

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

**ANNUAL FINANCIAL REPORT**

**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA**  
**WATER AND SEWER COMMISSION**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2020 AND 2019**

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1-2
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	4-9
<b>FINANCIAL STATEMENTS</b>	
Statements of Fund Net Position-Proprietary Fund	12-13
Statements of Revenues, Expenses, and Changes in Fund Net Position-Proprietary Fund	14
Statements of Cash Flows-Proprietary Fund	15-16
Notes to Financial Statements	18-40
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of Changes in the Net Pension Liability and Related Ratios-Retirement Plan	42
Schedule of Contributions-Retirement Plan	43
Schedule of Changes in the Total OPEB Liability and Related Ratios-Other Postemployment Benefits Plan	44
<b>COMPLIANCE SECTION</b>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	46-47
Schedule of Findings and Responses	48

**INDEPENDENT AUDITOR'S REPORT**

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## INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners  
McDuffie County/City of Thomson, Georgia  
Water and Sewer Commission  
Thomson, Georgia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the McDuffie County/City of Thomson, Georgia Water and Sewer Commission (the "Commission") as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

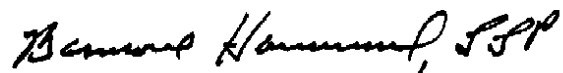
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the McDuffie County/City of Thomson, Georgia Water and Sewer Commission as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net pension liability and related ratios – retirement plan, schedule of contributions – retirement plan, and schedule of changes in the total OPEB liability and related ratios – other postemployment benefits plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our 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, September 3, 2021 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.



Thomson, Georgia  
September 2, 2021

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Within this section of the McDuffie County/City of Thomson, Georgia Water and Sewer Commission's (the "Commission") annual financial report, the Commission's management is pleased to provide this narrative discussion and analysis of the financial activities of the Commission for the year ended December 31, 2020.

**Financial Highlights**

- Total assets and deferred outflows of resources of the Commission exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$ 30,062,096 (net position). Of this amount, \$ 3,697,108 (unrestricted net position) may be used to meet the Commission's ongoing obligations to citizens and creditors.
- The Commission's total net position increased by \$ 968,593 during 2020.
- For the year ended December 31, 2020, the Commission recognized net income from operations of \$ 4,666. Non-operating revenues increased by \$ 45,774, primarily due to an increase in special local option sales tax and other intergovernmental revenues, whereas, non-operating expenses decreased by \$ 35,257. Capital contributions increased by \$ 989,832 and represent capital assets transferred in from City CDBG projects completed during the year.
- The Commission's total long-term debt decreased by \$ 171,060.

**Overview of the Financial Statements**

This Management Discussion and Analysis document introduces the Commission's financial statements. The financial statements include: (1) fund financial statements and (2) notes to the financial statements. Comparative data is presented when available.

***Financial Statements***

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Commission is comprised of a single proprietary fund which is accounted for as an enterprise fund. Enterprise funds use a perspective similar to that found in the private sector, whereby, the financial statements are prepared on the accrual basis of accounting.

The Commission's annual report includes three financial statements. These statements provide both long-term and short-term information about the Commission's overall financial status.

The first of these financial statements is the *Statement of Fund Net Position-Proprietary Fund*. This is a statement of financial position, which presents all of the Commission's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission as a whole is improving or deteriorating.

The second financial statement is the *Statement of Revenues, Expenses, and Changes in Fund Net Position-Proprietary Fund*, which reports how the Commission's net position changed during the current year.

The third financial statement is the *Statement of Cash Flows-Proprietary Fund*. This statement reports the cash provided by and used for operating activities, noncapital and capital financing activities, and investing activities with the difference reported as an increase or decrease in cash and cash equivalents for the year. Transactions not requiring the use of cash are reported as noncash investing, capital, and financing activities.

The financial statements are presented on pages 12 - 16 of this report.



## Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the Commission's financial statements. The notes to the financial statements begin on page 18 of this report.

### Financial Analysis of the Commission as a Whole

As noted earlier, net position may serve over time, as a useful indicator of whether the financial position of the Commission is improving or deteriorating. As of December 31, 2020, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$ 30,062,096 (net position).

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>NET POSITION</b>			
<b>Assets</b>			
Unrestricted current assets	\$ 5,168,996	\$ 4,467,054	\$ 3,892,717
Restricted assets	1,021,772	1,017,919	1,013,128
Water contracts	75,309	82,840	90,371
Capital assets, net of accumulated depreciation	<u>33,928,696</u>	<u>33,568,115</u>	<u>34,394,797</u>
Total assets	<u>40,194,773</u>	<u>39,135,928</u>	<u>39,391,013</u>
Deferred outflows of resources	<u>432,051</u>	<u>148,010</u>	<u>141,017</u>
<b>Liabilities</b>			
Current liabilities	935,708	924,443	892,270
Non-current liabilities	<u>9,616,441</u>	<u>9,256,212</u>	<u>9,641,931</u>
Total liabilities	<u>10,552,149</u>	<u>10,180,655</u>	<u>10,534,201</u>
Deferred inflows of resources	<u>12,579</u>	<u>9,780</u>	<u>118,591</u>
<b>Net position</b>			
Net investment in capital assets	25,343,216	24,857,593	25,195,864
Restricted for debt service	1,021,772	1,017,919	1,013,128
Unrestricted	<u>3,697,108</u>	<u>3,217,991</u>	<u>2,670,246</u>
Total net position	<u>\$ 30,062,096</u>	<u>\$ 29,093,503</u>	<u>\$ 28,879,238</u>

Total net position increased by \$ 968,593 during 2020. By far the largest portion of the Commission's net position (84.30 percent) reflects its investment in capital assets (e.g. land, buildings and improvements, plant and facilities, machinery and equipment, autos and trucks, and water capacity rights); less any related debt used to acquire those assets still outstanding. The Commission uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the Commission's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Commission's net position totaling \$ 1,021,772 (3.40 percent) represents resources that are restricted for debt service. The remaining net position totaling \$ 3,697,108 (12.30 percent) is unrestricted and as such, is available to meet the Commission's ongoing obligations to its customers and creditors.

Current assets represent amounts that are available to pay current liabilities. For the year ended December 31, 2020, unrestricted current assets totaled \$ 5,168,996, an increase of \$ 701,942 from 2019. The increase is attributable to an increase in cash of \$ 584,394, accounts receivable of \$ 89,487, intergovernmental receivables of \$ 45,408, inventories of \$ 5,912, prepaids of \$ 1,299 and a decrease in accrued interest receivable of \$ 24,558.

Restricted assets held under covenants prescribed by the bond document increased by \$ 3,853 during 2020.

Deferred outflows of resources, which include pension plan payments made subsequent to the measurement date, the difference between expected and actual experience on pension plan demographic and economic changes, changes in assumptions, and the net difference between projected and actual earnings on pension plan investments totaled \$ 432,051 at December 31, 2020, representing an increase of \$ 284,041 from 2019.

Other liabilities, amounts due and payable within the next year, including current maturities of long-term debt, totaled \$ 935,708 as of December 31, 2020, which represents an increase of \$ 11,265 from 2019. The increase consists of increases in accounts payable, customer deposits, and intergovernmental payables of \$ 18,633, \$ 7,292, and \$ 4,071, respectively. Accrued expenses and the current portion of long-term debt decreased by \$ 17,887 and \$ 844, respectively.

The Commission is reporting deferred inflows of resources totaling \$ 12,579 at December 31, 2020. These inflows represent deferred charges related to the pension plan and include the difference between expected and actual experience on pension plan demographic and economic changes. This amount represents an increase of \$ 2,799 from 2019.

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

**CHANGES IN NET POSITION**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Revenues			
Operating revenues			
Charges for services	\$ 5,657,557	\$ 5,516,187	\$ 5,236,564
Non-operating revenues			
Capital contributions	989,832	-	204,748
Special local option sales tax	154,992	67,375	74,154
Other	70,154	111,997	43,318
	<u>6,872,535</u>	<u>5,695,559</u>	<u>5,558,784</u>
Total revenues			
Expenses			
Operating expenses	5,652,891	5,194,986	5,046,869
Non-operating expenses			
Interest expense	251,051	262,068	271,316
Other	-	24,240	-
	<u>5,903,942</u>	<u>5,481,294</u>	<u>5,318,185</u>
Total expenses			
Change in net position	<u>968,593</u>	<u>214,265</u>	<u>240,599</u>
Net position, beginning of year, as originally reported	29,093,503	28,879,238	28,630,921
Implementation effect of GASB Statement No. 75	<u>-</u>	<u>-</u>	<u>7,718</u>
Net position, beginning of year, as restated	<u>29,093,503</u>	<u>28,879,238</u>	<u>28,638,639</u>
Net position, end of year	<u>\$ 30,062,096</u>	<u>\$ 29,093,503</u>	<u>\$ 28,879,238</u>

Revenues for charges and services increased in 2020 by \$ 141,370, which represents an increase of 2.56 percent.

