrastructure to the JWSC and the JWSC's acceptance of that infrastructure. These contributions totaled \$33,270 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, 2012 amounts to \$124,015,872 (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	3,459	4,368	7,827
Sewer lift stations	60	93	153
Water wells	7	15	22
Elevated water storage towers	6	4	10
Water pumping facilities	6	6	12
Miles of water lines	239	264	503
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 four 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 2.29 as follows:

Income Before Contributions	\$	1,216,780
Add: Depreciation Expense		5,341,497
Amortization of Bond Cost		79,744
Bond Interest (before amortization of premium)		<u>2,119,919</u>
	\$	8,757,940
Less: Grant Income		(50,000)
Interest on Construction Fund		<u>(274)</u>
	\$	8,707,666
2012 Debt Service	\$	3,799,919
Debt Coverage Ratio		2.29

On May 12, 2011, the JWSC 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. \$100,000 was drawn on the loan during the year. Repayment of the loan was made in the amount \$50,000 on June 1, 2012 and \$50,000 of grant revenue was recorded.

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 19, 2012 the JWSC implemented a rate resolution consistent with year two 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, 2011.

Inclusion of a Repair and Replacement Reserve in the rate plan provided funding for \$1 million of expenditure on projects during the fiscal year and \$3.2 million of projects in progress as of September 30, 2012.

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.

BRUNSWICK – GLYNN COUNTY
JOINT WATER AND SEWER COMMISSION
Statement of Net Assets
June 30, 2012

Assets	
Current assets	
Cash and cash equivalents.....	\$ 1,666,279
Accounts receivable, net of allowance for uncollectibles.....	2,953,947
Inventory.....	557,864
Prepaid expenses.....	275,543
Restricted cash and cash equivalents.....	30,133,561
Investments.....	985,537
Accrued interest income.....	9,031
Total current assets.....	<u>36,581,762</u>
Noncurrent assets	
Bond issuance cost, net of \$154,688 accumulated amortization.....	1,018,669
Capital Assets:	
Land.....	1,718,140
Buildings.....	3,068,718
Improvements other than buildings.....	202,980,721
Vehicles.....	561,596
Machinery and equipment.....	1,360,716
Construction in Progress.....	630,021
Less: accumulated depreciation.....	<u>(86,304,040)</u>
Capital assets, net of accumulated depreciation.....	<u>124,015,872</u>
Total Noncurrent assets.....	<u>125,034,541</u>
Total assets.....	<u>\$ 161,616,303</u>
Liabilities	
Current liabilities	
Payable from current assets	
Accounts payable.....	\$ 680,266
Accrued liabilities.....	156,549
Compensated absences.....	150,968
	<u>987,783</u>
Payable from restricted assets	
Customer Deposit Payable.....	2,155,508
Accrued bond interest.....	166,677
Revenue bond payable - current portion.....	1,735,000
	<u>4,057,185</u>
Total current liabilities	<u>5,044,968</u>
Noncurrent liabilities	
Compensated absences.....	219,400
Revenue bond payable, net.....	46,952,276
Total noncurrent liabilities.....	<u>47,171,676</u>
Total liabilities.....	<u>52,216,644</u>
Net Assets	
Invested in capital assets, net of related debt.....	83,296,215
Restricted for debt service.....	1,759,446
Restricted for capital projects.....	3,986,749
Unrestricted.....	20,357,249
Total net assets.....	<u>109,399,659</u>
Total Liabilities and Net Assets.....	<u>\$ 161,616,303</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 Assets
For the Year Ended June 30, 2012**

Operating revenues:	
Water charges.....	\$ 6,987,843
Sewer charges.....	13,045,234
Connection Fees.....	341,950
Other fees and charges.....	1,404,786
Bad Debt Recovery.....	14,124
Total operating revenue.....	21,793,937
Operating expenses:	
Personnel services.....	6,499,104
Contractual services.....	3,428,196
Supplies.....	1,718,765
Electricity, natural gas, and other fuel.....	1,643,544
Depreciation.....	5,341,497
Total operating expenses.....	18,631,106
Income from operations.....	3,162,831
Nonoperating revenues (expenses):	
Interest income.....	52,275
Grant Income.....	50,000
Interest expense and fiscal charges.....	(2,048,326)
Total nonoperating revenues (expenses).....	(1,946,051)
Income before contributions.....	1,216,780
Capital contributions.....	1,502,382
Change in net assets.....	2,719,162
Total net assets, beginning of year.....	106,680,497
Total net assets, end of year.....	\$ 109,399,659

