

**CHEROKEE COUNTY WATER
AND SEWERAGE AUTHORITY**

CHEROKEE COUNTY, GEORGIA

**FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
AUGUST 31, 2013**

TOGETHER WITH INDEPENDENT AUDITORS' REPORTS

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
FINANCIAL STATEMENTS
AUGUST 31, 2013

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INDEPENDENT AUDITORS' REPORT

Cherokee County Water and Sewerage Authority
Canton, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of Cherokee County Water and Sewerage Authority as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise Cherokee County Water and Sewerage Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cherokee County Water and Sewerage Authority as of August 31, 2013, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the postemployment benefit information on pages 3 through 7 and page 29 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 evidence sufficient to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The information listed as Other Supplementary Schedules in the table of contents on pages 31 through 41 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. It has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information listed as Other Supplementary Schedules in the table of contents is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013 on our consideration of the Cherokee 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 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 Cherokee County Water and Sewerage Authority's internal control over financial reporting and compliance.



Aarons Grant & Habib, LLC

November 22, 2013

Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2013

Our discussion and analysis of Cherokee County Water and Sewerage Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended August 31, 2013. Please read it in conjunction with the Authority's financial statements that begin on page 8.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statements of Revenues, Expenses and Changes In Net Position (on pages 10-11) provide information about the activities of the Authority and present a long-term view of the Authority's finances.

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority and about its activities in a way that helps answer this question. These two statements include all assets and liabilities using the accrual basis of accounting, which is similar to the basis that is used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's Net Position and the changes in it. You can think of the Authority's net position – the difference between assets and liabilities – as one way to measure the Authority's financial health. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, to assess the overall health of the Authority.

THE AUTHORITY AS A WHOLE

The Authority's Net Position increased in 2013 by approximately \$6.3 million, from the beginning of the year, \$308.1 million to \$ 314.4 million. Approximately \$3.4 million of the increase in 2013 was donated assets attributable to contributions by developers, primarily of water and sewer lines. In addition, the increase in net position can be attributed to sewer tap and water meter connections of approximately \$6.0 million. The following tables focus on the Authority's net position (Table 1) and changes in its net position (Table 2).

Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2013

Table 1 - Condensed Statement of Net Position (in thousands)

	8/31/2013	8/31/2012	\$ Change	% Change
Other assets	\$ 46,261	\$ 60,619	\$ (14,358)	-23.7%
Capital assets	439,547	424,617	14,930	3.5%
Total Assets	485,808	485,236	(572)	-0.1%
Current liabilities	13,524	12,819	705	5.5%
Long-term liabilities and debt	157,925	164,324	(6,399)	-3.9%
Total liabilities	171,449	177,143	(5,694)	-3.2%
Invested in capital assets, net of related debt	276,087	254,998	21,089	8.3%
Restricted net assets	4,869	6,358	(1,489)	-23.4%
Unrestricted net assets	33,403	46,737	(13,334)	-28.5%
Total net position	\$ 314,359	\$ 308,093	\$ 6,266	2.0%

Table 2 - Condensed Statement of Revenues, Expenses and Changes in Net Position (in thousands)

	8/31/2013	8/31/2012	\$ Changes	% Change
Operating Revenues:				
Water Sales	\$ 22,545	\$ 24,473	\$ (1,928)	-7.9%
Wastewater treatment sales	13,529	14,011	(482)	-3.4%
Connection fees	413	307	106	34.5%
Other	2,188	2,241	(53)	-2.4%
Nonoperating revenues:			-	
Interest	185	263	(78)	-29.7%
Other	131	113	18	15.9%
Total Revenues	\$ 38,991	\$ 41,408	\$ (2,417)	-5.8%
Operating Expenses:				
Water	\$ 3,395	\$ 3,372	\$ 23	0.7%
Wastewater	7,882	7,831	51	0.7%
Distribution and administration	11,502	11,243	259	2.3%
Depreciation	10,675	10,626	49	0.5%
Other	972	915	57	6.2%
Non-operating expenses:				
Interest	8,063	8,296	(233)	-2.8%
Other	514	96	418	435.4%
Total Expenses	43,003	42,379	624	1.5%
Contributed capital	10,278	4,742	5,536	116.7%
Increase in Net Position	\$ 6,266	\$ 3,771	\$ 2,495	66.2%

Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2013

The Authority's revenues decreased in 2013 by approximately \$2.4 million or 6% (\$39.0 million in 2013 compared to \$41.4 million in 2012). Expenses increased by approximately \$624,000 or 1.5% in 2013. The factors driving these results include:

- The number of water customers in 2013 and 2012 grew by 1.6% and wastewater customers grew by 3%, reflective of the slow return of population growth that is occurring throughout Cherokee County. The Authority's revenues as displayed in Table 2 above shows total revenues decreasing by approximately \$2.4 million in FY 2013. Water sales decreased approximately 8% as compared with prior year and sewer sales revenue decreased approximately 3.4% as compared with the prior year. The Authority experienced a decrease in water sales attributable to significant rainfall in the region over the last 12 months. The Authority has not adjusted water or sewer rates since 2009.
- Expenses of the Authority increased by approximately \$0.6 million to \$43 million. The significant expense increases in FY 2013 were in distribution and administration (2.3%). The majority of the increases in the distribution and administration costs were primarily recognized in increased employee costs of approximately \$176,000. Other expenses including Wastewater Treatment Facilities and Water Treatment Facilities expenses remained relatively flat as compared to prior year operating expenses.
- An additional factor attributed to the 1.5% increase in expenses in FY 2013 compared to FY 2012 is the decrease in the fair market value of the 1993, 1995 and 2001 debt service forward delivery agreements during FY 8/13 by approximately \$0.3 million. This amount is reported as other non-operating expenses.
- The Authority has noted an increase in capital contributions revenues of approximately \$5.5 million or 117% in 2013. The significant increase was noted in the increase in donated lines from developers, which were approximately \$0.9 million for the year ending August 31, 2012 and \$3.4 million for the year ending August 31, 2013. Management of the Authority attributes the increase of contributions from developers due to an increase in new construction activity in Cherokee County. In addition to donated lines, the Authority noted an increase in sewer tap fees contributions of approximately \$1.5 million from FY 2012. Also, the Authority noted an increase in meter connection fee contributions of approximately \$0.7 million from 2012. The increases in these contributions can be attributed to an increase of connections sold by the Authority in FY 2013 due to an increase in construction activity throughout the county.
- Management of the Authority attributes the increase in the growth of Net Position in 2013 primarily to capital contributions which include developer contributions valued at \$3.4 million as well as water meter connections and sewer tap fees for approximately \$6 million.

Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2013

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2013 and 2012, the Authority had \$439.5 million and \$424.6 million, respectively, invested in a range of capital assets including equipment, buildings, land and water and sewer lines (see Table 3). This represents a net increase after additions and disposals of \$14.9 million in 2013.

**Table 3 - Capital Assets at Year End
(Net of Depreciation - in thousands)**

	<u>8/31/2013</u>	<u>8/31/2012</u>
Land and easements	\$ 5,676	\$ 4,013
Construction in progress	10,035	7,824
Structures, improvements & equipment- not in service	15,342	-
Total nondepreciable	<u>15,711</u>	<u>11,837</u>
Structures and improvements	406,277	411,089
Machinery and equipment	2,184	1,657
Office furniture and equipment	33	34
Total depreciable	<u>\$ 408,494</u>	<u>\$ 412,780</u>

The staff of the Authority has developed a multi-year capital improvements program and a plan to finance the program which relies on a combination of system revenues and proceeds of debt and investment earnings on such proceeds. The capital improvements program allows the staff of the Authority to plan, on a long-term basis, for future system capital needs. Each year the capital improvements program is updated.

