

WALTON COUNTY WATER AND  
SEWERAGE AUTHORITY  
(A Component Unit of Walton County)  
LOGANVILLE, GEORGIA  
ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2007



WALTON COUNTY WATER AND SEWERAGE AUTHORITY  
LOGANVILLE, GEORGIA

JUNE 30, 2007

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INDEPENDENT AUDITORS' REPORT

January 31, 2008

To the Members of the Board  
Walton County Water and Sewerage Authority  
Loganville, Georgia

We have audited the accompanying financial statements of the business-type activities of Walton County Water and Sewerage Authority, a component unit of WALTON COUNTY, GEORGIA, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of Walton County Water and Sewerage Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities as of June 30, 2007, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 31, 2008, on our consideration of Walton County Water and Sewerage Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Walton County Water and Sewerage Authority has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Bates, Carter + Co., LLP*

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**BASIC FINANCIAL STATEMENTS**

WALTON COUNTY WATER AND SEWERAGE AUTHORITY

STATEMENT OF NET ASSETS  
 PROPRIETARY FUND  
 JUNE 30, 2007

ASSETS	
Current Assets	
Capital lease receivable-current	\$ 4,555,890
Noncurrent Assets	
Capital lease receivable-long-term	30,063,912
Deferred charges	546,109
Total Noncurrent Assets	<u>30,610,021</u>
Total Assets	<u>35,165,911</u>
LIABILITIES AND NET ASSETS	
Liabilities	
Current Liabilities	
Accrued interest	400,572
Notes payable - current portion	4,015,165
Bonds payable - current portion	540,726
Total Current Liabilities	<u>4,956,463</u>
Long-term Debt	
Notes payable	11,044,638
Bonds payable	18,766,265
Total Long-term Debt	<u>29,810,903</u>
Total Liabilities	<u>34,767,366</u>
Net Assets	
Unrestricted	398,545
Total Net Assets	<u>\$ 398,545</u>

See accompanying notes to the basic financial statements



WALTON COUNTY WATER AND SEWERAGE AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN NET ASSETS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2007

Total operating revenues	<u>\$ -</u>
Non-operating revenues (expenses)	
Interest income	1,572,973
Interest expense	(1,560,750)
Amortization	(66,359)
Capital contribution to Walton County	<u>(33,081,596)</u>
Total non-operating revenues (expenses)	<u>(33,135,732)</u>
Change in net assets	(33,135,732)
Net assets, beginning of year	<u>33,534,277</u>
Net assets, end of year	<u><u>\$ 398,545</u></u>

See accompanying notes to the basic financial statements

WALTON COUNTY WATER AND SEWERAGE AUTHORITY

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2007

Cash flows from capital and related financing activities:	
Interest income from Walton County	\$ 1,572,973
Principal reduction of capital lease	1,066,126
Capital contribution to Walton County	(12,536,189)
Principal payments of long-term debt	(1,066,126)
Interest payments	<u>(1,572,973)</u>
Net cash used by capital and related financing activities	<u>(12,536,189)</u>
Net decrease in cash and cash equivalents	(12,536,189)
Cash and cash equivalents, beginning of year	<u>12,536,189</u>
Cash and cash equivalents, end of year	<u>\$ -</u>
Noncash investing, capital and financing activities	
Capital lease receivable	\$ 35,685,928
Transfer noncash assets and liabilities to Walton County	<u>\$ (20,545,407)</u>

See accompanying notes to the basic financial statements

**NOTES TO FINANCIAL STATEMENTS**

WALTON COUNTY WATER AND SEWERAGE AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

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WALTON COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007

**Note 1 - Summary of Significant Accounting Policies**

The financial statements of Walton County Water and sewerage Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**1-A. Reporting Entity**

The Walton County Water and Sewerage Authority is the basic level of government that has oversight responsibility and control over all activities related to water and sewerage systems in Walton County, Georgia. The Authority is also included as a component unit within the Walton County, Georgia governmental "reporting entity" as defined by GASB pronouncement 14, because the Walton County Board of Commissioners appoints all members of the Authority's board, must ratify the decisions taken by the Authority board, and can, therefore, impose its will upon the Authority.