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

**Statement of Cash Flows
For the Year Ended June 30, 2012**

Cash flows from operating activities:	
Cash received from customers.....	\$ 22,090,412
Cash payments to suppliers for goods and services.....	(6,821,728)
Cash payments to employees and related benefits.....	(6,558,312)
Net cash provided by operating activities.....	<u>8,710,372</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets.....	(1,422,113)
Capital grants.....	50,000
Principal payments on long-term borrowings.....	(1,730,000)
Interest paid on long-term borrowings.....	(2,119,919)
Net cash (used) by capital and related financing activities.....	<u>(5,222,032)</u>
Cash flows from investing activities:	
Purchase of investments.....	(15,520)
Interest received	57,446
Net cash provided by investing activities.....	<u>41,926</u>
Net increase (decrease) in cash and cash equivalents.....	3,530,266
Cash and cash equivalents, beginning of year.....	<u>28,269,574</u>
Cash and cash equivalents, end of year.....	<u>\$ 31,799,840</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income.....	\$ 3,162,831
Adjustments to reconcile operating income to net cash provided by operating activities..	
Depreciation.....	5,341,497
Changes in assets and liabilities:	
Decrease in accounts receivable.....	1,278,066
Decrease in allowance for bad debts.....	(981,591)
Increase in inventory.....	(164,129)
Increase in prepaid expenses.....	(36,962)
Decrease in accounts payable.....	32,229
Decrease in retainage payable.....	(19,843)
Increase in customer deposits payable.....	157,482
Decrease in accrued liabilities.....	(75,851)
Increase in compensated absences.....	16,643
Total adjustments.....	<u>5,547,541</u>
Net cash provided by operating activities.....	<u>\$ 8,710,372</u>
Supplemental schedule of noncash capital and related financing activities	
Amortization of debt costs.....	<u>\$ 79,744</u>
Amortization of bond premium.....	<u>\$ 141,479</u>
Contributed assets.....	<u>\$ 1,502,382</u>

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. 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 invested in 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 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.

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

NOTES TO FINANCIAL STATEMENTS

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.

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

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

NOTES TO FINANCIAL STATEMENTS

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.

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
Improvements other than buildings	5-50 years
Vehicles	5 years
Machinery and Equipment	2-25 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 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.

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.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2. DEPOSITS AND INVESTMENTS

Total deposits and investments as of June 30, 2012, are summarized as follows:

Cash	<u>\$ 1,666,279</u>
Restricted:	
Cash	30,133,561
Investments	<u>985,537</u>
Total Restricted	<u>31,119,098</u>
Cash deposited with financial institutions	<u><u>\$ 32,785,377</u></u>

\$9,727,065 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.

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, 2012, the Commission's sole investment was a certificate of deposit issued by a local bank.

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, 2012, 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, 2012:

Outstanding Utility Bills	\$ 4,217,181
Unbilled Revenue	<u>950,196</u>
Total Gross Accounts Receivable	5,167,377
Less: Allowance for Doubtful Accounts	<u>(2,213,430)</u>
Net Accounts Receivable	<u><u>\$ 2,953,947</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, 2012 as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
<u>Capital assets, not being depreciated:</u>				
Land	\$ 1,592,148	\$ 125,992	\$ -	\$ 1,718,140
Construction in progress	-	630,021	-	630,021
Total capital assets, not being depreciated	<u>1,592,148</u>	<u>756,013</u>	<u>-</u>	<u>2,348,161</u>
<u>Capital assets, being depreciated:</u>				
Buildings	3,059,018	9,700	-	3,068,718
Infrastructure	201,340,249	1,640,472	-	202,980,721
Machinery and equipment	1,004,639	356,077	-	1,360,716
Vehicles	349,483	212,113	-	561,596
Total capital assets being depreciated	<u>205,753,389</u>	<u>2,218,362</u>	<u>-</u>	<u>207,971,751</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(2,417,745)	(60,859)	-	(2,478,604)
Infrastructure	(76,096,521)	(5,054,719)	-	(81,151,240)
Machinery and equipment	(2,336,126)	(162,864)	-	(2,498,990)
Vehicles	(112,152)	(63,054)	-	(175,206)
Total accumulated depreciation	<u>(80,962,544)</u>	<u>(5,341,496)</u>	<u>-</u>	<u>(86,304,040)</u>
Total capital assets being depreciated, net	<u>124,790,845</u>	<u>(3,123,134)</u>	<u>-</u>	<u>121,667,711</u>
Total capital assets. Net	<u>\$ 126,382,993</u>	<u>\$ (2,367,121)</u>	<u>\$ -</u>	<u>\$ 124,015,872</u>

NOTE 5. LONG-TERM DEBT

The following is a summary of long-term debt activity for the year ended June 30, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Revenue Bonds payable	\$ 48,560,000	\$ -	\$ (1,680,000)	\$ 46,880,000	\$ 1,735,000
Premium on revenue bonds	1,948,755	-	(141,479)	1,807,276	-
Total bonds payable	<u>50,508,755</u>	<u>-</u>	<u>(1,821,479)</u>	<u>48,687,276</u>	<u>1,735,000</u>
GEFA Loan	-	50,000	(50,000)	-	-
Compensated absences	<u>353,725</u>	<u>196,585</u>	<u>(179,942)</u>	<u>370,368</u>	<u>150,968</u>
Total long-term liabilities	<u>\$ 50,862,480</u>	<u>\$ 196,585</u>	<u>\$ (2,001,421)</u>	<u>\$ 49,057,644</u>	<u>\$ 1,885,968</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>
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	3,799,469	2,020,000	1,779,469
2018-2022	17,836,332	10,100,000	7,736,332
2023-2027	14,522,700	8,920,000	5,602,700
2028-2032	16,948,963	13,325,000	3,623,963
2033-2037	5,653,025	5,170,000	483,025
Totals	<u>\$ 68,307,290</u>	<u>\$ 46,880,000</u>	<u>\$ 27,080,315</u>

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 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 8.23% of annual covered payroll.

Annual Pension Cost

The Commission's annual recommended contribution for the pension plan year beginning July 1, 2011 was \$316,895. The recommended contribution was determined as part of the January 1, 2012 actuarial valuation

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

NOTES TO FINANCIAL STATEMENTS

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 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, 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.

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
6/30/2012	\$ 316,895	\$ 316,895	100%	100%	\$ -

As of the most recent valuation date, January 1, 2012, 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
1/1/2012	\$ 1,248,505	\$ 2,411,772	\$ 1,163,267	51.77%	\$ 3,728,983	31.20%

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 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 the future. Actuarial calculations reflect long-term perspective. Calculations are based on the substantive plan in effect as of January 1, 2012.

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

NOTES TO FINANCIAL STATEMENTS

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.

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 capital asset contributions from the County during the year ended June 30, 2012 totaled \$1,469,112.

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

**Required Supplementary Information
Schedule of Funding Progress**

June 30, 2012

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%

The assumptions used in the preparation of the above schedule are disclosed in Note 6 in the Notes to the Financial Statements.

KARP, RONNING & TINDOL

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited the financial statements of the business-type activities of Brunswick – Glynn County Joint Water and Sewer Commission (Commission), as of and for the year ended June 30, 2012, and have issued our report thereon dated October 10, 2012. 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 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.

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 that we consider to be significant deficiencies in internal control over financial reporting as items 2012-01 through 2012-04. 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.

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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 October 10, 2012.

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 response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Board of Commissioners, management, 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.

Kap, Renning & Tindel, P.C.