The City of Thomson, Georgia (the "City") and McDuffie County, Georgia (the "County") contribute capital assets funded with capital grants awarded in their names to the Commission upon completion of the projects. The City contributed capital assets from two CDBG capital projects in 2020 with a cost basis of \$ 989,832.

Proceeds from the special local option sales tax (SPLOST) are used to fund the local match on capital projects funded with federal and state capital grants, locally funded capital projects, and purchases of other water and sewer capital assets. The use of SPLOST funds is discretionary and is voted on and approved by the Commission. Accordingly, SPLOST proceeds recognized in a given year are dependent on the size and number of capital projects being undertaken by the Commission during the year. SPLOST funding received during 2020 totaled \$ 154,992.

Other non-operating revenues decreased by \$ 41,843 which is attributable to an increase in intergovernmental revenues of \$ 45,000 and decreases in sales of surplus property of \$ 4,300, insurance claims of \$ 24,533, and interest income of \$ 58,010.

Operating expenses increased by \$ 457,905 in 2020. This increase includes additional costs for personnel services and benefits of \$ 468,194, professional and technical services of \$ 61,239, repairs and maintenance of \$ 20,590, other costs of \$ 16,746, depreciation of \$ 39,866, and bad debts of \$ 8,933. Costs incurred for other purchased services, supplies, and intergovernmental decreased in 2020 by \$ 76,829, \$ 5,694 and \$ 75,140, respectively.

### **Capital Assets**

The Commission's investment in capital assets as of December 31, 2020 totaled \$ 33,928,696 (net of accumulated depreciation) which represents a net increase of \$ 360,581. This investment in capital assets includes land, buildings and improvements, plant and facilities, machinery and equipment, autos and trucks, construction in progress, and water capacity rights.

During 2012, the Commission assumed all water and sewer related debts of the County and the Town of Dearing, Georgia (the "Town") in exchange for exclusive use of the underlying assets and all future revenues derived therefrom. The exclusive rights granted to the Commission totaled \$ 6,083,014, which represents the total debt assumed, net of cash contributed by the County and the Town. These rights are described as "water capacity rights" and are accounted for as capital assets in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Water capacity rights are being amortized using the straight-line method. Amortization of water capacity rights totaled \$ 293,157 for the year ended December 31, 2020 and is reported as part of depreciation expense in the financial statements.

Capital asset additions for 2020 include water and sewer system improvements totaling \$ 989,832, installation of new water control panel totaling \$ 86,500, purchase of sewer jetter truck totaling \$ 125,141, closing in bay for jetter storage totaling \$ 26,522, replacement of a vertical turbine pump totaling \$ 13,649, replacement of commercial meter totaling \$ 26,629, and the purchase of a portable meter totaling \$ 6,551. Construction in progress as of December 31, 2020 totaled \$ 746,691, which includes preliminary engineering costs for the Sills Branch/Germany Creek gravity main project, the Augusta Road Water Treatment Plant and Usry Pond raw water pump project, the advanced metering infrastructure project, wastewater treatment plant improvements, SCADA project, and the raw water intake project.

These additions were funded with water and sewer revenues, funds held in the renewal and extension fund, SPLOST proceeds, loan proceeds from the Georgia Environmental Finance Authority (GEFA), and capital contributions from the City's completed CDBG capital projects.

Machinery and equipment with an original cost basis of \$ 51,636 and a book basis of \$ 0 were traded in on the sewer jetter truck. No gain was recognized on the trade.

Annual depreciation expense, including amortization of water capacity rights described above, recorded in 2020 totaled \$ 1,444,183.

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

Additional information on capital assets can be found in Note 4 to the financial statements of this report.

### **Debt Administration**

On August 31, 2012, the City and the County, passed a joint resolution calling for the issuance of water and sewerage revenue refunding bonds (Series 2012A) to refinance, in part, all existing water and sewer related debt of the Commission, the County and the Town. Proceeds from the Series 2012A Bonds, after discounts of \$ 70,906, totaled \$ 9,799,094. As of December 31, 2020, the principal balance of the Series 2012A bonds was \$ 8,090,000.

During 2016, the Commission, in conjunction with the City, entered into a capital lease to purchase equipment and a service vehicle. The Commission's proportionate share of the lease proceeds and quarterly payments totaled \$ 75,842 and \$ 4,047, respectively. As of December 31, 2020 the outstanding principal balance on the capital lease was \$ 4,020.

(Continued)

On June 8, 2018, the Commission entered into a capital lease to purchase equipment. Proceeds from the lease totaled \$111,046 and the monthly payment of principal and interest is \$ 2,005. As of December 31, 2020 the outstanding principal balance of the capital lease was \$ 55,888.

On December 19, 2018, the City entered into a loan agreement with the Drinking Water State Revolving Fund administered by GEFA to finance upgrades and improvements at the Augusta Road Water Treatment Plant and the Usry Pond Raw Water Pump Station. Proceeds of this loan, as currently modified, total \$ 1,352,900 and will be drawn down as construction on the project progresses. As of December 31, 2020, \$ 111,376 has been advanced on this loan.

On July 30, 2019, the City entered into a loan agreement with the Drinking Water State Revolving Fund administered by GEFA to purchase and install advanced metering infrastructure. Proceeds of this loan, as currently modified, total \$ 1,694,000 and will be drawn down as construction on the project progresses. As of December 31, 2020, \$ 308,499 has been advanced on this loan.

On May 13, 2021, The City approved an additional loan from the Drinking Water State Revolving Fund administered by GEFA to finance upgrades and improvements at the wastewater treatment plant. Proceeds of this loan are estimated to be \$ 8,361,000 and will be drawn down as construction on the project progresses. As of December 31, 2020, no funds have been advanced on this loan.

Advances on the GEFA loans, totaling \$ 419,875, are described as “construction loan advances” and are reported as a noncurrent liability in the Statements of Fund Net Position-Proprietary Fund.

There was no other outstanding debt as of December 31, 2020.

Additional information on long-term debt can be found in Note 5 to the financial statements of this report.

### **Economic Factors Affecting the Water and Sewer Commission**

The Commission is committed to providing its customers with high quality drinking water, reliable sewage delivery systems, and facilities to treat wastewater in a safe and responsible manner. This commitment is demonstrated in the Commission’s efforts to provide operator training and certification, monitoring of the systems inflows and outflows, evaluation of existing systems, and exploring new technologies to enhance and improve its delivery systems.

While many state and local governments face legal challenges to water rights and struggle with the possibility of shortages in water supply, the Commission has planned for and positioned itself with an ample source of water for generations to come. The Commission’s two water treatment plants provide quality drinking water for a large majority of County residents. Additional revenues are generated through agreements with other local governments to purchase a limited amount of water from the system. These agreements provide a cost effective means of providing water to households and industries that might not have been available otherwise.

The Commission fully understands that access to adequate, reliable, and well maintained water and sewer systems is a key component in attracting new industries and residential developments to the community. Water and sewer services have been extended to a large majority of the local industrial parks and major improvements have been made to many residential neighborhoods throughout the service area. These expansions and improvements have been funded in large part by capital grants that do not have to be repaid, low interest loans with extended repayment terms, and a special local option sales tax that is funded in large part by individuals living outside of the community. The Commission, along with its participating local governments, actively pursue available low cost funding sources for future expansion and improvements to the system.

### **Request for Information**

This financial report is designed to provide a general overview of the McDuffie County/City of Thomson, Georgia Water and Sewer Commission’s finances for those with an interest in the Commission’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to John Waller, City Administrator, P.O. Box 1017, Thomson, Georgia 30824.

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## **FINANCIAL STATEMENTS**

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

	December 31,	
	2020	2019
<b>ASSETS</b>		
Current assets		
Cash	\$ 4,352,834	\$ 3,768,440
Restricted cash	260,568	255,915
Accounts receivable (net of allowance for uncollectible accounts of \$ 323,260 for 2020 and \$ 299,113 for 2019)	721,342	631,855
Interest receivable	572	25,130
Intergovernmental receivables	46,018	610
Inventories	22,354	16,442
Prepays	25,876	24,577
Total current assets	5,429,564	4,722,969
Noncurrent assets		
Restricted cash	761,204	762,004
Water contracts	75,309	82,840
Capital assets		
Land	246,026	246,026
Buildings and improvements	101,137	74,615
Plant and facilities	51,916,281	50,799,672
Machinery and equipment	1,032,414	1,077,499
Autos and trucks	822,701	697,559
Water capacity rights	6,083,014	6,083,014
Construction in progress	746,691	216,751
Less accumulated depreciation	(27,019,568)	(25,627,021)
Total capital assets (net of accumulated depreciation)	33,928,696	33,568,115
Total noncurrent assets	34,765,209	34,412,959
Total assets	40,194,773	39,135,928
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows related to pension plan	432,051	148,010
Total deferred outflows of resources	432,051	148,010
Total assets and deferred outflows of resources	40,626,824	39,283,938