The Authority's fiscal year 2014 capital improvement program calls for it to spend \$34.4 million for capital projects, principally for upgrades and improvements to water & wastewater treatment facilities and for utility relocations within the water system. The capital improvements program allows the staff of the Authority to plan, on a long term basis, for future System capital needs. In connection with existing construction projects, the Authority has outstanding agreements with contractors for approximately \$2.1 million in future work at August 31, 2013. Capital disbursements will be financed by a combination of resources on hand, future system revenues and the proceeds from future revenue bonds. More detailed information about the Authority's capital assets is presented in Note E in the financial statements. Each year the capital improvements program is updated and reviewed on an ongoing basis throughout the year.

Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2013

Debt Administration

At year-end 2013 and 2012, the Authority had \$163.1 million and \$169.6 million (net of deferred amounts on refundings, discounts and premiums) in revenue bonds outstanding, respectively. The net decrease of \$6.5 million is due primarily to the repayment of the Authority's previously issued debt, net of the increase in bond premiums from the issuance of the Series 2013 revenue refunding bonds. Additional information is presented in Note F of the financial statements.

The Authority's Revenue Bonds have been assigned ratings by Moody's Investors Service, Inc. and Standard and Poor's Rating Services of Aa2 and AA, respectively. Standard & Poor's upgraded the Authority's rating from AA- to AA in May 2011. These very high ratings reflect the rating agencies' consideration of factors such as financial liquidity, debt service coverage and the growth rate of the Authority's customer base.

The Authority's other significant obligations include customer deposits, accounts payable, accrued interest, salaries and other expenses as can be seen on the Statement of net position.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

The 2014 budget and capital improvement program have been prepared taking into account that economic and population growth for the Authority's service area are expected to remain the same with little growth anticipated in the next five years. Other factors affecting next year's and future budgets are listed below.

- The Authority does not anticipate the Board passing rate increases for the water or wastewater rates, and anticipate the consumption and customer base to stay relatively flat as compared to the 2013 base.
- The Authority's Capital Improvement Program is funded through issuance of new debt, capital contributions from tap fees and developers, and operating revenue in excess of operating expenses and debt service expenses. The Authority will continue to rely on operating revenues to fund capital improvements on a pay-as-you-go basis.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact the office of the Authority's Finance Department at 391 W. Main Street, Canton, Georgia 30114.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF NET POSITION
AS OF AUGUST 31, 2013

ASSETS

Current Assets

Cash and cash equivalents	\$ 33,313,773
Accounts receivable	4,700,645
Accrued interest receivable	5,786
Prepaid expenses	121,181
Inventories	332,611
Restricted assets in revenue bond sinking fund:	
Cash and cash equivalents	1,201,977
 Total Current Assets	 39,675,973

Noncurrent Assets

Restricted assets in revenue bond debt service reserve:	
Cash and cash equivalents	3,025,254
Investments	1,295,443
Total restricted assets in revenue bond debt service reserve	4,320,697

Deferred charges:

Unamortized bond issue costs	2,255,303
Unamortized street light costs	8,879
Total deferred charges	2,264,182

Capital assets:

Land and easements	5,676,103
Construction-in-progress	10,035,327
Structures and improvements	547,571,601
Machinery and equipment	6,711,867
Office furniture and equipment	136,514
Total capital assets	570,131,412
Less: accumulated depreciation	(130,584,066)

Net capital assets 439,547,346

Total Noncurrent Assets 446,132,225

Total Assets \$ 485,808,198

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF NET POSITION
AS OF AUGUST 31, 2013

<u>Current Liabilities</u>	
Trade accounts payable	\$ 1,012,793
Construction accounts and retainage payable	326,521
Accrued salaries and vacations	673,556
Unearned revenues	170,471
Unearned sewer connection fees	32,953
Customer deposits	4,088,730
Payable from restricted assets:	
Current portion of long-term debt	6,565,000
Revenue bond interest payable	654,252
	13,524,276
Total Current Liabilities	13,524,276
 <u>Noncurrent Liabilities</u>	
Deferred interest income	308,432
Revenue bonds payable, less current portion, net	156,568,456
Other long-term liabilities	1,048,025
	157,924,913
Total Noncurrent Liabilities	157,924,913
Total Liabilities	171,449,189
 NET POSITION	
<u>Net investment in capital assets</u>	276,087,369
<u>Restricted for:</u>	
Debt service	547,725
Bond retirement	4,320,697
<u>Unrestricted</u>	33,403,218
Total Net Position	\$ 314,359,009

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2013

Operating Revenues

Metered water sales	\$ 22,544,851
Wastewater treatment sales	13,529,139
Street light fees	1,288,766
Water connection fees	412,715
Transfer fees	190,100
Forfeited discounts and penalties	620,926
Customer repairs and service charges	88,476
	38,674,973
 Total Operating Revenues	 38,674,973

Operating Expenses

Water purchases and production	3,395,278
Wastewater treatment	7,881,795
Street lights	971,867
Distribution and administration	11,502,139
Depreciation	10,675,584
	34,426,663
 Total Operating Expenses	 34,426,663

Income from Operations	4,248,310
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Other Revenues

Interest	
Sinking funds	112,903
Revenue funds	72,119
Miscellaneous	131,406
	316,428
 Total Other Revenues	 316,428

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2013

Other Expenses

Interest	\$	8,044,905
Change in fair value of derivative		360,374
Paying agent and broker dealer fees		18,164
Amortization of bond costs		98,939
Loss on disposition of capital assets		54,257
		8,576,639
 Total Other Expenses		 8,576,639

Capital Contributions

Sewer tap fees		4,515,196
Water connection fees		1,442,985
Donated assets		4,319,899
		10,278,080
 Total Capital Contributions		 10,278,080

Increase in Net Position 6,266,179

Net Position, beginning of year 308,092,830

Net Position, end of year \$ 314,359,009

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2013

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

<u>Cash flows from operating activities:</u>	
Cash received from customers	\$ 39,513,629
Cash paid to suppliers	(14,980,499)
Cash paid to employees	<u>(8,454,928)</u>
Net cash provided by operating activities	<u>16,078,202</u>
<u>Cash flows from investing activities:</u>	
Interest received	<u>148,513</u>
<u>Cash flows from capital and related financing activities:</u>	
Proceeds from revenue bond refunding	161,057
Revenue bond refunding issue costs	(154,938)
Revenue bond principal payments	(6,340,000)
Interest paid on revenue bonds	(8,066,232)
Capital expenses	(21,141,556)
Proceeds from sewer tap and water connection fees	5,958,181
Paying agent and broker fees	(18,164)
Proceeds from disposal of equipment and scrap	<u>25,967</u>
Net cash used in capital and related financing activities	<u>(29,575,685)</u>
Net change in cash and cash equivalents	(13,348,970)
<u>Cash and cash equivalents:</u>	
Beginning of year	<u>50,889,974</u>
End of year	<u><u>\$ 37,541,004</u></u>
Classified as:	
Cash and cash equivalents	\$ 33,313,773
Restricted cash and cash equivalents:	
Current	1,201,977
Noncurrent	<u>3,025,254</u>
	<u><u>\$ 37,541,004</u></u>

See Independent Auditors' Report and Accompanying Notes

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2013

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Reconciliation of Income From Operations to Net Cash
Provided By Operating Activities:

Income from operations	\$	4,248,310
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Adjustments to reconcile income from operations to net cash
provided by operating activities:

Depreciation		10,675,584
Miscellaneous revenue		131,408
(Increase) decrease in:		
Accounts receivable		552,818
Prepaid expenses		324,156
Inventories		(107,769)
Increase (decrease) in:		
Trade accounts payable		40,629
Accrued salaries and vacations		58,633
Unearned revenues		11,913
Customer deposits		142,520

Net Cash Provided By Operating Activities		16,078,202
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Non-Cash Capital and Related Financing Activities:

Issue refunding bonds at a premium to refund \$18,970,000 of prior bonds resulting in non-cash decreases to discounts and issue costs and a deferral of refunding costs	\$	19,302,122
Acquire contributed capital assets		4,319,899
Change in fair value of investment derivatives		360,374
	\$	23,982,395

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013

Note A – Organization

Cherokee County Water and Sewerage Authority (the “Authority”) is a public corporation and body corporate and politic, an independent governmental unit created and existing under the laws of the State of Georgia. The Authority was created by an act of the General Assembly of the State of Georgia that became effective on March 7, 1955. The Authority Act declared that the general purpose of the Authority is to acquire adequate sources of water supply, treat such water and distribute it to the water system throughout Cherokee and adjoining counties. The Authority Act states that this general purpose will not restrict the Authority from selling and delivering water directly to consumers in those areas where water distribution systems do not exist and where no other county or municipality deems it desirable or feasible to furnish water. The Authority Act also provides that the general purpose of the Authority includes sewerage projects.