**1-B. Government Wide and Fund Financial Statements**

Because the Authority is a special-purpose government engaged only in business type activities, it is not required to present a statement of activities to comply with the provisions of GASB Statement 34.

**1-C. Fund Accounting**

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

A fund is a separate accounting entity with a self-balancing set of accounts.

The Authority has one fund, which is a proprietary (enterprise) fund.

Proprietary funds are used to account for operations (a) that are financed and operated in a manner similar to the private sector – where the intent of the governing body is that the expenses, including depreciation of providing goods or services to the general public on an continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

WALTON COUNTY WATER AND SEWERAGE AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

(CONTINUED)

**1-D. Basis of Accounting**

The accounting and financial reporting treatment applied of a fund is determined by its measurement focus.

Proprietary funds are accounted for on a flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Authority applies all applicable FASB pronouncements up to November 1989 and all GASB pronouncements thereafter.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Due to the capital lease agreement described in Note 2, the Authority no longer has operating activities. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

**1-E. Budgets**

The Authority is not legally required to adopt a budget. However, the Board of Directors has approved an annual operating budget for planning, control, and evaluation purposes.

**1-F. Cash, Cash Equivalents, and Investments**

Cash includes amounts in demand deposits. Cash equivalents include those investments that have an initial maturity of three months or less.

State statutes authorize the government to invest in obligations of the U.S. Treasury and of its agencies and instrumentalities; bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; certificates of deposits of banks insured by FDIC.

Investments are reported at fair value as of the balance sheet date. Increases or decreases in fair value during the year are recognized as part of investment income.

**1-G. Bond and Loan Issuance Costs, Premiums and Discounts**

Bond and loan issuance costs, premiums and discount are deferred and amortized over the lives of the bonds and loans on a straight-line basis, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

Amortization costs for the period were \$66,359.

WALTON COUNTY WATER AND SEWERAGE AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

(CONTINUED)

**1-H. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**1-I. Capital Assets**

Capital assets, which include property, plant, and equipment, in the proprietary fund of the Authority are recorded at cost. The Authority defines capital assets as assets with an initial, individual cost of \$2,500 and an estimated useful life in excess of two years. The Authority has no assets that would be classified as infrastructure. Since the Authority has records of actual cost, estimates of historical cost of capital assets have not been necessary. Capital assets donated to these proprietary fund type operations are recorded at their estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets are depreciated in the proprietary funds of the government using the straight-line method over the following estimated useful lives:

Water System	40-45 Years
System Equipment	5 Years
Office Equipment	5 Years
Office Furniture	5-10 Years
Office Building	30 Years

**Note 2 – Capital Lease Receivable**

Effective July 1, 2006, the Authority entered into a capital lease agreement to lease all of the Authority's operating assets and liabilities to Walton County, Georgia. Under the terms of this agreement, the County will operate the facilities and make annual payments to the Authority in amounts equal to the Authority's annual debt service requirements. The transaction resulted in a capital contribution to the County totaling \$33,081,596.

Future minimum lease payments are as follows:

Year	Principal	Interest	Total
2008	\$ 4,555,890	\$ 1,441,352	\$ 5,997,242
2009	1,180,980	1,392,868	2,573,848
2010	1,458,781	1,341,112	2,799,893
2011	1,517,122	1,279,100	2,796,222
2012	1,586,791	1,210,971	2,797,762
2013-2017	8,332,377	4,921,267	13,253,644
2018-2022	7,422,862	3,033,217	10,456,079
2023-2027	7,130,000	1,254,950	8,384,950
2028	1,435,000	64,575	1,499,575
	<u>\$ 34,619,803</u>	<u>\$ 15,939,412</u>	<u>\$ 50,559,215</u>

WALTON COUNTY WATER AND SEWERAGE AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

(CONTINUED)