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



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

	December 31,	
	2020	2019
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	116,953	98,320
Customer deposits	177,082	169,790
Intergovernmental payables	21,555	17,484
Accrued expenses	77,749	95,636
Current portion of capital lease payable	26,624	37,706
Current liabilities payable from restricted assets		
Current portion of revenue bonds payable	515,745	505,507
Total current liabilities	935,708	924,443
Noncurrent liabilities		
Capital lease payable	33,284	59,908
Revenue bonds payable	7,543,934	8,059,679
Construction loan advances	419,875	47,722
Net pension liability	1,169,276	783,617
Total OPEB liability	450,072	305,286
Total noncurrent liabilities	9,616,441	9,256,212
Total liabilities	10,552,149	10,180,655
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows related to pension plan	12,579	9,780
Total liabilities and deferred inflows of resources	10,564,728	10,190,435
<b>NET POSITION</b>		
Net investment in capital assets	25,343,216	24,857,593
Restricted for debt service	1,021,772	1,017,919
Unrestricted	3,697,108	3,217,991
Total net position	\$ 30,062,096	\$ 29,093,503

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

**McDUFFIE COUNTY/CITY OF THOMSON, GEORGIA**  
**WATER AND SEWER COMMISSION**  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUND

	For the Years Ended	
	December 31,	
	<u>2020</u>	<u>2019</u>
<b>OPERATING REVENUES</b>		
Charges for sales and services		
Water and sewer sales	\$ 5,468,439	\$ 5,298,392
Penalties	70,118	105,072
Other services	119,000	112,723
	<u>5,657,557</u>	<u>5,516,187</u>
Total operating revenues		
<b>OPERATING EXPENSES</b>		
Personnel services and benefits	1,945,953	1,477,759
Professional and technical services	143,847	82,608
Repairs and maintenance	434,107	413,517
Other purchased services	806,775	883,604
Supplies	605,198	610,892
Intergovernmental	177,430	252,570
Other	63,720	46,974
Depreciation	1,444,183	1,404,317
Amortization	7,531	7,531
Bad debts	24,147	15,214
	<u>5,652,891</u>	<u>5,194,986</u>
Total operating expenses		
Operating income	<u>4,666</u>	<u>321,201</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Special local option sales tax	154,992	67,375
Intergovernmental	45,000	-
Gain on sale of surplus property	-	4,300
Insurance claims	-	24,533
Interest income	25,154	83,164
Loan origination fees	-	(24,240)
Interest expense	(251,051)	(262,068)
	<u>(25,905)</u>	<u>(106,936)</u>
Total non-operating expenses		
Income (loss) before contributions	(21,239)	214,265
<b>CAPITAL CONTRIBUTIONS</b>	<u>989,832</u>	<u>-</u>
Change in net position	968,593	214,265
<b>NET POSITION, BEGINNING OF YEAR,</b>	<u>29,093,503</u>	<u>28,879,238</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 30,062,096</u>	<u>\$ 29,093,503</u>

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

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

	For the Years Ended	
	December 31,	
	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 5,551,825	\$ 5,454,549
Payments to suppliers	(2,263,356)	(2,280,442)
Payments to employees	(1,713,141)	(1,480,248)
	<u>1,575,328</u>	<u>1,693,859</u>
Net cash provided by operating activities		
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from special local option sales tax	154,992	67,375
Proceeds from intergovernmental agencies	45,000	-
Proceeds from construction loan advances	326,135	47,722
Proceeds from insurance claims	-	24,533
Proceeds from sale of surplus property	-	4,300
Purchases and construction of capital assets	(768,914)	(581,850)
Payments on long-term debt	(543,213)	(536,598)
Interest paid	(250,793)	(257,365)
Loan origination fees paid	-	(24,240)
	<u>(1,036,793)</u>	<u>(1,256,123)</u>
Net cash used in capital and related financing activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	49,712	78,963
	<u>49,712</u>	<u>78,963</u>
Net cash provided by investing activities		
Net increase in cash	588,247	516,699
Cash, beginning of year	4,786,359	4,269,660
Cash, end of year	<u>\$ 5,374,606</u>	<u>\$ 4,786,359</u>
<b>CASH PER STATEMENTS OF FUND NET POSITION-PROPRIETARY FUND</b>		
Cash	\$ 4,352,834	\$ 3,768,440
Restricted cash-current	260,568	255,915
Restricted cash-noncurrent	761,204	762,004
	<u>\$ 5,374,606</u>	<u>\$ 4,786,359</u>

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

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

	For the Years Ended	
	December 31,	
	2020	2019
<b>RECONCILIATION OF OPERATING INCOME TO NET</b>		
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 4,666	\$ 321,201
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,444,183	1,404,317
Amortization	7,531	7,531
Other pension related charges	104,417	64,891
Other post employment benefits (OPEB)	144,786	(69,130)
(Increase) decrease in current assets		
Accounts receivable	(89,487)	(59,933)
Intergovernmental receivables	(45,408)	5,486
Inventories	(5,912)	(2,127)
Prepays	(1,299)	(1,654)
Increase (decrease) in current liabilities		
Accounts payable	18,633	11,195
Intergovernmental payables	4,071	3,161
Customer deposits	7,292	8,023
Accrued expenses	(18,145)	898
Total adjustments	1,570,662	1,372,658
Net cash provided by operating activities	\$ 1,575,328	\$ 1,693,859
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Contribution of capital assets from other government	\$ 989,832	\$ -
Total noncash investing, capital and financing activities	\$ 989,832	\$ -

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

**NOTES TO FINANCIAL STATEMENTS**

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Introduction**

The financial statements of the McDuffie County/City of Thomson, Georgia Water and Sewer Commission (the "Commission") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accompanying summary of the Commission's more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report.

**B. The Financial Reporting Entity**

McDuffie County, Georgia (the "County") and the City of Thomson, Georgia (the "City") entered into an agreement to establish the McDuffie County/City of Thomson, Georgia Water and Sewer Commission to operate, maintain and extend the Water and Sewerage System (the "System") for the residents of the City and County. On April 1, 1988, the Commission assumed ownership and operations of the City of Thomson Water and Sewer Enterprise Fund and began collecting a 1% special purpose local option sales tax to fund expansion of the existing System. The terms of the agreement are binding for a period of 50 years commencing on April 1, 1988. A seven-member board administers the Commission and is composed of the County Commission Chairman, one County Commissioner, one resident of the County, the Mayor of the City, one City Council member, one City resident, and one County resident appointed by the Commission.

The County and City equally own and maintain the System and any future improvements to it. The County administers the special 1% construction fund, as well as, grants and loans obtained in the County's name for expansion of the System. The City is responsible for any construction funds derived from grants and loans obtained in the City's name, as well as, all funds from operating the System. Daily operations of the System are carried out by the City's water and sewer department. All funds generated by the System are to be used for operating, maintaining, improving, or expanding the System.

Based on the standards established by GASB Statement No. 14, *The Financial Reporting Entity*, the Commission is a separate organization classified as a joint venture.

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (1) an ongoing financial interest or (2) an ongoing financial responsibility. Joint ventures are established for a number of reasons, ranging from economies of scales to effective risk management while providing a service directly to the individual governments involved or the citizens served by the governments. Joint control means that no one entity can unilaterally control the operational and financial policies of the commonly controlled entity.

An ongoing financial interest in a joint venture is present when the agreement stipulates that participating governments have an explicit, measurable right to the present and future net resources of the venture.

A participating government has an ongoing financial responsibility if it is obligated in some manner for the debts of a joint venture or when the joint venture's existence depends on continued funding by the participating government.

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The Commission is a proprietary fund operating as an enterprise fund. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with financial-related legal and contractual provisions.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission's enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Budgetary Accounting and Control**

The Commission's annual budget is adopted by the Mayor and City Council as part of the City's management duties. Prior to September 1, a proposed operating budget is submitted for the fiscal year commencing the following January 1. The operating budget includes proposed expenses and the means of financing them. Public hearings are conducted to obtain public input. Prior to November 1, the budget is legally enacted through the passage of a resolution. The City, in its administration of Commission funds, is authorized to amend the adopted budget when unexpected modifications are required in estimated revenues and expenses. Budget appropriations lapse at year-end.

The Commission's budget differs in perspective to GAAP whereby the legally adopted budget is on the cash basis, capital expenditures are accounted for as expenses, and in its classifications and the order in which line item expenditures are presented.

The Commission's budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenses are budgeted by department and character (personnel services, maintenance and operations, capital outlay, and debt service) which constitutes the legal level of control. Expenses may not exceed appropriations at this level. All budget revisions at this level are subject to final review by the Commission. Within these control levels, management may transfer appropriations without Commission approval. Revisions to the budget were made throughout the year.

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position**

**Cash**

The Commission's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments that mature within three months of the date acquired by the Commission.

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Receivables**

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

Unbilled utility service receivables are recorded at year-end. As of December 31, 2020 and 2019, unbilled receivables totaled \$ 354,781 and \$ 292,858, respectively.