The Authority Board is composed of seven members. Six members are appointed by the Cherokee County Grand Jury for staggered terms of four years and the seventh member is the current chair of the Cherokee County Commission. The Authority is a fiscally independent entity with self-sustaining operations. No other government is financially accountable for the Authority. The Authority has no taxing power; however, it does have the ability to establish the rates it charges customers. Thus, the Authority is considered a reporting entity in conformity with the Governmental Accounting Standards Board’s (“GASB”) definition.

Note B – Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to governmental entities is determined by measurement focus. The Authority's operations are accounted for entirely as a proprietary governmental fund type with an economic resources measurement focus. The financial statements are prepared in conformity with generally accepted accounting principles on the accrual basis of accounting whereby revenue is recognized when earned, expenses are recorded when incurred and all long-term assets, receivables, debt and other obligations are recognized.

Income from operations reported in the Authority’s financial statements includes revenues and expenses related to its primary continuing operations. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

The Authority’s fund equity (i.e., net position) is divided into three components:

Net investment in capital assets consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets, plus deferred outflows of resources less deferred inflows of resources related to those assets.

Restricted net position consists of assets that are restricted by the Authority’s creditors through debt covenants.

All other net position is reported as unrestricted.

The Authority first utilizes restricted resources to finance qualifying activities.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013

Note B – Summary of Significant Accounting Policies (continued)

The Authority applies all relevant pronouncements of the GASB, and all Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements, in preparing these financial statements in accordance with generally accepted accounting principles (“GAAP”).

In compliance with GAAP, as of September 1, 2012 the Authority adopted GASB Statement No. 63 (“GASB 63”), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Deferred outflows and inflows are defined by the GASB. GASB 63 provides a framework specifying where deferred inflows and outflows and net position (formerly “net assets”) should be presented in the statement of net position. There were no deferred inflows or outflows for the year ended August 31, 2013 nor are any changes to the classification of beginning account balances required.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect various amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents

The Authority considers all highly liquid investments with an original maturity of three months or less at the time of investment to be cash equivalents.

Accounts Receivable and Revenue Recognition

The Authority bills its customers on a cyclical basis throughout the month based on meter readings taken during the previous month.

The Authority records receivables at the amount it expects to collect on balances due at the end of the year. Advance deposits are obtained from customers, but the Authority does not obtain collateral or other security for any of its trade accounts or other amounts receivable. Accordingly, it is exposed to credit losses in the event of nonperformance. Management closely monitors outstanding balances and writes off uncollectible amounts as of year-end in accordance with approved policies.

Billed accounts receivable represent charges for customer water and wastewater treatment usage billed to customers and not paid at August 31. Unbilled accounts receivable represent charges billed to customers after August 31 for services provided by the Authority prior to September 1.

Metered water and wastewater treatment sales and streetlight fees are based on rates established by the Authority Board.

Inventories

Inventories are stated at cost using specific identification.

Investments

Investments are stated at fair value and may include U.S. Government and agency obligations, repurchase agreements and money market funds including investment in a local government investment pool, interest rate management agreements and other investments as permitted by the laws of the state of Georgia. The Authority has adopted an interest rate management plan meeting the requirements of OCGA §36-82-250 and approved the parameters within which interest rate swap agreements may be executed.

See Independent Auditors’ Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013

Note B – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets include infrastructure acquired since 1959 and are stated at cost except for contributed water and sewer lines which are recorded at their fair market value at the date they are accepted by the Authority. All acquisitions of property and equipment in excess of \$1,000 are capitalized and depreciated.

Depreciation of the water and sewer systems, machinery, equipment and furnishings is computed using the straight-line method over the following economic lives:

<u>Asset Category</u>	<u>Estimated Useful Li</u>
Structures, line extensions and improvements	50 Years
Machinery and equipment	5 Years
Office furniture and equipment	5 Years

Expenditures for maintenance and repairs not considered to substantially lengthen the property lives are charged to expense as incurred. The cost of incomplete construction and system improvement projects is reported as construction-in-progress and is not depreciated.

Capitalized Interest

Interest costs on the revenue bond debt, net of interest earned, are capitalized into the related cost of the system improvements if material to the Authority's financial statements and are otherwise expensed as incurred.

Capitalization of Salaries

The Authority capitalizes salaries of employees in distribution and administration who perform construction activities. The amount capitalized is based upon the portion of the respective employees' work hours that is spent performing these functions.

Amortization

Amortization of bond issue costs, premiums and discounts is computed using the effective interest method over the life of the bond issue for which the charges have been deferred. Amortization of the deferred amount on bond refunding is computed using the straight line method over the shorter of the remaining life of the defeased debt had it not been refunded, or the life of the new debt.

Compensated Absences

Full-time employees are granted vacation benefits in varying amounts depending on tenure with the Authority. Unused leave is lost if not taken each year. Sick leave accrues to full-time employees to a specified maximum but does not vest and is paid only for an absence for medical-related causes. Since such future absences cannot be reasonably predicted, no liability for unused sick pay is recorded.

Operating Budget

The Authority is not legally required to adopt a budget. The staff of the Authority, however, prepares an annual operating budget for management control purposes. The staff of the Authority uses the accrual basis of accounting in its annual operating budget, which is consistent with the basis of accounting used in the Authority's financial statements. The Authority's Board of Directors approves the budget and any changes made thereto.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2013

Note B – Summary of Significant Accounting Policies (concluded)

The Authority’s budget for the year ended August 31, 2013 is included in the supplementary information to the accompanying financial statements. This budget is based upon certain assumptions and estimates of the staff of the Authority regarding future events, transactions and circumstances. Realization of the results projected in this budget will depend upon implementation by management of the Authority of policies and procedures consistent with the assumptions. There can be no assurance that actual events will correspond with such assumptions, that uncontrollable factors will not affect such assumptions or that the projected results will be achieved. Accordingly the actual results achieved could materially vary from those projected in the budget.

Note C – Cash, Cash Equivalents and Investments

Cash

All of the Authority's cash as of August 31, 2013 is held in banks located in the State of Georgia. These demand deposits are required by Georgia state law and the Authority's revenue bond resolutions (see Note F) to be federally insured or collateralized by the institution. The collateral must meet certain requirements and be held by a third party for the benefit of the Authority. As of August 31, 2013, cash held in banks totaled \$4,926,421 and was covered by federal depository insurance or by collateral held by the Authority's agent and pledged to or in the name of the Authority. The value of cash in the accompanying financial statements, considering items in transit, totaled \$4,444,808.

Cash Equivalents and Investments

The Authority's cash equivalents and other investments are all held for non-trading purposes. Permitted investments and the Authority’s policies are defined by the Authority’s revenue bond resolutions which specify the types of securities in which the Authority is allowed to invest. Permitted investments include obligations of the U.S. government, or certain of its subsidiary corporations and agencies which are rated in the highest rating category by Moody’s Investors Service and Standard & Poor’s Ratings Group; the local government investment pool created by OCGA 36-83-8; bonds or obligations of the state of Georgia or its other counties, municipal corporations and political subdivisions; money market funds; and other investments as authorized by Georgia law. Each type of investment must meet certain criteria based on the nature of the investment.