**Note 3 – Capital Assets**

Capital asset activity for the period ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<b>Business-type activities</b>					
Non-depreciable assets:					
Land	\$ 118,050	\$ -	\$ (118,050)	\$ -	\$ -
Land-Row & Easements	102,230	-	(102,230)	-	-
Construction in progress	15,667,850	-	(15,667,850)	-	-
Total non-depreciable capital assets	<u>15,888,130</u>	<u>-</u>	<u>(15,888,130)</u>	<u>-</u>	<u>-</u>
Depreciable assets:					
Water System	27,013,525	-	(27,013,525)	-	-
Water System - Contributed	17,797,932	-	(17,797,932)	-	-
Wells	47,225	-	(47,225)	-	-
System Equipment	1,467,492	-	(1,467,492)	-	-
Construction - New Office	576,559	-	(576,559)	-	-
Office Equipment	110,057	-	(110,057)	-	-
Total depreciable capital assets	<u>47,012,790</u>	<u>-</u>	<u>(47,012,790)</u>	<u>-</u>	<u>-</u>
Less accumulated depreciation for:					
Water System	(5,117,115)	-	5,117,115	-	-
Water System - Contributed	(1,961,478)	-	1,961,478	-	-
Wells	(16,104)	-	16,104	-	-
System Equipment	(1,207,380)	-	1,207,380	-	-
Construction - New Office	(242,706)	-	242,706	-	-
Office Equipment	(66,315)	-	66,315	-	-
Total accumulated depreciation	<u>(8,611,098)</u>	<u>-</u>	<u>8,611,098</u>	<u>-</u>	<u>-</u>
Total depreciable capital assets, net	<u>38,401,692</u>	<u>-</u>	<u>(38,401,692)</u>	<u>-</u>	<u>-</u>
Business-type capital assets, net	<u>\$ 54,289,822</u>	<u>\$ -</u>	<u>\$(54,289,822)</u>	<u>\$ -</u>	<u>\$ -</u>

Effective July 1, 2006, the Authority leased all operating assets to Walton County, Georgia. See Note 2.



WALTON COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(CONTINUED)

**Note 4 – Notes Payable/Long-Term Debt**

	Balance June 30, 2006	Increase	Decrease	Balance June 30, 2007	Due within one year
Revenue Bonds - 1989	\$ 25,000	\$ -	\$ -	\$ 25,000	\$ -
Revenue Bonds - 1996	6,245,000	-	275,000	5,970,000	290,000
Revenue Bonds - 2002	13,820,000	-	255,000	13,565,000	265,000
Less Deferred amounts:					
For issuance discounts	(267,283)	-	(14,274)	(253,009)	(14,274)
Total Revenue bonds payable	<u>19,822,717</u>	<u>-</u>	<u>515,726</u>	<u>19,306,991</u>	<u>540,726</u>
GEFA Notes	678,104	-	63,956	614,148	67,082
Newton County Notes	2,183,499	-	102,142	2,081,357	107,904
Cornish Creek Expansion	4,780,000	-	-	4,780,000	-
Water Meter Project Note	4,500,000	-	370,028	4,129,972	385,853
Note payable	3,454,326	-	-	3,454,326	3,454,326
Total notes payable	<u>15,595,929</u>	<u>-</u>	<u>536,126</u>	<u>15,059,803</u>	<u>4,015,165</u>
<b>Total</b>	<u>\$ 35,418,646</u>	<u>\$ -</u>	<u>\$ 1,051,852</u>	<u>\$ 34,366,794</u>	<u>\$ 4,555,891</u>

*Bond Indebtedness.* The Authority currently has three bond indentures outstanding as of June 30, 2007, which are:

1989 Series – First mortgage revenue bonds for acquisition of water system assets payable to the bondholders in the original amount of \$2,785,000 bearing interest at the rate of 7.5 to 8.25%, interest payable each February and August through 2015. Of the original amount of the bonds, only \$25,000 remains outstanding due to an advance refunding in 1996. The remaining principal balance will be paid in 2015.

1996 Series – Revenue bonds for acquisition of water system assets payable to the bondholders in the original amount of \$8,070,000 bearing interest at the rate of 4.40% to 6.00%, principal payable each February through 2021 with accrued interest to date. The proceeds from the issue were designated for partial refund of the 1989 Series Bonds, provide funds for future construction, prepay existing GEFA debt and set up necessary reserve accounts.