**Intergovernmental Receivables and Payables**

The Commission receives funding from federal, state, and local governments for capital projects and operations. In addition, the Commission remits payment to the participating governments for the Commission's share of common operating costs. The amounts due from and due to the other governments, related to these agreements, are recorded as intergovernmental receivables and payables.

**Inventories**

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consist of various supplies of pipes, meters, and other items that may be needed for repairs, maintenance, or minor construction projects.

**Prepays**

The Commission uses the allocation method for accounting for prepaids. Under the allocation method, an asset is established at the date of payment and subsequently amortized over the accounting periods that are expected to benefit from the initial payment.

**Restricted Assets**

The restricted cash reflects amounts set aside for debt service related to the bonds payable. The bond resolution requires a reserve account to be maintained equal to the debt service requirements of the bonds. The resolution also requires a sinking fund to be maintained equal to one-sixth of the next ensuing interest payment and one-twelfth of the next ensuing principal payment. Both of these accounts are restricted for debt service.

**Capital Assets**

Capital assets are defined by the Commission as assets with an initial individual cost greater than \$ 5,000 (amount not rounded) and an estimated useful life in excess of one year. Individual assets that cost less than \$ 5,000, but that operate as part of a network system, are capitalized in the aggregate using the group method if considered material or significant. Capital assets are valued at historical cost or estimated historical cost if historical cost is not available. Donated capital assets are valued at their acquisition value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

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



**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Depreciation of capital assets is charged as an expense against operations and accumulated depreciation is reported on the Statements of Fund Net Position. Depreciation has been provided using the straight-line method over the assets' estimated useful lives as follows:

Buildings and improvements	25-40 years
Plant and facilities	25-50 years
Machinery and equipment	5-7 years
Autos and trucks	5 years
Water capacity rights	5-20 years

Water capacity rights granted to the Commission for the exclusive use of other government-owned systems and revenues derived therefrom are accounted for as capital assets. Amortization is being provided for using the straight-line method.

**Compensated Absences**

Employees may accumulate up to 20 days of unused vacation leave to be received as compensation upon separation from service. Accumulated vacation pay totaled \$ 51,507 and \$ 38,114 for the years ended December 31, 2020 and 2019, respectively. These amounts are included in accrued expenses in the Statements of Fund Net Position.

There is no liability for unpaid accumulated sick leave since the Commission does not have a policy to pay any amounts for accumulated sick leave when employees separate from service.

**Long-Term Obligations**

Long-term debt and other long-term obligations are reported as liabilities in the proprietary fund's Statements of Fund Net Position. Bonds payable are reported net of applicable bond discounts which are amortized over the life of the bonds using the effective interest rate method. Amortization expense is recorded as additional interest expense.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the Statements of Fund Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Commission reports deferred outflows related to its pension plan in this category. Deferred outflows related to the pension plan represent employer contributions made subsequent to the pension plan's measurement date for computing the net pension liability, the difference between expected and actual experience on pension plan demographic and economic changes, changes in assumptions, and the difference between projected and actual earnings on pension plan investments. Contributions made subsequent to the pension plan's measurement date will be recognized as a reduction of the net pension liability in the following year, whereas demographic and economic changes, assumption changes, and investment changes are recognized as a reduction in pension expense over time instead of being recognized in the year of occurrence.

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In addition to liabilities, the Statements of Fund Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission reports deferred inflows related to its pension plan in this category. Deferred inflows related to the pension plan represent the difference between expected and actual experience on pension plan demographic and economic changes. These inflows represent changes in the net pension liability that are recognized as pension expense over time instead of all being recognized in the year of occurrence.

**Net Position**

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

The Commission's net position is classified as follows:

*Net investment in capital assets:* This represents the Commission's total investment in capital assets, net of debt related to those capital assets.

*Restricted:* This represents the net amount of assets subject to constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

*Unrestricted:* This represents the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in any other category of net position.

**F. Use of Estimates**

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

**G. New Accounting Pronouncements**

In May 2020 the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No.90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide 2018-1, *Implementation Guidance Update-2018*
- Implementation Guide 2019-1, *Implementation Guidance Update-2019*
- Implementation Guide 2019-2, *Fiduciary Activities*

The effective dates of certain provisions contained in the following pronouncements are postponed by eighteen months:

- Statement No. 87, *Leases*
- Implementation Guide 2019-3, *Leases*

**NOTE 2 - CASH**

State Statutes authorizes the Commission to make direct investment in obligations of the State of Georgia or the U.S. Government, obligations fully insured or guaranteed by the U.S. Government, repurchase agreements and certificates of deposit that are secured by direct obligations of the State of Georgia or the U.S. Government.

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk.

The Commission maintains its cash on deposit with local financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2020, the carrying amount of the Commission's deposits was \$ 5,374,606 and the bank balance totaled \$ 5,344,580. As of December 31, 2019, the carrying amount of the Commission's deposits was \$ 4,786,359 and the bank balance totaled \$ 4,724,795.

Deposits of the Commission were fully collateralized as of December 31, 2020 and 2019. Collateralization of the Commission's deposits as of December 31, 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>
Amount insured by FDIC	\$ 500,000	\$ 500,000
Amount collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name	<u>4,844,580</u>	<u>4,224,795</u>
Total bank balance	<u><u>\$ 5,344,580</u></u>	<u><u>\$ 4,724,795</u></u>

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 3 - ACCOUNTS RECEIVABLE**

As of December 31, 2020, accounts receivable totaled \$ 721,342 including unbilled receivables of \$ 354,781 and net of an allowance for uncollectible accounts of \$ 323,260. Accounts receivable totaled \$ 631,855 including unbilled receivables of \$ 292,858 and net of an allowance for uncollectible accounts of \$ 299,113 as of December 31, 2019.

**NOTE 4 - CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2020, was as follows:

	Balance <u>12/31/2019</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2020</u>
Capital assets not being depreciated				
Land	\$ 246,026	\$ -	\$ -	\$ 246,026
Construction in progress	216,751	616,440	(86,500)	746,691
Total capital assets not being depreciated	<u>462,777</u>	<u>616,440</u>	<u>(86,500)</u>	<u>992,717</u>
Capital assets being depreciated				
Buildings and improvements	74,615	26,522	-	101,137
Plant and facilities	50,799,672	1,116,609	-	51,916,281
Machinery and equipment	1,077,499	6,551	(51,636)	1,032,414
Autos and trucks	697,559	125,142	-	822,701
Water capacity rights	6,083,014	-	-	6,083,014
Total capital assets being depreciated	<u>58,732,359</u>	<u>1,274,824</u>	<u>(51,636)</u>	<u>59,955,547</u>
Less accumulated depreciation				
Buildings and improvements	(10,210)	(2,196)	-	(12,406)
Plant and facilities	(22,007,163)	(1,047,138)	-	(23,054,301)
Machinery and equipment	(945,400)	(31,152)	51,636	(924,916)
Autos and trucks	(514,429)	(70,540)	-	(584,969)
Water capacity rights	(2,149,819)	(293,157)	-	(2,442,976)
Less accumulated depreciation	<u>(25,627,021)</u>	<u>(1,444,183)</u>	<u>51,636</u>	<u>(27,019,568)</u>
Net capital assets being depreciated	<u>33,105,338</u>	<u>(169,359)</u>	<u>-</u>	<u>32,935,979</u>
Capital assets-net	<u>\$ 33,568,115</u>	<u>\$ 447,081</u>	<u>\$ (86,500)</u>	<u>\$ 33,928,696</u>

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 4 - CAPITAL ASSETS (Continued)**

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

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

Depreciation expense totaled \$ 1,444,183 for the year ended December 31, 2020 and \$ 1,404,317 for the year ended December 31, 2019.

**NOTE 5 - LONG-TERM OBLIGATIONS**

**Capital Leases**

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

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

(Continued)

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 5 - LONG-TERM OBLIGATIONS (Continued)**

Future minimum lease payments to maturity are as follows:

Year Ending

2021	\$ 28,110
2022	24,063
2023	<u>10,026</u>
Total minimum lease payments	62,199
Less amount representing interest	<u>(2,291)</u>
Present value of minimum lease payments	<u>\$ 59,908</u>

Assets acquired through the capital lease and accumulated depreciation thereon was as follows as of December 31, 2020:

Asset

Autos and trucks	\$ 47,319
Machinery and equipment	154,569
Less accumulated depreciation	<u>(110,226)</u>
Total	<u>\$ 91,662</u>

**Revenue Bonds**

Series 2012A Revenue Bonds Payable

On August 31, 2012, the City and County issued City of Thomson, Georgia and McDuffie County Water and Sewerage Revenue Refunding Bonds, Series 2012A (the "Series 2012A Bonds") in the principal amount of \$ 9,870,000. Proceeds of the Series 2012A Bonds were used to prepay notes payable to the Georgia Environmental Facilities Authority (GEFA), bonds issued by the County and Town of Dearing to Rural Development, and to pay expenses related to the issuance of the Series 2012A Bonds.