The Authority has the following investments at August 31, 2013:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Georgia Fund I - cash equivalent	57 days avg.	\$ 30,070,942
U.S. Bank Money Market - cash equivalent	N/A	3,025,254
MBIA repurchase agreement, 5.36%	August 1, 2025	<u>1,295,443</u>
Total		<u>\$ 34,391,639</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013

Note C – Cash, Cash Equivalents and Investments (concluded)

All investment securities are either an external local government investment pool, or are insured, registered or held by the Authority or its agent in the Authority's name. As of August 31, 2013, the Authority's investments in Georgia Fund I were rated AAf by Standard & Poor's Ratings Group; the money market and repurchase agreement are not rated.

The local government investment pool "Georgia Fund 1", created by OCGA 36-83-8, is a stable net asset value investment pool which is rated by Standard and Poor's as AAf. Georgia Fund 1 operates in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940 and is considered to be a 2a-7-like pool. The pool is not registered with the SEC as an investment company. Financial oversight of the pool is provided by the (Georgia) Office of State Treasurer. The pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal (\$1/share value). The weighted average maturity of its holdings is 57 days and net asset value is calculated weekly to ensure stability. The pool distributes earnings (net of management fees) on a monthly basis and determines participant's shares sold and redeemed based on \$1.00 per share. The fair value of the position in the pool is the same as the value of the pool shares. The Georgia Fund I investments are reported as cash equivalents.

At August 31, 2013, the repurchase agreement is secured by U.S. government obligations that are classified as held-to-maturity. U.S. government obligations are debt securities.

Certain assets are restricted for bond sinking funds and reserves, to be used for payment of debt service on long-term debt.

The Authority places no limit on the amount that may be invested in any one issuer.

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The scheduled maturity of \$1,295,442 of investment in a repurchase agreement, the only investment considered as a debt security classified as held-to-maturity at August 31, 2013, is greater than ten years.

Note D – Accounts Receivable

Accounts receivable consist of the following at August 31:

	<u>2013</u>
Billed	\$ 2,291,866
Unbilled	<u>2,408,779</u>
	<u>\$ 4,700,645</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013

Note E – Capital Assets

A summary of changes in capital assets for the year ended August 31, 2013 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital Assets not Depreciated:				
Land and easements	\$ 4,012,635	\$ 1,663,468	\$ -	\$ 5,676,103
Construction-in-progress	7,824,114	3,141,585	(930,372)	10,035,327
Structures, improvements and equipment not in service	-	15,341,795	-	15,341,795
Other Capital Assets:				
Structures and improvements	527,069,971	5,306,922	(147,087)	532,229,806
Machinery and equipment	5,711,183	1,155,446	(154,762)	6,711,867
Office furniture and equipment	129,066	7,448	-	136,514
Accumulated Depreciation:				
Structures and improvements	(115,981,024)	(10,038,894)	67,065	(125,952,853)
Machinery and equipment	(4,053,888)	(628,610)	154,763	(4,527,735)
Office furniture and equipment	(95,398)	(8,080)	-	(103,478)
Capital Assets, Net	<u>\$ 424,616,659</u>	<u>\$ 15,941,080</u>	<u>\$ (1,010,393)</u>	<u>\$ 439,547,346</u>

Note F – Revenue Bonds Payable

A summary of changes in long-term debt for the year ended August 31, 2013 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$172,750,000	\$ 16,260,000	\$ (25,310,000)	\$163,700,000	\$ 6,565,000
Less:					
Unamortized discount	(141,476)	-	13,715	(127,761)	-
Deferred amount on refunding	(7,558,305)	(324,272)	471,473	(7,411,104)	-
Plus unamortized premium	4,558,819	3,203,179	(789,677)	6,972,321	-
	<u>\$169,609,038</u>	<u>\$ 19,138,907</u>	<u>\$ (25,614,489)</u>	<u>\$163,133,456</u>	<u>\$ 6,565,000</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013

Note F – Revenue Bonds Payable (continued)

In June 1991, the Authority issued \$21,685,000 of Refunding Series 1991 revenue bonds maturing in 2018 with interest rates from 6.30% to 7.50%, to advance refund all of the Series 1987 and 1988 revenue bonds in the aggregate principal amount of \$20,000,000. A portion of this series was refunded by the Series 2001 revenue bonds (see below) in May, 2001 and was redeemed at 102% of face value in August 2001.

In December 1993, the Authority issued \$28,460,000 in Water and Sewerage Revenue Bonds, Refunding and Improvements Series 1993 maturing in 2023 with interest rates from 5.30% to 5.50%, to advance refund all of the Series 1991 revenue bonds in the principal amount of \$10,000,000 and to provide funds to make certain additions and improvements to the water and sewerage systems.

In December 1995, the Authority issued \$22,460,000 in Water and Sewerage Revenue Bonds Series 1995, maturing in 2025 with an interest rate of 5.20%, to provide funds to make certain additions and improvements to the water and sewerage systems. A portion of this series was refunded by the Series 2001 revenue bonds.

In May 2001, the Authority issued \$70,505,000 in Refunding and Improvement Revenue Bonds Series 2001, maturing in 2030 with interest rates ranging from 3.25% to 5.125%, to advance refund portions of the Series 1991, 1995, 1997 and 1998 revenue bonds in the principal amount of \$38,765,000, to pay a surety bond premium to fund the bond Debt Service Reserve and to provide funds to make certain additions, extensions and improvements to the water and sewerage systems. Portions of this series were refunded by the Series 2010 and Series 2011 revenue refunding bonds, and were called and redeemed in 2011.

In June 2003, the Authority issued \$34,830,000 in Water and Sewerage Revenue Bonds, Series 2003, maturing in 2033 with interest rates from 2.00% to 5.00%, to provide funds to make certain additions, extensions and improvements to the water and sewerage systems. Portions of this series were refunded by the Series 2011 and Series 2013 revenue refunding bonds, and were called and redeemed in August 2013. The portion that was not refunded was paid in full in August 2013.

In May 2006, the Authority issued \$25,000,000 in Revenue Bonds Series 2006 as auction rate securities maturing in 2035. The bonds were issued to provide funds to make certain additions, extensions and improvements to the water and sewerage systems. These bonds were remarketed in April 2008 in order to convert their interest rates to long-term fixed rates that range from 3.00% to 5.00%.

In June 2007, the Authority issued \$25,000,000 in Revenue Bonds Series 2007 as auction rate securities maturing in 2035. The bonds were issued to provide funds to make certain additions, extensions and improvements to the water and sewerage systems. These bonds were remarketed in April 2008 in order to convert their interest rates to long-term fixed rates that range from 3.00% to 5.00%.

In April 2008, because of significant disruptions to the auction rate securities market, the Authority converted the interest rates on the Series 2006 and 2007 bonds from auction rates to long-term fixed rates. The Authority paid \$456,157 in remarketing fees and other costs in connection with the conversion and remarketing of the bonds. All were successfully remarketed in April 2008 resulting in a premium of \$268,023.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013

Note F – Revenue Bonds Payable (continued)

In January 2010, the Authority issued \$39,710,000 in Water and Sewerage Revenue Refunding Bonds, Series 2010, maturing in 2028 with interest rates ranging from 3.00% to 5.00%. The bonds were issued by the Authority for the purpose of advance refunding the Authority's remaining Series 1997 and 1998 revenue bonds and a portion of the Series 2001 revenue bonds in the aggregate principal amount of \$39,645,000.

In June 2011, the Authority issued \$29,310,000 in Water and Sewerage Revenue Refunding Bonds, Series 2011, maturing in 2030 with interest rates ranging from 3.00% to 5.00%. The bonds were issued by the Authority for the purpose of advance refunding a portion of the Authority's Series 2001 revenue bonds and a portion of the Series 2003 revenue bonds in the aggregate principal amount of \$30,355,000.