The revenue bonds are a lien on the net revenues generated by the water system of the Authority, and the bond ordinances require, among other things, that the rates for water shall be set at an amount sufficient to pay all of the operating costs of the system, and to provide the amounts necessary to pay the bond principal and interest due each year, and to create a reserve fund which was fully funded at year end. The ordinance also requires the Authority to maintain rates to produce earnings at least equal to 1.2 times the debt service requirements of its revenue bonds.

2002 Series – Revenue bonds payable to the bondholders in the original amount of \$14,550,000 bearing interest at the rate of 2.0 to 4.5%, principal payable each February and August through 2028 with accrued interest to date. The proceeds for the issue were designated for future construction of additions and extensions and improvement to the water related facilities.

The revenue bonds are a lien on the net revenues generated by the water system of the Authority, and the bond ordinances require, among other things, that the rates shall be set at an amount sufficient to pay all of the operating costs of the system, and to provide the amounts necessary to

WALTON COUNTY WATER AND SEWERAGE AUTHORITY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2007  
 (CONTINUED)

pay the bond principal and interest due each year, and to create a reserve fund of \$855,924, which was fully funded at year end. The ordinance also requires the Authority to maintain rates to provide earnings at least equal to 1.2 times the debt service requirements of its revenue bonds.

*Notes Payable.* Notes payable at June 30, 2007 are comprised of the following obligations:

GEFA: A construction loan payable to Georgia Environmental Facilities Authority (GEFA 1993); total amount available under loan is \$1,180,000; due in quarterly installments over 20 years at 4.8%; includes capitalized interest of \$30,076.

Newton County: The Authority has agreed to pay Newton County, Georgia for certain costs pertaining to the Cornish Creek reservoir and treatment plant, in which the Authority has a 25% interest. The Authority has agreed to pay 25% of the treatment plant and system upgrade costs of approximately \$1,887,070 and their increased share of the reservoir capacity costs of \$774,284.

The debt will be financed by Newton County over a twenty-year period at 5.5% per annum, payable at \$18,307 per month. The debt repayment commenced on December 1, 2000 and will continue until the debt is retired.

During 2004, Newton County, Georgia issued Bonds to refinance the prior debt and to pay for certain capital improvements. The Authority's share of this debt issue was \$4,780,000. This debt is interest only for the first five years at approximately \$209,703 per year with principal payments commencing in 2010 with debt service at approximately \$450,000 per year.

Wachovia Bank: On June 24, 2005, the Authority borrowed \$3,454,326, which was used on July 1, 2005 to purchase approximately 422 acres of land related to the Hard Labor Creek reservoir. This loan, refinanced on June 22, 2007, which bears interest of 3.99% and may not be prepaid. The loan is secured by revenues from the water system.

Citimortgage: On June 30, 2006, the Authority borrowed \$4,500,000 to fund installation of radio read water meters. This loan accrues interest at a rate of 4.195%. The principal and interest is payable in monthly installments of \$45,979 until the maturity date of June 30, 2016. The loan is secured by revenues from the water system.

The scheduled payments of principal and interest are as follows:

*Bond Indebtedness - 1989 Series*

	Principal	Interest	Total
2008	\$ -	\$ 2,063	\$ 2,063
2009	-	2,063	2,063
2010	-	2,063	2,063
2011	-	2,063	2,063
2012	-	2,063	2,063
2013-2015	25,000	6,189	31,189
	\$ 25,000	\$ 16,504	\$ 41,504

WALTON COUNTY WATER AND SEWERAGE AUTHORITY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2007  
 (CONTINUED)

*Bond Indebtedness - 1996 Series*

	Principal	Interest	Total
2008	\$ 290,000	\$ 350,109	\$ 640,109
2009	305,000	334,449	639,449
2010	325,000	317,674	642,674
2011	340,000	299,474	639,474
2012	360,000	280,094	640,094
2013-2017	2,125,000	1,059,719	3,184,719
2018-2021	2,225,000	343,200	2,568,200
	<u>\$ 5,970,000</u>	<u>\$ 2,984,719</u>	<u>\$ 8,954,719</u>