Proceeds from the Series 2012A Bonds, after discounts of \$ 70,906, totaled \$ 9,799,094. Of this amount, \$ 3,970,130 was used to prepay notes payable to GEFA, \$ 4,920,857 and \$ 786,325 was used to refund bonds issued by the County and Town of Dearing to Rural Development, \$ 111,296 was used to pay issuance costs of the Series 2012A Bonds, and \$ 10,486 was transferred to the Thomson-McDuffie Sinking Fund.

Interest payments are payable semiannually on the 1<sup>st</sup> day of January and July of each year, whereas principal payments are due on the 1<sup>st</sup> day of July of each year with final payment being due July 1, 2033. Interest is computed using varying rates ranging from 2.00% to 3.00%. The outstanding principal balance on the Series 2012A Bonds was \$ 8,090,000 as of December 31, 2020, of which \$ 520,000 is due within one year.

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 5 - LONG-TERM OBLIGATIONS (Continued)**

Series 2012A Bond Covenants

The bond resolution requires several funds and accounts to facilitate the operation of the System and provide for servicing the bond obligation. The Revenue Fund is used as the depository for all revenues derived from the ownership and operation of the System. Costs of operating, maintaining and repairing the System are paid from the Revenue Fund. A Sinking Fund consisting of two accounts designated as the "Debt Service Account" and "Reserve Account" is maintained to provide for payment of the principal and interest of the bonds. A monthly deposit is made to the Debt Service Account in amounts sufficient to fully fund the next ensuing payment of principal and interest. The Debt Service Account deposit requirement was \$ 379,126 at December 31, 2020. As of December 31, 2020, the balance in the Debt Service Account totaled \$ 260,568 after payment of interest due January 1, 2021 totaling \$ 119,126. The resolution stipulates that substantially equal monthly payments be deposited into the Reserve Account within 60 months from the date of issuance to create a reserve equal to the debt service reserve requirement on all bonds then outstanding. As of December 31, 2020, the required balance to be deposited into the Reserve Account was \$ 760,000, whereas actual deposits held in the Reserve Account totaled \$ 761,204.

The resolution requires that a "Renewal and Extension Fund" be maintained with a balance equal to at least 10% of the operating expenses of the System for the preceding fiscal year. Total deposits held in the Renewal and Extension Account as of December 31, 2020 were \$ 2,655,307, whereas the required minimum balance was \$ 420,118. These funds are to be used for (1) debt service in the event the Sinking Fund does not have sufficient money; (2) an emergency having a major effect on the System; (3) making replacements, additions, extensions, improvements, and acquiring equipment deemed to be reasonable and in the best interest of the City and County; (4) payment of amounts drawn under a surety bond; or (5) payment of the charges of any depository for investment services.

In addition, the bond resolution requires the Commission to maintain charges for services sufficient to operate and maintain the System, maintain required reserves, and provide net revenues of at least 120% of the debt service requirements of the Series 2012 Bonds (the "bond rate covenant").

For the year ended December 31, 2020, adjusted net revenues available for debt service totaled \$ 1,481,534 and the total debt service requirement was \$ 753,353 resulting in a debt service ratio of 197% (rounded). The Commission met this requirement for the year ended December 31, 2020. Failure to meet this covenant could result in any bondholder bringing appropriate legal action to compel the Commission to revise its rates to meet this requirement.

The bonds are revenue bonds and are not considered debts of either the City or County. The bonds are secured by the net revenues of the System, the Sinking Fund Account, and the Revenue Fund.

Bond Discounts and Unamortized Charges

Bond discounts on the Series 2012A Bonds totaling \$ 70,906 are being amortized over the life of the bonds using the effective interest-rate method. Amortization of bond discounts totaled \$ 4,493 and \$ 4,680 for the years ended December 31, 2020 and 2019, respectively, and is included in interest expense in the Statements of Revenues, Expenses, and Changes in Fund Net Position.

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 5 - LONG-TERM OBLIGATIONS (Continued)**

Annual requirements to fully amortize the Series 2012A bonds outstanding as of December 31, 2020 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 520,000	\$ 238,253	\$ 758,253
2022	535,000	222,652	757,652
2023	550,000	206,602	756,602
2024	570,000	190,102	760,102
2025	585,000	173,002	758,002
2026 thru 2030	3,185,000	600,847	3,785,847
2031 thru 2033	<u>2,145,000</u>	<u>129,000</u>	<u>2,274,000</u>
	<u>\$ 8,090,000</u>	<u>\$ 1,760,458</u>	<u>\$ 9,850,458</u>

The Series 2012A Bonds maturing on or after July 1, 2023, may be redeemed prior to their respective maturities at the option of the City and the County on or after July 1, 2022, in whole or in part at any time, at the redemption price of par plus accrued interest to the redemption date.

The Series 2012A Bonds maturing on July 1, 2031 are subject to mandatory redemption on July 1, 2030 and 2031. Series 2012A Bonds maturing on July 1, 2033 are also subject to mandatory redemption on July 1, 2032 and 2033.

**Construction Loan Advances**

On December 19, 2018 the City entered into a loan agreement with the Drinking Water State Revolving Fund administered by Georgia Environmental Finance Authority (GEFA) to finance upgrades and improvements at the Augusta Road Water Treatment Plant and the Usry Pond Raw Water Pump Station. Total cost of the project is estimated to be \$1,352,900. Accrued interest is payable monthly on the first day of each calendar month, as proceeds are drawn down, and will continue until the first day of the calendar month following the earlier of (1) the completion date, (2) May 1, 2023, or (3) the date that the loan is fully disbursed. At that time, principal and interest payments will be made in 239 consecutive monthly installments on the first day of the calendar month and a final installment equal to the entire remaining unpaid principal balance and accrued interest thereon will be due on the maturity date. As of December 31, 2020, \$ 111,376 has been drawn down on this note.

On July 30, 2019 the City entered into a loan agreement with the Drinking Water State Revolving Fund administered by Georgia Environmental Finance Authority (GEFA) to purchase and install advanced metering infrastructure. Total cost of the project is estimated to be \$1,694,000. Accrued interest is payable monthly on the first day of each calendar month, as proceeds are drawn down, and will continue until the first day of the calendar month following the earlier of (1) the completion date, (2) March 1, 2023, or (3) the date that the loan is fully disbursed. At that time, principal and interest payments will be made in 239 consecutive monthly installments on the first day of the calendar month and a final installment equal to the entire remaining unpaid principal balance and accrued interest thereon will be due on the maturity date. As of December 31, 2020, \$ 308,499 has been drawn down on this note.

As of December 31, 2020 and 2019, construction loan advances totaled \$ 419,875 and \$ 47,722, respectively and are reported as noncurrent liabilities in the Statements of Fund Net Position-Proprietary Fund. Loan origination fees totaled \$ 24,240 and are reported as a non-operating expense in the Statements of Revenues, Expenses, and Changes in Fund Net Position-Proprietary Fund for the year ended December 31, 2019.



**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 5 - LONG-TERM OBLIGATIONS (Continued)**

**Changes in Long-Term Liabilities**

Long-term liability activity for the year ended December 31, 2020, was as follows:

	Balance <u>12/31/2019</u>	Additions	Reductions	Balance <u>12/31/2020</u>	Due Within <u>One Year</u>
Capital leases	\$ 97,614	\$ -	\$ (37,706)	\$ 59,908	\$ 26,624
Revenue bonds payable	8,600,000	-	(510,000)	8,090,000	520,000
Less bond discounts	<u>(34,814)</u>	<u>-</u>	<u>4,493</u>	<u>(30,321)</u>	<u>(4,255)</u>
Revenue bonds payable-net	<u>8,565,186</u>	<u>-</u>	<u>(505,507)</u>	<u>8,059,679</u>	<u>515,745</u>
Construction loan advances	47,722	372,153	-	419,875	-
Net pension liability	783,617	385,659	-	1,169,276	-
Total OPEB Liability	<u>305,286</u>	<u>144,786</u>	<u>-</u>	<u>450,072</u>	<u>-</u>
Other long-term liabilities	<u>1,136,625</u>	<u>902,598</u>	<u>-</u>	<u>2,039,223</u>	<u>-</u>
Long-term liabilities	<u>\$ 9,799,425</u>	<u>\$ 902,598</u>	<u>\$ (543,213)</u>	<u>\$ 10,158,810</u>	<u>\$ 542,369</u>

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

	Balance <u>12/31/2018</u>	Additions	Reductions	Balance <u>12/31/2019</u>	Due Within <u>One Year</u>
Capital lease	\$ 134,212	\$ -	\$ (36,598)	\$ 97,614	\$ 37,706
Revenue bonds payable	\$ 9,100,000	\$ -	\$ (500,000)	\$ 8,600,000	\$ 510,000
Less bond discounts	<u>(39,494)</u>	<u>-</u>	<u>4,680</u>	<u>(34,814)</u>	<u>(4,493)</u>
Revenue bonds payable-net	<u>9,060,506</u>	<u>-</u>	<u>(495,320)</u>	<u>8,565,186</u>	<u>505,507</u>
Construction loan advances	-	47,722	-	47,722	-
Net pension liability	602,922	180,695	-	783,617	-
Total OPEB Liability	<u>374,416</u>	<u>-</u>	<u>(69,130)</u>	<u>305,286</u>	<u>-</u>
Other long-term liabilities	<u>977,338</u>	<u>228,417</u>	<u>(69,130)</u>	<u>1,136,625</u>	<u>-</u>
Long-term liabilities	<u>\$ 10,172,056</u>	<u>\$ 228,417</u>	<u>\$ (601,048)</u>	<u>\$ 9,799,425</u>	<u>\$ 543,213</u>