In May 2013, the Authority issued \$16,260,000 in Water and Sewerage Revenue Refunding Bonds, series 2013, maturing in 2033 with interest rates ranging from 3.25% to 5.00%. The bonds were issued by the Authority for the purpose of advance refunding a portion of the Authority's Series 2003 revenue bonds in the aggregate principal amount of \$18,970,000. The cash flows required to service the Series 2013 revenue bonds are approximately \$3.3 million less than those for the refunded debt providing an economic gain from the refunding of approximately \$2.3 million. The Authority paid \$281,238 in underwriting fees and other issuance costs in connection with the refunding.

The U.S. government securities purchased in connection with the defeased and advance refunded bonds are deposited in irrevocable trusts with escrow agents to provide for all future debt service payments of the affected bonds. As a result, the bonds are considered to be defeased and the liabilities for them have been removed from long-term debt. As of August 31, 2013, outstanding principal balances remain for the Series 1995, Series 1997 and Series 1998 bonds in the amounts of \$3,540,000 and \$435,000 and \$5,560,000, respectively.

The defeasance, advance refundings and remarketing of the bonds described above resulted in differences between the reacquisition prices and the net carrying amounts of the old debt including \$324,271 in 2013 related to the issuance of the Series 2013 revenue refunding bonds. This deferred amount on refunding, reported in the accompanying financial statements as a deduction from revenue bonds payable, is being charged to operations using the straight-line method of amortization. The amount remaining at August 31, 2013 is \$7,411,104.

The revenue bonds are secured by a pledge of the revenues derived by the Authority from the ownership and operation of the water and sewerage systems remaining after payment of the reasonable and necessary expenses of operating, maintaining and repairing the systems. Payment of the principal of and interest on the revenue bonds when due is guaranteed by municipal bond insurance policies issued by Financial Guaranty Insurance Company and Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance, Inc.).

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013

Note F – Revenue Bonds Payable (concluded)

The Authority makes sinking fund deposits monthly for all issues. Annual totals are at least equal to the principal installments of and interest payable on the bonds in the current sinking fund year. The debt service requirements to be paid into the revenue bond sinking fund are as follows:

<u>Year ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 6,565,000	\$ 7,851,028	\$ 14,416,028
2015	6,835,000	7,586,103	14,421,103
2016	7,130,000	7,283,553	14,413,553
2017	7,420,000	6,988,803	14,408,803
2018	7,755,000	6,654,553	14,409,553
2019-2023	44,375,000	27,251,498	71,626,498
2024-2028	55,775,000	15,159,488	70,934,488
2029-2033	21,635,000	4,762,100	26,397,100
2034-2035	6,210,000	469,500	6,679,500
Total	<u>\$ 163,700,000</u>	<u>\$ 84,006,626</u>	<u>\$ 247,706,626</u>

The various resolutions providing for the revenue bonds require that the Authority establish and maintain a schedule of rates, fees and charges for services furnished by the systems to produce in each sinking fund year “net system revenues” in an amount at least equal to 1.20 times the highest annual amount of principal and interest payable on the bonds during any future sinking fund year. The revenue bond coverage was 1.41 for the year ended August 31, 2013.

Effective with the issuance of the Series 2001 bonds, the Authority’s annual net system revenues exclusive of water connection and sewer tap fees must be no less than this highest annual amount of debt service payable during any future sinking fund year. For the year ended August 31, 2013, this ratio was 1.38.

The Authority is also required to maintain, using a combination of funds in the debt service reserve account and surety bonds, an amount equal to the highest annual debt service under the bonds of \$14,421,103. As of August 31, 2013, the balance in the debt service reserve account and the surety bonds exceed the minimum requirement.

Cash and investments associated with any bond construction projects, sinking funds and reserves are restricted to such use and are classified as restricted assets on the statement of net position.

Note G – Investment Derivative Financial Instruments

The Authority has entered into three debt service forward delivery agreements with Lehman Brothers Special Financing, Inc. (“Lehman”) and Salomon Brothers Holding Company (“Salomon”), (collectively, the “Dealers”). Under these contracts, the Authority is required to make monthly purchases at the option of the Dealers from revenue bond sinking funds of qualified U.S. Treasury securities that will mature by the semi-annual debt service payment dates.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2013

Note G – Investment Derivative Financial Instruments (concluded)

In exchange for these agreements, the Dealers paid the Authority \$1,121,595 which represents the present value of all of the interest earnings in the sinking fund over the life of the related revenue bonds. The remaining balance of this deferred revenue is \$308,432 at August 31, 2013 and is being amortized over the life of the agreements.

The forward delivery arrangements relate to the following bond series:

<u>Dealer</u>	<u>Series</u>	<u>Cash Payment</u>
Lehman	1993 Refunding & Improvement Bonds	\$ 740,600
Lehman	1995 Revenue Bonds	\$ 218,000
Salomon	2001 Refunding & Improvement Bonds	\$ 162,995

As the investments purchased by the Authority are U.S. Treasury securities and are held in the Authority's revenue bond sinking fund, there is no significant credit risk. Interest rate risk is limited to the effect of a change in rate on the value of the investments from the time of purchase through the next scheduled debt service payment date which can be no more than one year.

The Authority entered into these agreements to obtain a higher long-term than short-term yield and not for the purpose of hedging any financial risk. Accordingly, these forward delivery arrangements are investment derivative financial instruments and classified as other long-term liabilities in the statement of net position; the gains or losses are reported as other revenues or expenses respectively on the statement of revenues, expenses and changes in net position.

The fair value balance and notional amount of debt service forward delivery agreements outstanding at August 31, 2013 and the corresponding changes in fair value of such derivative instruments for the year then ended was as follows:

<u>Change in Fair Value</u>		<u>Fair Value as of August 31, 2013</u>		
<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
Change in fair value of derivative	\$ (360,374)	Other long-term liability	\$ (1,048,025)	\$57,812,000

Note H – Restricted Net Position

Net position restricted for debt service includes the excess of assets restricted for the debt service on revenue bonds over related liabilities. Net position restricted for bond retirement represents assets set aside for that purpose as required by the revenue bond resolution (see Note F).

Note I – Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; workers compensation; employee health care; errors and omissions and natural disasters for which the Authority carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlement amounts have not exceeded insurance coverage in the current or the three prior years.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013

Note J – Commitments and Contingencies

At August 31, 2013, the Authority has outstanding agreements with contractors for future work on existing construction projects in the approximate amount of \$2,093,818.

Note K – Operations

The Authority produced approximately 99.6% of its customers' water needs during the year ended August 31, 2013, purchasing most of the remaining amount from the City of Woodstock and Pickens County. The Authority provided 92.1% of sewage treatment required in the year ended August 31, 2013, purchasing the remainder primarily from the City of Canton and from Cobb County, Georgia.

Note L – Retirement Plans

Governmental Deferred Compensation Plan

The Authority has a governmental deferred compensation "Section 457" plan (the "Plan") authorized by the Authority Board which covers all employees. The Plan is administered by an independent third party administrator. The plan does not allow for employer contributions. Amounts employees may defer under the Plan are subject to statutory limits. Employee deferrals totaled \$201,405 during the year ended August 31, 2013.

Defined Benefit Plan

The Authority has established the Cherokee County Water and Sewerage Authority Retirement Plan and only the Authority may amend the benefit provisions of the plan. The plan is a non-contributory defined benefit plan through affiliation with Georgia Municipal Employee Benefit System ("GMEBS") Retirement Trust ("RT"). This plan provides retirement annuities and death benefits for CCWSA employees age 18 and older who have been employed by the Authority for one year. Employees are fully vested after five years of service.

GMEBS RT is an agent multiple-employer pension plan. Contributions made by the Authority are commingled with other members of the GMEBS RT. The GMEBS RT issues stand-alone financial statements that can be obtained by contacting the administrator, Georgia Municipal Association ("GMA"), The Burgess Building, 201 Pryor Street, SW, Atlanta, Georgia 30303-0472.