*Bond Indebtedness - Series 2002, Revenue Improvement Bonds*

	Principal	Interest	Total
2008	\$ 265,000	\$ 574,523	\$ 839,523
2009	275,000	567,566	842,566
2010	280,000	559,660	839,660
2011	290,000	550,910	840,910
2012	300,000	541,630	841,630
2013-2017	1,690,000	2,538,960	4,228,960
2018-2022	2,740,000	2,157,975	4,897,975
2023-2027	6,290,000	1,197,900	7,487,900
2028	1,435,000	64,575	1,499,575
	<u>\$ 13,565,000</u>	<u>\$ 8,753,699</u>	<u>\$ 22,318,699</u>

*Notes Payable - GEFA*

	Principal	Interest	Total
2008	\$ 67,082	\$ 28,283	\$ 95,365
2009	70,360	25,005	95,365
2010	73,799	21,566	95,365
2011	77,405	17,960	95,365
2012	81,188	14,177	95,365
2013-2015	244,314	17,941	262,255
	<u>\$ 614,148</u>	<u>\$ 124,932</u>	<u>\$ 739,080</u>

WALTON COUNTY WATER AND SEWERAGE AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

(CONTINUED)

*Notes Payable - Newton County*

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 107,904	\$ 111,781	\$ 219,685
2009	113,991	105,694	219,685
2010	120,421	99,265	219,686
2011	127,213	92,472	219,685
2012	134,389	85,296	219,685
2013-2017	794,577	303,851	1,098,428
2018-2021	682,862	67,729	750,591
	<u>\$ 2,081,357</u>	<u>\$ 866,088</u>	<u>\$ 2,947,445</u>

*Notes Payable - Cornish Creek Expansion*

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ -	\$ 208,703	\$ 208,703
2009	-	208,703	208,703
2010	240,000	208,703	448,703
2011	245,000	201,983	446,983
2012	255,000	192,183	447,183
2013-2017	1,425,000	816,124	2,241,124
2018-2022	1,775,000	464,313	2,239,313
2023-2024	840,000	57,050	897,050
	<u>\$ 4,780,000</u>	<u>\$ 2,357,762</u>	<u>\$ 7,137,762</u>

*Notes Payable - Water Meter Project*

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 385,853	\$ 165,890	\$ 551,743
2009	402,354	149,388	551,742
2010	419,561	132,181	551,742
2011	437,504	114,238	551,742
2012	456,214	95,528	551,742
2013-2016	2,028,486	178,483	2,206,969
	<u>\$ 4,129,972</u>	<u>\$ 835,708</u>	<u>\$ 4,965,680</u>

*Notes Payable - Reservoir Land*

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 3,454,326	\$ 137,828	\$ 3,592,154

WALTON COUNTY WATER AND SEWERAGE AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

(CONTINUED)

**Note 5 – Contingencies and Commitments**

Litigation – In the opinion of the Authority's attorney and the Authority's management, there are no material claims outstanding or pending against the Authority at June 30, 2007.

**Note 6 – Intergovernmental Agreement**

On May 31, 2007, the Walton County executed an intergovernmental agreement with Oconee County, Georgia for the construction and operation of the Hard Labor Creek Reservoir project. Under terms of the agreement Walton County will have a 71.2% share of project leaving 28.8% share to Oconee County. The total estimated amount of the project is \$353 million with costs to be split based on ownership percentages. The project is to be completed in three phases. The Authority will issue revenue bonds to fund the portion of the project attributable to Walton County. Debt service on the bonds will be funded in accordance with the lease agreement described in Note 2.

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**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**

January 31, 2008

To the Members of the Board  
Walton County Water and Sewerage Authority  
Loganville, Georgia

We have audited the financial statements of Walton County Water and Sewerage Authority, a component unit of WALTON COUNTY, GEORGIA, as of and for the period ended June 30, 2007, and have issued our report thereon dated January 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Walton County Water and Sewerage Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements, noncompliance with which could have a direct and material affect 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*.

This report is intended solely for the information of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

*Bates, Gentry & Co, LLP*