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 6 - WATER CONTRACTS**

The Commission entered into a contract with the U. S. Department of the Army Corps of Engineers in 1990 to use 1,056 acre-feet of storage space in the J. Strom Thurmond Dam and Reservoir. As part of the contract, the Commission made a lump-sum payment of \$ 301,243. Amortization of this payment will be provided over the remaining life of the project. For the years ended December 31, 2020 and 2019, amortization expense related to this project totaled \$ 7,531 per year. In addition to the above cost, the Commission is required to pay 0.074 percent of the annual experienced joint-use operation and maintenance expense of the project. The Commission will also be required to pay 0.074 percent of the joint-use cost associated with major replacement and rehabilitation program costs. The additional costs associated with the contract totaled \$ 0 and \$ 2,611 for the years ended December 31, 2020 and 2019, respectively.

**NOTE 7 - RETIREMENT PLAN**

The Commission participates in the City of Thomson Retirement Plan (the "Plan") which is affiliated with the Georgia Municipal Employees Benefit System (GMEBS). The Commission does not maintain its own account status with the GMEBS. The Commission's net pension liability, deferred outflows and inflows related to the Plan, and pension expense are based on the Commission's proportionate share of its contributions to the Plan to total contributions of the City and Commission. For the year ended December 31, 2020, the Commission's proportionate share was thirty-four percent (rounded).

Plan Description

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

The City established the Plan January 1, 1972 through an agreement adopting the GMEBS Master Plan and Joint Trust Agreement (the "Adoption Agreement"). The Adoption Agreement establishes the types of benefits available under the Plan and the City's obligation to contribute to the Plan. The City has the right to amend any or all elections in the Adoption Agreement. The amendment must be approved by GMEBS, cannot reduce any previously accrued benefits of the participants or beneficiaries, cannot authorize or permit any part of the Trust Fund to be diverted to any purpose other than for the exclusive benefit of participants and their beneficiaries, and cannot deprive any participant or beneficiary of any rights or benefits irrevocably vested under the Plan.

GMEBS can amend the Master Plan or the elective provisions of the Adoption Agreement in its sole discretion as Trustee of the Plan. Any amendment by GMEBS must be approved by the City as the adopting employer. The City cannot amend the Master Plan or the Joint Trust Agreement.

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 7 - RETIREMENT PLAN (Continued)**

Benefits Provided

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

As of July 1, 2020, the last valuation date, there were 223 participants consisting of the following:

Retired participants and beneficiaries currently receiving benefits	73
Terminated vested participants entitled to but not yet receiving benefits	73
Active participants-vested	43
Active participants-not vested	<u>34</u>
Total number of participants	<u><u>223</u></u>

Contributions

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

For 2020, the Commission's contribution to the Plan totaled \$ 120,881, or 11.58% of covered-employee payroll. This contribution was equal to the recommended annual contribution determined as part of the July 1, 2019 actuarial valuation.

Net Pension Liability

The Commission's net pension liability was measured as of March 31, 2020.

*Actuarial Assumptions.* The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2020 using the following actuarial assumptions, applied to all periods included in the measurement:

Net investment rate of return	7.375%, on going basis, based on long-term expected rate of return on pension plan investments
Projected salary increases	2.25%, plus service based merit increases
Inflation	2.25%
Social security wage base increase	2.25%
Cost of living adjustments	0.00%

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 7 - RETIREMENT PLAN (Continued)**

The methods and assumptions used in the July 1, 2020 valuation were based on the results of an actuarial experience study for the period January 1, 2015 through June 30, 2019.

Mortality rates for the July 1, 2020 valuation were based on the following:

*Healthy Retirees and Beneficiaries*-Sex-distinct Pri-2012 head-count weighted Healthy Retiree Mortality Table with rates multiplied by 1.25.

*Disabled Participants*-Sex-distinct Pri-2012 head-count weighted Disable Retiree Mortality Table with rates multiplied by 1.25.

*Active Participants, Terminated Vested Participants, and Deferred Beneficiaries*-Sex-distinct Pri-2012 head-count weighted Employee Mortality Table.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of March 31, 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic equity	45.00%	6.41%
International equity	20.00%	6.96%
Domestic fixed income	20.00%	1.96%
Real estate	10.00%	4.76%
Global fixed income	5.00%	3.06%
Cash	0.00%	0.00%
Total	<u>100.00%</u>	

\* Rates shown are net of the 2.25% assumed rate of inflation

*Discount Rate.* The discount rate used to measure the total pension liability was 7.375%. The projection of cash flows used to determine the discount rate assumed that the Commission's contributions will be made at rates equal to the actuarially determined contribution rates and the member rate. Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all of the projected benefit payments to determine the total pension liability.

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 7 - RETIREMENT PLAN (Continued)**

*Changes in the Net Pension Liability of the Commission.* The changes in the components of the net pension liability of the Commission for the year ended December 31, 2020 were as follows:

	Total Pension Liability (TPL) (a)	Fiduciary Net Position (FNP) (b)	Net Pension Liability (NPL) (a) - (b)
Balances at March 31, 2019	\$ 3,339,287	\$ 2,555,670	\$ 783,617
Changes for the year:			
Service cost	52,765	-	52,765
Interest	251,932	-	251,932
Differences between expected and actual experience	(11,233)	-	(11,233)
Contributions-employer	-	119,059	(119,059)
Contributions-employee	-	-	-
Net investment income	-	(171,401)	171,401
Benefit payments, including refunds of employee contributions	(208,506)	(208,506)	-
Administrative expense	-	(8,251)	8,251
Other	31,602	-	31,602
Net changes	116,560	(269,099)	385,659
Balances at March 31, 2020	\$ 3,455,847	\$ 2,286,571	\$ 1,169,276

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

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following table presents the net pension liability of the Commission, calculated using the discount rate of 7.375 percent, as well as what the Commission's net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.375 percent) or 1 percent higher (8.375 percent) than the current rate:

	1% Decrease 6.375%	Current Discount Rate 7.375%	1% Increase 8.375%
Commission's Net Pension Liability	\$ 1,561,468	\$ 1,169,276	\$ 838,271

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of March 31, 2020 and the current sharing pattern of costs between employer and employee.

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

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 7 - RETIREMENT PLAN (Continued)**

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Pension Plan.* For the year ended December 31, 2020, the Commission recognized pension expense of \$ 237,997. The Commission reported the following deferred outflows of resources and deferred inflows of resources related to the Plan as of December 31, 2020:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made subsequent to the measurement date	\$ 100,185	\$ -
Difference between expected and actual experience	12,686	12,579
Changes of assumptions	31,893	-
Net difference between projected and actual earnings on pension plan investments	<u>287,287</u>	<u>-</u>
Total	<u>\$ 432,051</u>	<u>\$ 12,579</u>

Contributions made subsequent to the measurement date totaling \$ 100,185 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending December 31, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to the Plan will be recognized in pension expense as follows:

	Year Ending December 31,				Total
	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	
<b>Fiscal Year Outflows</b>					
Demographic	\$ 6,343	\$ 6,343	\$ -	\$ -	\$ 12,686
Assumptions	21,846	10,047	-	-	31,893
Investment	<u>51,897</u>	<u>71,313</u>	<u>91,950</u>	<u>72,127</u>	<u>287,287</u>
Total	<u>\$ 80,086</u>	<u>\$ 87,703</u>	<u>\$ 91,950</u>	<u>\$ 72,127</u>	<u>\$ 331,866</u>
<b>Fiscal Year Inflows</b>					
Demographic	<u>\$ 8,712</u>	<u>\$ 3,867</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,579</u>
Total	<u>\$ 8,712</u>	<u>\$ 3,867</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,579</u>

Changes in Methods and Assumptions

The following changes in methods and assumptions were made based on an actuarial study conducted in November and December of 2019:

- The mortality table for healthy retirees and beneficiaries was changed from the sex-distinct RP-2000 Combined Health Mortality Table, set forward two years in age for males and one year for females to the sex distinct Pri-2012 head-count weighted Healthy Retiree Mortality Table with rates multiplied by 1.25.
- The mortality table for disabled participants was changed from the sex-distinct RP-2000 Disabled Retiree Mortality Table to the sex-distinct Pri-2012 head-count weighted Disabled Retiree Mortality Table with rates multiplied by 1.25.