The Authority's required contributions including administration fees for years ended August 31, 2013, 2012, 2011, 2010, 2009 and 2008 were \$1,116,536, \$1,105,481, \$1,193,080, \$1,246,671, \$1,095,370 and \$972,591 respectively, 100% of which was contributed with no net pension obligation at year-end.

The contribution requirements of the Authority are established and may be amended by the GMEBS RT Board of Trustees and meet the applicable standards under Public Retirement Systems Standards Law (Georgia Code Section 47-20-10).

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2013

Note L – Retirement Plans (concluded)

The Authority’s annual pension cost for the pension plan and related assumptions for the plan year ended August 31, 2013 are based upon the actuarial valuation as of January 1, 2012 as follows:

Annual return on invested plan assets	7.75%
Projected annual salary increases	3.5%
Expected annual inflation	3.5%
Actuarial value of assets	10 year smoothed
Actuarial funding method	Projected Unit Credit
Amortization method	Level Dollar (closed)
Remaining amortization period	11

The actuarial asset valuation method is to combine the prior year’s actuarial value with current year contributions, disbursements and expected return on investments and adjust the result by 10% of the difference between the actuarial and market values (if necessary the actuarial value is further adjusted to be within 32% of market value for 2013); the amortization method used is level dollar; and the amortization periods are closed, as follows:

- 30 Years - Initial unfunded actuarial liability (began in 2001)
- 15 Years - Actuarial gains and losses
- 20 Years - Plan provisions
- 30 Years - Actuarial assumptions and cost methods

As of the most recent actuarial valuation date on January 1, 2013, the plan was 70.9% funded. The actuarial accrued liability (“AAL”) for benefits was \$14.7 million and the actuarial value of assets was \$10.4 million resulting in an unfunded actuarial accrued liability (“UAAL”) of \$4.3 million. The covered payroll (annual payroll of active employees covered by the plan) was \$8.1 million and the ratio of the UAAL to the covered payroll was 52.8%. The schedule of funding progress, included as required supplementary information (“RSI”) following the notes to these financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Note that the projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations, if any.

Note M – Other Postemployment Benefits

In addition to the pension benefits described in Note L, the Authority provides other postemployment benefits (“OPEB”) for retired employees through an agent multiple-employer defined benefit plan. The benefit levels, employee contributions and employer contributions are governed by the Authority and can be amended by the Authority. The Authority participates in the GMEBS OPEB Trust, an irrevocable trust established for the purpose of accumulating assets to fund postemployment benefits other than pensions. The GMEBS OPEB Trust also issues separate financial statements which can be obtained by requesting a copy from the plan administrator GMA as described in Note L.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2013

Note M – Other Postemployment Benefits (continued)

The Authority provides post-retirement health insurance benefits to all employees who retire after meeting age and tenure conditions and who do not have other coverage. Eligible retirees must be at least age 62, meet the “Rule of 80” regarding their combined age and years of service and have a minimum of 15 continuous years of service with the Authority. Employees must also meet other eligibility criteria as specified by the terms of the plan. The retiree’s spouse and dependent(s) may also receive coverage under certain circumstances. Retirees will pay 20% of the cost of their own coverage and 60% of spouse and dependent coverage. For retirees who qualify, the benefits are coordinated with Medicare.

Current Authority retirees who qualify for health benefits receive an implicit rate subsidy by participating in the active employee health care risk pool.

At August 31, 2013, membership consists of:

Retirees and beneficiaries	7
Active employees	172
Total participants	179

The Authority contributes amounts to the GMEBS OPEB Trust sufficient to fully fund the Annual Required Contribution (“ARC”), an actuarially determined contribution amount in accordance with the parameters of GASB Statement No. 45 (“GASB 45”), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In accordance with GASB 45, an actuarial study was prepared as of September 1, 2011 calculating the postemployment healthcare cost for the year ended August 31, 2013. The actuarial valuation estimated the ARC and annual OPEB costs for the year ended August 31, 2013 of \$459,000. The amortization period is open and the postemployment healthcare cost was determined under the projected unit credit actuarial cost method. The calculations for 2013 are based on an investment rate of return of 7.75% that includes a 3.25% inflation assumption and an initial annual healthcare cost trend rate of 8.0% graded to arrive at an ultimate rate of 5.0%. This represents a level of funding that if paid on an ongoing basis, is projected to cover the normal cost each year and the amortization of the UAAL over 20 years.

The Authority’s annual OPEB costs for years ended August 31, 2013, 2012, 2011, 2010 and 2009 (the initial year) were \$459,000, \$505,000, \$852,000, \$475,000 and \$481,000 respectively, 100% of which was contributed with no net OPEB obligation at year-end.

The actuarial value of assets is reported at fair value and the valuation methods are based on publicly traded prices or appraisals depending upon the nature of the investment. As of the most recent actuarial valuation date on July 1, 2013, the plan was 43.7% funded. The actuarial accrued liability (“AAL”) for benefits was \$7.8 million and the actuarial value of assets was \$3.4 million resulting in an unfunded actuarial accrued liability (“UAAL”) of \$4.4 million. The covered payroll (annual payroll of active employees covered by the plan) was \$8.4 million and the ratio of the UAAL to the covered payroll was 52.3%. The schedule of funding progress, included as required supplementary information (“RSI”) following the notes to these financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013

Note M – Other Postemployment Benefits (concluded)

Actuarial valuations of an ongoing OPEB plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 POSTEMPLOYMENT BENEFITS (REQUIRED SUPPLEMENTARY INFORMATION)
 FOR THE YEAR ENDED AUGUST 31, 2013

DEFINED BENEFIT PENSION SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
1/1/2013	\$10,423,422	\$14,695,892	\$4,272,470	70.9%	\$8,090,798	52.8%
1/1/2012	\$9,065,814	\$13,033,345	\$3,967,531	69.6%	\$7,757,992	51.1%
1/1/2011	\$7,764,946	\$11,887,944	\$4,122,998	65.3%	\$7,209,463	57.2%
1/1/2010	\$6,297,180	\$10,620,778	\$4,323,598	59.3%	\$7,114,270	60.8%
7/1/2009	\$5,119,742	\$11,165,572	\$6,045,830	45.9%	\$7,114,270	85.0%
7/1/2008	\$4,728,106	\$9,797,532	\$5,069,426	48.3%	\$6,681,445	75.9%

OTHER POSTEMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
7/1/2013	\$ 3,408,000	\$ 7,802,000	\$ 4,394,000	43.7%	\$ 8,396,000	52.3%
9/1/2011	\$ 1,559,000	\$ 5,483,000	\$ 3,924,000	28.4%	\$ 8,173,000	48.0%
9/1/2010	\$ 976,000	\$ 5,292,000	\$ 4,316,000	18.4%	\$ 7,677,000	56.2%
9/1/2008	\$ -	\$ 2,591,000	\$ 2,591,000	0.0%	\$ 7,381,000	35.1%

The Authority implemented GASB 45 for the year ended August 31, 2009. Information for prior years is not available.