October 10, 2012

BRUNSWICK – GLYNN COUNTY
JOINT WATER AND SEWER COMMISSION
JUNE 30, 2012

I. SCHEDULE OF FINDINGS AND RESPONSES

A. Summary of Auditors' Results

Financial Statements

1. The auditors' report expresses an unqualified 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, 2012 due to the Commission not expending \$500,000 or more of federal funds.

B. FINDINGS AND RESPONSES -- FINANCIAL STATEMENT AUDIT

Finding 2012-01: Management of Accounts Payable (Repeat)

Condition and Background: The Commission did not record all accounts payable for the fiscal year. The Commission's accounts payable system records expenses based upon the invoice date not the date the goods or services were received.

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

Effect: The effect of this condition is that there is an increased risk that liabilities will be understated.

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

Management's Response: Management concurs with the findings. This is a recurring finding. The accounts payable system currently utilized by the JWSC requires input by the invoice date opposed to the date of service. Therefore, all invoices received subsequent to the end of the fiscal year must be manually adjusted. Consequently, invoices are omitted in this manual process. Procedures and practices will be instituted to accurately record all account payable transactions at the fiscal year end. All persons responsible for purchasing, receiving and recording invoices will receive additional training in procedures prior to year end each fiscal year.

BRUNSWICK – GLYNN COUNTY
JOINT WATER AND SEWER COMMISSION
JUNE 30, 2012

Finding 2012-02: Capital Assets

Condition and Background: Our review of the capital asset listing detected that equipment and vehicles are classified as infrastructure. The capital assets noted were contributed to the Commission by the City and County.

Criteria: Accurate classification of capital assets are necessary for proper presentation on the Commission's financial statements.

Effect: This could result in a misstatement of capital assets on the financial statements.

Recommendation: We recommend that the Commission review the capital asset listing and reclassify assets to the appropriate classification. Also, a physical inventory of the assets should be conducted to ensure that the reported assets are still in operation by the Commission.

Management's Response: Management concurs with the findings. The fixed asset schedules will be reviewed and items reclassified to the proper general ledger accounts. Management will begin developing a physical inventory process.

Finding 2012-03: Purchase Order and Accounts Payable Approval Documentation

Condition and Background: During our test work of disbursements, we noted in many instances that the procurement process and approvals of the invoices were performed electronically. Based on discussions with Commission personnel, the financial system is set up to only allow a purchase order to print or payment of an invoice if an authorized user electronically approves the purchase order or invoice for payment. However, this electronic authorization cannot be viewed on the computer system.

Criteria: In order to determine if purchases and payments are approved in accordance with the Commission's policy, the system should provide documentation of the approvals.

Effect: Increased risk that purchases are made without the appropriate approvals.

Recommendation: We recommend that the Commission have the software vendor modify the purchasing and accounts payable module to provide an audit trail of the levels approval of a purchase.

Management's Response: Management concurs with this finding. The software vendor has been informed of this finding and is researching a resolution.

BRUNSWICK – GLYNN COUNTY
JOINT WATER AND SEWER COMMISSION
JUNE 30, 2012

Finding 2012-04: Bank Reconciliations and Reconciliation Reviews

Condition and Background: Bank reconciliations were not completed in a timely manner, and the Payroll Bank reconciliations appears to be incorrect. Our testing of the payroll liabilities account indicated that the federal tax deposit was made prior to June 30. However, the tax deposit was not transmitted until 7-5-12. Further review of the payroll bank reconciliation showed that the reconciliation is in agreement with the general ledger but the recorded payroll tax deposit was not carried as an outstanding reconciling transfer. Since the general ledger has reflected the transfer, a reconciling item would be required in order to balance the reconciliation to the general ledger.

Criteria: Sound accounting processes include reconciliation of bank accounts in a timely manner.

Effect: Errors and irregularities could occur and not be detected in a timely manner.

Recommendation: We recommend the Commission review the payroll account bank reconciliation for accuracy and correct the general ledger. Also, all bank reconciliations should be reviewed in a timely manner.

Management's Response: Management concurs with this finding. Several steps are being taken to provide more timely reconciliations including implementation of accounts receivable and cash receipting modules of the software and modification of procedures.