(Continued)

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 7 - RETIREMENT PLAN (Continued)**

- The mortality table for active participants, terminated vested participants, and deferred beneficiaries was changed from the sex-distinct RP-2000 Combined Healthy Mortality Table, set forward two years in age for males and on year for females to the sex-distinct Pri-2012 head-count weighted Employee Mortality Table.
- Future mortality improvement is based on projecting generationally from 2012 using 60% of the sex-distinct Scale SSA2019. Previously, future mortality improvements were not explicitly projected.
- The prior retirement assumption was based on the Plan's normal retirement eligibility. If normal retirement eligibility was only available on or after age 65, the prior assumption was 60% at ages 65 to 69 and 100% at age 70 and older. If normal retirement eligibility was available prior to age 65, the rates were 10% at ages 55 to 59, 20% at age 60, 25% at age 61, 35% at age 62, 40% at age 63, 45% at age 64, 50% at ages 65 to 69, and 100% at age 70 and older as long as a participant was at least eligible for early retirement.
- The new assumption relates to when a given participant is eligible for normal retirement (either regular normal retirement or alternative normal retirement). Retirement rates do not apply if a participant is not eligible for either early or normal retirement. The retirement rates where normal retirement is available on or after age 65 are 5% at ages 55 to 59, 7% at ages 60 and 61, 20% at age 62, 10% at ages 63 and 64, 35% at age 65, 25% at ages 66 to 71 and 100% at ages 72 and older.
- Where normal retirement is available to a given participant at age 62, 63, or 64, the new retirement rates are 3% when first eligible for early retirement through age 60, 10% at ages 61 to 64, 35% at age 65, 25% at ages 66 to 71 and 100% at ages 72 and older. In addition, in the first year a participant is eligible for normal retirement, the rate is increased by 30%.
- Where normal retirement is available at age 60 or 61, the new retirement rates are 3% when first eligible for early retirement through age 59, 10% at ages 60 to 64, 35% at age 65, 25% at ages 66 to 71, and 100% at ages 72 and older. In addition, in the first year a participant is eligible for normal retirement, the rate is increased by 20%.
- Where normal retirement is available prior to age 60, the new retirement rates are 3% when first eligible for early retirement through the year prior to normal retirement eligibility, 10% from normal retirement eligibility through age 59, 20% at age 60, 25% at age 61, 35% at age 62, 40% at age 63, 45% at age 64, 50% at age 65, 25% at ages 66 to 71 and 100% at ages 72 and older. In addition, in the first year a participant is eligible for normal retirement, the rate is increased by 10%.
- The turnover rates were changed from the greater of age-based rates and select rates for the first five years of service followed by age-based rates thereafter to service based rates only.
- The disability rates were changed to 50% of the rates in the prior age-based table.
- The inflation assumption was decreased from 2.75% to 2.25%.
- The salary increase assumption was changed from a service-based salary scale starting at 8.25% for the first two years of service with an ultimate rate of 3.25% at ten years of service to a service based scale starting at 8.50% for the first two years of service with an ultimate rate of 3.00% at 15 years of service.
- The investment return assumption was decreased from 7.50% to 7.375%.

(Continued)

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 7 - RETIREMENT PLAN (Continued)**

There have been no other changes in methods or assumptions since the last valuation.

Benefit Changes

There have been no changes in plan benefits since the last valuation.

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

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

Plan Description, Contribution Information and Funding Policies

In addition to providing pension benefits, the Commission participates in a single-employer defined benefit healthcare plan (the "Retiree Health Plan") administered by the City. The Retiree Health Plan provides health benefits for certain retired employees as per a personnel policy adopted December 7, 1992 and affirmed by resolution of the Mayor and City Council on November 8, 2012. Substantially all of the City's employees may become eligible for those benefits if they reach normal retirement age while working for the Commission. Benefit provisions are established and amended solely at the discretion of the elected City Council. The Retiree Health Plan does not issue a publicly available report.

Benefits are available to all employees who have attained the age of sixty-two (62) while working for the City, and have a minimum of twenty-five (25) years of full time service upon retirement. Benefits were also offered to eligible employees through a one-time Early Retirement Incentive Program (ERIP). To be eligible for benefits under the ERIP, employees had to have attained the age of fifty-five (55) as of January 1, 2016 with a minimum of twenty-eight (28) years of full time service. Qualification for benefits under the ERIP closed March 31, 2016. Benefits continue in effect until the retirees reach the age of sixty-five (65) at which time the retiree can convert to Medicare or any other plan as desired.

The City funds 100% of the retirees' premium and the benefits are underwritten by the City's regular health care provider. The cost of these benefits is recognized as an expenditure on a pay-as-you-go basis. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans.

As of December 31, 2020, the last measurement date, there were 45 participants in the Retiree Health Plan consisting of the following:

Retired participants currently receiving benefits	3
Active participants	42
Total number of participants	45

There were no retired Commission employees that received benefits during the years ended December 31, 2020 and 2019.



**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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

Total OPEB Liability

The Commission's proportionate share of its total OPEB liability is based on the Commission's proportionate share of eligible employees to total eligible employees of the City and Commission. For the year ended December 31, 2020, the Commission's proportionate share was twenty-nine percent (rounded). The Commission's total OPEB liability of \$ 450,072 was measured as of December 31, 2020, and was determined by using the alternative measurement method for employers in plans with fewer than one hundred total plan members, as provided for in GASB Statement No. 75.

*Actuarial Assumptions and Other Inputs.* The total OPEB liability as of the December 31, 2020 measurement date was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Projected salary increases	1.23%	
Discount rate	1.93%	
Healthcare cost trend rate	4.90%	for 2020, 4.80% for 2021, 4.70% for years 2022 and 2023, 4.60% for 2024, 4.50% for 2025, 4.40% for 2026, and 4.30% for 2027 and later years
Retiree's share of benefit-related costs	0.00%	of projected health insurance premiums for retirees

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

The discount rate was based on the S&P Municipal Bond 20 Year High Grade Rate Index for the quarter ended December 31, 2020.

Mortality rates were based on the Pub-2010 Public Retirement Plans Mortality Tables, with mortality improvement projected for 10 years.

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

*Changes in the Total OPEB Liability of the Commission.* The changes in the components of the total OPEB liability of the Commission for the year ended December 31, 2020 were as follows:

	Total OPEB <u>Liability</u>
Balance at December 31, 2019	\$ 305,286
Changes for the year:	
Service cost	18,336
Interest	11,878
Differences between expected and actual experience	47,749
Effect of assumption changes or inputs	66,823
Contributions-employer	-
Net changes	<u>144,786</u>
Balance at December 31, 2020	<u>\$ 450,072</u>

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate.* The following table presents the total OPEB liability of the Commission, calculated using the discount rate of 1.93 percent, as well as what the Commission's total OPEB liability would be if it were calculated using a discount rate that is 1 percent lower (0.93 percent) or 1 percent higher (2.93 percent) than the current discount rate:

	1% Decrease <u>0.93%</u>	Current Discount Rate <u>1.93%</u>	1% Increase <u>2.93%</u>
Commission's Total OPEB Liability	<u>\$ 506,302</u>	<u>\$ 450,072</u>	<u>\$ 402,457</u>

*Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates.* The following table presents the total OPEB liability of the Commission, calculated using a healthcare cost trend rate of 4.90 percent, as well as what the Commission's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percent lower (3.90 percent) or 1 percent higher (5.90 percent) than the current healthcare cost trend rate:

	1% Decrease <u>3.90%</u>	Current Healthcare Rate <u>4.90%</u>	1% Increase <u>5.90%</u>
Commission's Total OPEB Liability	<u>\$ 391,580</u>	<u>\$ 450,072</u>	<u>\$ 520,487</u>

OPEB Expense

The Commission's OPEB expense for the year ended December 31, 2020 was \$ 144,786, whereas the Commission recognized a credit of \$ 69,130 in OPEB expense for the year ended December 31, 2019.

**NOTE 9 - RISK MANAGEMENT**

The Commission is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to minimize the total cost of workman's compensation and property and liability insurance, the Commission is a member of the Georgia Interlocal Risk Management Agency Fund (GIRMA), and the Georgia Municipal Association (GMA) Self-insured Workman's Compensation Fund. The Commission pays an annual premium to these Funds through GIRMA and GMA. The Commission retains the first \$ 1,000 of each risk of loss in the form of a deductible. All claims are filed with GIRMA and GMA who bills the Commission for any risk of loss up to the deductible amount.

As part of their agreement, the Commission must assist and cooperate in the defense and settlement of claims against the Commission. The Commission must furnish full cooperation with GIRMA's and GMA's attorneys, claims adjusters, and any agent or independent contractor of GIRMA and GMA. In addition, the Commission must report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in GIRMA and GMA or any Fund established by GIRMA and GMA being required to pay a claim for loss or injuries to municipal property or injuries to persons or property when such loss or injury is within the scope of the protection of a Fund or Funds in which the Commission participates. The Commission is required to use due diligence to avoid or diminish any loss covered under the agreement.