OTHER SUPPLEMENTARY SCHEDULES

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 SCHEDULE OF COSTS OF WATER PURCHASES AND PRODUCTION
 FOR THE YEAR ENDED AUGUST 31, 2013

Purchased water	\$	47,225
<hr/>		
Water production:		
Salaries and wages		1,031,803
Payroll taxes		75,512
Group insurance		204,050
Retirement		122,819
Other postemployment benefits		45,900
Billing and accounting		15,354
Continuing education		21,509
Insurance - other than group		51,083
Lab fees and supplies		46,047
Stream monitoring		139,900
Miscellaneous		685
Office supplies		2,795
Operating supplies		214,825
Power		1,087,735
Professional fees		6,055
Repair and maintenance		232,497
Small tools and equipment		3,222
Telephone		17,963
Uniforms		5,700
Vehicle		22,599
		<hr/>
Total water production		3,348,053
		<hr/>
Total water purchases and production before depreciation		3,395,278
		<hr/>
Depreciation		1,383,414
		<hr/>
Total water purchases and production cost	\$	<u>4,778,692</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 SCHEDULE OF COSTS OF WASTEWATER TREATMENT
 FOR THE YEAR ENDED AUGUST 31, 2013

Purchased wastewater treatment	\$	710,079
<hr/>		
Wastewater treatment:		
Salaries and wages		2,162,974
Payroll taxes		157,753
Group insurance		447,401
Retirement		271,620
Other postemployment benefits		119,340
Billing and accounting		15,354
Insurance - other than group		122,423
Lab fees and supplies		50,998
Regulatory actions		15,563
Legal fees		11,139
Miscellaneous		4,232
Office supplies		6,567
Operating supplies		1,148,359
Power		1,274,237
Repair and maintenance		1,186,738
Continuing education		33,330
Small tools and equipment		13,881
Telephone		29,418
Uniforms		14,347
Vehicle		86,042
<hr/>		
Total wastewater treatment		7,171,716
<hr/>		
Total purchased treatment and wastewater treatment before depreciation		7,881,795
Depreciation		2,098,192
<hr/>		
Total wastewater treatment cost	\$	9,979,987
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CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF DISTRIBUTION AND ADMINISTRATION EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2013

Salaries and wages	\$	5,749,223
Payroll taxes		409,499
Group insurance		1,344,004
Retirement		703,418
Other postemployment benefits		293,760
Bad debts		81,573
Billing and accounting		372,720
Consumer reports		-
Continuing education		38,270
Contract meter readers		598,962
Directors' fees and expenses		56,266
Equipment repairs and maintenance		588,613
Insurance - other than group		295,995
Lab fees and supplies		4,760
Legal and audit		59,613
Line and meter repairs		411,221
Miscellaneous		21,155
Office supplies		32,300
Operating supplies		63,726
Postage		9,667
Power		111,658
Professional fees		198,934
Real estate taxes		13,774
Small tools and equipment		31,563
Telephone		53,856
Toilet rebates		15,600
Uniforms		24,061
Vehicle		341,487
Water Tests		6,900
		<hr/>
Subtotal		11,932,578
Less capitalized salaries		(430,439)
		<hr/>
Total distribution and administration expenses before depreciation		11,502,139
Depreciation		7,193,978
		<hr/>
Total distribution and administration expenses	\$	<u><u>18,696,117</u></u>

See Independent Auditors' Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED WITH ACTUAL
FOR THE YEAR ENDED AUGUST 31, 2013

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES			
Operating Revenues:			
Metered water sales	\$ 24,900,000	\$ 22,544,851	\$ (2,355,149)
Wastewater treatment sales	14,138,100	13,529,139	(608,961)
Street light fees	1,275,000	1,288,766	13,766
Water connection fees	982,100	412,715	(569,385)
Transfer fees	170,000	190,100	20,100
Forfeited discounts and penalties	682,000	620,926	(61,074)
Customer repairs and service charges	120,000	88,476	(31,524)
Total Operating Revenues	<u>42,267,200</u>	<u>38,674,973</u>	<u>(3,592,227)</u>
Non-Operating Revenues:			
Interest:			
Sinking funds	77,000	112,903	35,903
Revenue funds	63,000	72,119	9,119
Miscellaneous	115,000	131,406	16,406
Total Non-Operating Revenues	<u>255,000</u>	<u>316,428</u>	<u>61,428</u>
TOTAL REVENUES	<u>\$ 42,522,200</u>	<u>\$ 38,991,401</u>	<u>\$ (3,530,799)</u>
EXPENSES			
Operating Expenses:			
Water Purchases and Production:			
Purchased water	\$ 54,000	\$ 47,225	\$ 6,775
Water production:			
Salaries and wages	1,016,400	1,031,803	(15,403)
Payroll taxes	77,800	75,512	2,288
Group insurance	210,000	204,050	5,950
Retirement	122,900	122,819	81
Other postemployment benefits	45,900	45,900	-
Billing and accounting	16,000	15,354	646
Continuing education	33,000	21,509	11,491
Insurance - other than group	52,000	51,083	917
Lab fees and supplies	53,000	46,047	6,953
Stream Monitoring	123,000	139,900	(16,900)
Miscellaneous	1,500	685	815
Office supplies	4,500	2,795	1,705
Operating supplies	230,000	214,825	15,175
Power	1,150,000	1,087,735	62,265

See Independent Auditors' Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED WITH ACTUAL
FOR THE YEAR ENDED AUGUST 31, 2013

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Water production (continued):			
Professional fees	10,000	6,055	3,945
Repairs and maintenance	249,400	232,497	16,903
Small tools and equipment	3,900	3,222	678
Telephone	15,000	17,963	(2,963)
Uniforms	8,000	5,700	2,300
Vehicle expense	24,000	22,599	1,401
Operating expenses before depreciation	3,500,300	3,395,278	105,022
Depreciation	1,390,700	1,383,414	7,286
Total Water Purchases and Production	4,891,000	4,778,692	112,308
Wastewater Treatment:			
Purchased wastewater treatment	776,000	710,079	65,921
Wastewater treatment:			
Salaries and wages	2,307,100	2,162,974	144,126
Payroll taxes	176,500	157,753	18,747
Group insurance	486,000	447,401	38,599
Retirement	290,500	271,620	18,880
Other postemployment benefits	119,340	119,340	-
Billing and accounting	16,000	15,354	646
Insurance - other than group	122,700	122,423	277
Lab fees and supplies	65,500	50,998	14,502
Regulatory actions	20,000	15,563	4,437
Professional fees	20,000	11,139	8,861
Miscellaneous	3,500	4,232	(732)
Office supplies	15,200	6,567	8,633
Operating supplies	1,216,300	1,148,359	67,941
Power	1,400,000	1,274,237	125,763
Repairs and maintenance	1,271,500	1,186,738	84,762
Continuing education	51,000	33,330	17,670
Small tools and equipment	15,000	13,881	1,119
Telephone	32,000	29,418	2,582
Uniforms	17,000	14,347	2,653
Vehicle expense	88,000	86,042	1,958
Operating expenses before depreciation	8,509,140	7,881,795	627,345
Depreciation	2,100,200	2,098,192	2,008
Total Wastewater Treatment	10,609,340	9,979,987	629,353

See Independent Auditors' Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED WITH ACTUAL
FOR THE YEAR ENDED AUGUST 31, 2013

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Distribution and Administration:			
Salaries and wages	5,453,879	5,749,223	(295,344)
Payroll taxes	437,800	409,499	28,301
Group insurance	1,353,000	1,344,004	8,996
Retirement	703,500	703,418	82
Other postemployment benefits	293,760	293,760	-
Bad debts	110,000	81,573	28,427
Billing and accounting	380,000	372,720	7,280
Consumer reports	7,800	-	7,800
Continuing education	65,500	38,270	27,230
Contract meter readers	629,600	598,962	30,638
Directors' fees and expenses	60,200	56,266	3,934
Equipment repairs and maintenance	730,500	588,613	141,887
Insurance - other than group	297,200	295,995	1,205
Lab fees and supplies	12,000	4,760	7,240
Legal and audit	75,000	59,613	15,387
Line and meter repairs	454,800	411,221	43,579
Miscellaneous	35,000	21,155	13,845
Office supplies	29,200	32,300	(3,100)
Operating supplies	68,000	63,726	4,274
Postage	11,300	9,667	1,633
Power	173,500	111,658	61,842
Professional fees	193,000	198,934	(5,934)
Real estate taxes	26,000	13,774	12,226
Small tools and equipment	32,000	31,563	437
Stream restoration	7,400	-	7,400
Telephone	68,000	53,856	14,144
Toilet rebates	30,000	15,600	14,400
Uniforms	23,500	24,061	(561)
Vehicle expense	366,000	341,487	24,513
Water Tests	10,500	6,900	3,600
	<u>12,137,939</u>	<u>11,932,578</u>	<u>205,361</u>
Total distribution and administration expense before depreciation			
Depreciation	<u>7,252,100</u>	<u>7,193,978</u>	<u>58,122</u>
	<u>19,390,039</u>	<u>19,126,556</u>	<u>263,483</u>
Total distribution and administration			
Less capitalized salaries	<u>-</u>	<u>(430,439)</u>	<u>430,439</u>
Total Distribution and Administration Costs	<u>19,390,039</u>	<u>18,696,117</u>	<u>693,922</u>

See Independent Auditors' Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED WITH ACTUAL
FOR THE YEAR ENDED AUGUST 31, 2013

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Streetlights	975,000	971,867	3,133
Total Operating Expenses	<u>35,865,379</u>	<u>34,426,663</u>	<u>1,438,716</u>
Non-Operating Expenses:			
Interest	8,300,700	8,044,905	255,795
Change in fair value of derivative	-	360,374	(360,374)
Paying agent, broker fees	20,000	18,164	1,836
Amortization of bond costs	116,600	98,939	17,661
Loss on disposal of capital assets	-	54,257	(54,257)
Total Non-Operating Expenses	<u>8,437,300</u>	<u>8,576,639</u>	<u>(139,339)</u>
TOTAL EXPENSES	<u>44,302,679</u>	<u>43,003,302</u>	<u>1,299,377</u>
CAPITAL CONTRIBUTIONS	<u>1,958,000</u>	<u>10,278,080</u>	<u>8,320,080</u>
CHANGE IN NET POSITION	<u>\$ 177,521</u>	<u>\$ 6,266,179</u>	<u>\$ 6,088,658</u>

See Independent Auditors' Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 SCHEDULE OF METERED WATER SALES, WASTEWATER TREATMENT SALES AND
 NUMBER OF CUSTOMERS SERVED

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Metered Water Sales	<u>\$ 22,544,847</u>	<u>\$ 24,472,779</u>	<u>\$ 25,177,691</u>	<u>\$ 24,106,505</u>	<u>\$ 23,671,252</u>
Number of Customers Served	<u>66,573</u>	<u>65,519</u>	<u>64,659</u>	<u>64,221</u>	<u>63,928</u>
Sales Per Customer	<u>\$ 338.65</u>	<u>\$ 373.52</u>	<u>\$ 389.39</u>	<u>\$ 375.37</u>	<u>\$ 370.28</u>
Wastewater Treatment Sales	<u>\$ 13,529,139</u>	<u>\$ 14,011,430</u>	<u>\$ 13,787,286</u>	<u>\$ 13,818,212</u>	<u>\$ 13,559,105</u>
Number of Customers Served	<u>28,944</u>	<u>28,053</u>	<u>27,579</u>	<u>27,014</u>	<u>26,655</u>
Sales Per Customer	<u>\$ 467.42</u>	<u>\$ 499.46</u>	<u>\$ 499.92</u>	<u>\$ 511.52</u>	<u>\$ 508.69</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF REVENUE BOND COVERAGE
FOR THE YEARS ENDED AUGUST 31,
(IN THOUSANDS)

	2013		2012		2011		2010		2009	
	With Tap Fees	Without Tap Fees	With Tap Fees	Without Tap Fees	With Tap Fees	Without Tap Fees	With Tap Fees	Without Tap Fees	With Tap Fees	Without Tap Fees
Net revenue available for debt service (see Note below)	\$21,199	\$14,828	\$21,869	\$17,739	\$21,704	\$19,263	\$21,678	\$18,903	\$21,262	\$18,570
Highest annual debt service requirements	\$14,421	\$14,421	\$14,452	\$14,452	\$14,452	\$14,452	\$14,564	\$14,564	\$14,724	\$14,724
<u>Revenue Bond Coverage:</u>										
Actual	1.47	1.03	1.51	1.44	1.50	1.33	1.49	1.30	1.44	1.26
Required	1.20	1.00	1.20	1.00	1.20	1.00	1.20	1.00	1.20	1.00

Note: Net revenue available for debt service equals income from operations plus depreciation and other income less interest earned on construction funds and the value of contributed capital. Required revenue bond coverage is measured both including and excluding water connection and sewer tap fees.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 SCHEDULE OF WATER, SEWER AND IRRIGATION RATES
 AS OF AUGUST 31, 2013

CONSUMPTION (GALLONS)	2013		
	WATER NET	SEWER NET	IRRIGATION NET
0	\$ 8.00	\$ 11.60	\$ 11.00
1,000	9.10	11.60	12.10
2,000	10.20	11.60	13.20
3,000	15.20	18.20	18.20
4,000	20.20	24.80	23.20
5,000	25.20	31.40	28.20
6,000	30.20	38.00	33.20
7,000	35.20	44.60	38.20
8,000	40.20	51.20	43.20
9,000	45.20	57.80	48.20
10,000	50.20	64.40	53.20
11,000	56.20	71.00	59.20
12,000	62.20	77.60	65.20
13,000	68.20	84.20	71.20
14,000	74.20	90.80	77.20
15,000	80.20	97.40	83.20
16,000	86.20	104.00	89.20
17,000	92.20	110.60	95.20
18,000	98.20	117.20	101.20
19,000	104.20	123.80	107.20
20,000	110.20	130.40	113.20
Over 20,000	Additional \$6.00 per 1,000	Additional \$6.60 per 1,000	Additional \$6.00 per 1,000

There is a 10% penalty added when paid after due date.

These rates apply only to 3/4" meters serving a single family dwelling. A larger minimum bill will apply to larger meters.

Rates effective May 1, 2009 and remained in effect through August 31, 2013.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 STATISTICAL TABLE OF INSURANCE IN FORCE
 AS OF AUGUST 31, 2013

TYPE OF COVERAGE	LIMITS OF LIABILITY
Public Officials and Employment Practices Legal Liability	\$1,000,000 for each loss and \$3,000,000 aggregate for each policy year
Commercial Automobile	\$1,000,000 for liability per accident \$75,000 for Uninsured/Underinsured per accident Actual cash value for collision
Commercial Crime	\$500,000 employee theft \$100,000 ERISA employee theft \$100,000 forgery & alteration \$500,000 computer fraud
Commercial Property: Fire and Extended Coverage including boiler and machinery	\$235,203,634 blanket coverage for buildings and buildings property
Inland Marine	\$2,570,674 computers, software and contractors equipment – owned and rented \$25,000 data breach limit (any one occurrence and annual aggregate)
Workers Compensation	\$500,000 for bodily injury each accident, and \$500,000 disease aggregate and per employee
Commercial Umbrella	\$10,000,000 for each occurrence \$10,000,000 aggregate limit \$4,000,000 for failure to supply and sexual abuse (each claim aggregate)
Commercial General Liability	\$3,000,000 for general aggregate \$3,000,000 for products and completed operations aggregate \$1,000,000 for personal and advertising injury \$1,000,000 for bodily injury and property damage \$1,000,000 for damage to premises rented to you - each occurrence premises medical payments \$5,000 for employee benefits liability - each claim \$1,000,000 for employee benefits liability - aggregate \$3,000,000 for sexual abuse - each occurrence \$1,000,000 for failure to supply - each occurrence \$1,000,000 for health care & social services - each wrongful act

See Independent Auditors' Report



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

INDEPENDENT AUDITORS' REPORT

Cherokee County Water and Sewerage Authority
Canton, Georgia

We have audited, 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, the financial statements of Cherokee County Water and Sewerage Authority as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise Cherokee County Water and Sewerage Authority's basic financial statements, and have issued our report thereon dated November 22, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered Cherokee County Water and Sewerage Authority'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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cherokee County Water and Sewerage Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee County Water and Sewerage Authority'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Cherokee County Water and Sewerage Authority's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Aaron Grant & Habib, LLC". The signature is written in a cursive style and is enclosed in a thin blue rectangular border.

Aarons Grant & Habif, LLC

November 22, 2013