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 9 - RISK MANAGEMENT (Continued)**

As a condition of coverage, GIRMA and GMA can request that the Commission assist in effecting settlements, securing and giving evidence, obtaining witnesses in the conduct of suits, and providing of written statements for the purposes of investigation, defense, and mitigation of claims. GIRMA and GMA are responsible for payment of all claims covered under the agreement. The maximum liability for any one occurrence or claim is the maximum limit of liability as specified in the policies less the amount of stated deductibles.

For those risks covered by insurance, claims did not exceed coverage during the past three years.

**NOTE 10 – NET INVESTMENT IN CAPITAL ASSETS**

The net investment in capital assets represents the Commission’s total investment in capital assets, net of debt related to those assets. Amounts reported for net investment in capital assets at December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Capital assets, net of accumulated depreciation	\$ 33,928,696	\$ 33,568,115
Less construction payables	(46,018)	-
Less construction loan advances	(419,875)	(47,722)
Less capital lease payable	(59,908)	(97,614)
Less revenue bonds payable	<u>(8,059,679)</u>	<u>(8,565,186)</u>
Net investment in capital assets	<u>\$ 25,343,216</u>	<u>\$ 24,857,593</u>

**NOTE 11 - CONTINGENT LIABILITIES**

Federal and State Grants

The Commission receives federal and state financial assistance through various grant programs that are passed through the City, County, and the Town of Dearing. The grant programs are subject to audit by the granting agency to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

Litigation

As of December 31, 2020, the Commission was not involved in any pending or threatened litigation.

**NOTE 12 – COMMITMENTS AND SUBSEQUENT EVENTS**

Commitments

On May 20, 2014, citizens of the County voted to extend the special purpose local option sales tax (SPLOST VI). The SPLOST VI referendum provides an additional \$ 1,655,000 to be used for water sewer projects. Planned projects include additional improvements to the wastewater treatment plant totaling \$ 1,175,000, grant matching funds for sewer main improvements totaling \$ 250,000, and equipment purchases of \$ 230,000. The County and City have prioritized the spending of SPLOST VI proceeds based upon the order of importance and need. Accordingly, it is not known when the funds committed for System improvements will be available.

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
WATER AND SEWER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**NOTE 12 – COMMITMENTS AND SUBSEQUENT EVENTS (Continued)**

As of December 31, 2020, the Commission had undertaken six construction projects that were not completed as of year-end. Cost incurred on these projects, totaling \$ 746,691, is reported as construction in progress on the Statements of Fund Net Position. As of December 31, 2020, amounts spent to date and estimated remaining commitments on these projects are as follows:

<u>Project Description</u>	<u>Spent To Date</u>	<u>Remaining Commitment</u>
Sills Branch/Germany Creek gravity sewerage main	\$ 139,529	\$ 1,208,471
Augusta Road water treatment plant and Usry Pond raw water pump station	125,401	1,227,499
Advanced metering infrastructure (AMI)	308,499	1,385,501
Waste water treatment plant improvements	56,412	8,304,588
SCADA project-water treatment plant	87,000	510,140
Raw water intake	29,850	855,150
	<u>\$ 746,691</u>	<u>\$ 13,491,349</u>

Subsequent Events

In preparing these financial statements, the Commission's management has evaluated events and transactions for potential recognition or disclosure through September 2, 2021, the date the financial statements were available for issuance.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

	2020	2019	2018	2017	2016	2015
<u>Total Pension Liability</u>						
Service cost	\$ 52,765	\$ 44,613	\$ 46,684	\$ 46,729	\$ 53,277	\$ 50,978
Interest	251,932	228,164	220,259	211,299	208,328	207,224
Differences between expected and actual experience	(11,233)	27,573	(17,731)	49,621	(29,684)	(27,298)
Changes of assumptions	-	-	-	-	25,569	(15,354)
Benefit payments, including refunds of employee contributions	(208,506)	(190,216)	(187,211)	(180,809)	(150,916)	(147,551)
Other	31,602	71,342	46,761	-	-	-
Net change in total pension liability	116,560	181,476	108,762	126,840	106,574	67,999
Total pension liability, beginning	3,339,287	3,157,811	3,049,049	2,922,209	2,815,635	2,747,636
Total pension liability, ending (a)	3,455,847	3,339,287	3,157,811	3,049,049	2,922,209	2,815,635
<u>Plan Fiduciary Net Position</u>						
Contributions-employer	119,059	109,657	101,648	103,070	112,542	126,203
Net investment income	(171,401)	88,755	279,532	260,693	6,160	198,970
Benefit payments, including refunds of employee contributions	(208,506)	(190,216)	(187,211)	(180,809)	(150,916)	(147,551)
Administrative expenses	(8,251)	(7,415)	(7,213)	(7,405)	(5,378)	(5,054)
Net change in fiduciary net position	(269,099)	781	186,756	175,549	(37,592)	172,568
Plan fiduciary net position, beginning	2,555,670	2,554,889	2,368,133	2,192,584	2,230,176	2,057,608
Plan fiduciary net position, ending (b)	2,286,571	2,555,670	2,554,889	2,368,133	2,192,584	2,230,176
Net pension liability, ending (a)-(b)	<u>\$ 1,169,276</u>	<u>\$ 783,617</u>	<u>\$ 602,922</u>	<u>\$ 680,916</u>	<u>\$ 729,625</u>	<u>\$ 585,459</u>
Plan's fiduciary net position as a percentage of the total pension liability	66.42%	76.58%	81.05%	77.69%	74.96%	79.21%
Covered employee payroll during the measurement period	\$ 1,043,964	\$ 1,095,635	\$ 996,110	\$ 967,450	\$ 1,041,512	\$ 1,064,704
Net pension liability as a percentage of covered payroll	112.00%	71.52%	60.53%	70.38%	70.05%	54.99%

**Notes to the Schedule:**

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

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

	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 120,881	\$ 115,684	\$ 111,584	\$ 103,900	\$ 107,574	\$ 115,300
Contributions in relation to the actuarially determined contribution	<u>120,881</u>	<u>115,684</u>	<u>111,584</u>	<u>103,900</u>	<u>107,574</u>	<u>115,878</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (578)</u>
Covered employee payroll during the measurement period	\$ 1,043,964	\$ 1,095,635	\$ 996,110	\$ 967,450	\$ 1,041,512	\$ 1,064,704
Contributions as a percentage of covered employee payroll	11.58%	10.56%	11.20%	10.74%	10.33%	10.88%

**Notes to the Schedule:**

- (1) Actuarial Assumptions:
- |                               |   |
|-------------------------------|---|
| Valuation Date                | July 1, 2020  |
| Cost Method                   | Projected Unit Credit   |
| Asset Valuation Method        | Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at the end of the year. The actuarial value is adjusted if necessary, to be within 20% of market value. |
| Assumed Rate of Return        | 7.375%  |
| Projected Salary Increases    | 2.25%   |
| Cost of Living Adjustments    | 0.00%   |
| Amortization Method           | Closed level dollar for remaining unfunded liability  |
| Remaining Amortization Period | Varies, with a net effective amortization period of 11 years  |
- (2) Historical information prior to the implementation of GASB Statement Nos. 67/68 is not required. The schedule will present 10 years of information as it is accumulated.

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

	2020	2019	2018
<u>Total OPEB Liability</u>			
Service cost	\$ 18,336	\$ 17,438	\$ 13,633
Interest	11,878	15,180	10,708
Differences between expected and actual experience	47,749	(114,984)	(17,038)
Changes of assumptions	66,823	13,236	(17,072)
Benefit payments	-	-	(5,337)
Net change in total OPEB liability	144,786	(69,130)	(15,106)
Total OPEB liability, beginning	305,286	374,416	389,522
Total OPEB liability, ending	<u>\$ 450,072</u>	<u>\$ 305,286</u>	<u>\$ 374,416</u>
Covered employee payroll during the measurement period	\$ 1,106,188	\$ 997,767	\$ 1,026,932
Total OPEB liability as a percentage of covered payroll	40.69%	30.60%	36.46%

**Notes to the Schedule:**

- (1) No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.
- (2) See the notes to the financial statements for the actuarial methods and significant assumptions used to determine the total OPEB liability.
- (3) Historical information prior to the implementation of GASB Statement No. 75 is not required. The schedule will present 10 years of information as it is accumulated.



**COMPLIANCE SECTION**



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The Board of Commissioners  
McDuffie County/City of Thomson, Georgia  
Water and Sewer Commission  
Thomson, Georgia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the McDuffie County/City of Thomson, Georgia Water and Sewer Commission (the "Commission"), as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated September 2, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

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

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Thomson, Georgia  
September 2, 2021

**MCDUFFIE COUNTY/CITY OF THOMSON, GEORGIA  
 WATER AND SEWER COMMISSION  
 SCHEDULE OF FINDINGS AND RESPONSES  
 FOR THE YEAR ENDED DECEMBER 31, 2020**

**SECTION I. SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified? \_\_\_\_\_ Yes      X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes      X   No

**SECTION II. FINANCIAL STATEMENT FINDINGS** \_\_\_\_\_ Yes      X   None reported