

**CHEROKEE COUNTY WATER
AND SEWERAGE AUTHORITY**

FINANCIAL REPORT

**FOR THE FISCAL YEAR
ENDING AUGUST 31, 2012**

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY

FINANCIAL REPORT FOR THE FISCAL YEAR ENDED AUGUST 31, 2012

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INDEPENDENT AUDITOR'S REPORT

**To the Board of the Cherokee County Water and Sewerage Authority
Canton, Georgia**

We have audited the accompanying basic financial statements of the **Cherokee County Water and Sewerage Authority** (the "Authority") as of and for the year ended August 31, 2012, as listed in the table of contents. These financial statements are the responsibility of the 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 previously present fairly, in all material respects, the financial position of the Cherokee County Water and Sewerage Authority as of August 31, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2013 on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 3 through 6, and the Schedules of Funding Progress on page 28 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 (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cherokee County Water and Sewerage Authority's basic financial statements. The schedules listed as Other Supplementary Information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information 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 schedules listed as Other Supplementary Information in the table of contents are fairly stated in all material respects in relation to the basic financial statements as a whole.

Mauldin & Jenkins, LLC

Atlanta, Georgia
February 1, 2013

Cherokee County Water and Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 years ended August 31, 2012 and 2011. Please read it in conjunction with the Authority's financial statements that begin on page 7.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Asset and the Statements of Revenues, Expenses and Changes In Net Assets (on pages 7 and 8) 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 Assets and the Statement of Revenues, Expenses and Changes in Net Assets 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 assets and the changes in them. You can think of the Authority's net assets – the difference between assets and liabilities – as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net assets 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 assets increased in 2012 by approximately \$3.8 million, from the beginning of the year, \$304.3 million to \$308.1 million. This is compared to an increase in net assets in 2011 by approximately \$9.5 million. Approximately \$920,000 of the increase in 2012 was attributable to contributions by developers, primarily of water and sewer lines. In addition, the increase in net assets can be attributed to sewer tap and water meter connections of approximately \$3.8 million. The following tables focus on the Authority's net assets (Table 1) and changes in its net assets (Table 2).

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

	8/31/2012	8/31/2011	\$ Change	% Change
Other assets	\$ 60,619	\$ 57,884	\$ 2,735	4.7%
Capital assets	424,617	430,177	(5,560)	-1.3%
Total Assets	<u>485,236</u>	<u>488,061</u>	<u>(2,825)</u>	<u>-0.6%</u>
Current liabilities	12,820	12,625	195	1.5%
Long-term liabilities and debt	164,324	171,114	(6,790)	-4.0%
Total liabilities	<u>177,144</u>	<u>183,739</u>	<u>(6,595)</u>	<u>-3.6%</u>
Invested in capital assets, net of related debt	254,998	252,681	2,317	0.9%
Restricted net assets	6,358	4,833	1,525	31.6%
Unrestricted net assets	46,736	46,808	(72)	-0.2%
Total net assets	<u>\$ 308,092</u>	<u>\$ 304,322</u>	<u>\$ 3,770</u>	<u>1.2%</u>

Operating Revenues:				
Water Sales	\$ 24,473	\$ 25,178	\$ (705)	-2.8%
Wastewater treatment sales	14,011	14,135	(124)	-0.9%
Connection fees	307	774	(467)	-60.3%
Other	2,241	2,260	(19)	-0.8%
Nonoperating revenues:				
Interest	263	175	88	50.3%
Other	113	148	(35)	-23.6%
Total Revenues	<u>41,408</u>	<u>42,670</u>	<u>(1,262)</u>	<u>-3.0%</u>
Operating Expenses:				
Water	3,372	3,398	(26)	-0.8%
Wastewater	7,831	7,489	342	4.6%
Distribution and administration	11,243	10,842	401	3.7%
Depreciation	10,626	10,352	274	2.6%
Other	915	904	11	1.2%
Non-operating expenses:				
Interest	8,296	8,771	(475)	-5.4%
Other	96	198	(102)	-51.5%
Total Expenses	<u>42,379</u>	<u>41,954</u>	<u>425</u>	<u>1.0%</u>
Contributed capital	4,742	8,784	(4,042)	-46.0%
Increase in Net Assets	<u>\$ 3,771</u>	<u>\$ 9,500</u>	<u>\$ (5,729)</u>	<u>-60.3%</u>

The Authority's revenues decreased in 2012 by approximately \$1.3 million or 3.0% (\$41.4 million in 2012 compared to \$42.7 million in 2011). Expenses increased by approximately \$425,000 or 1.0% in 2012. The factors driving these results include:

- The number of water customers in 2012 and 2011 grew by 1.3% and wastewater customers grew by 1.7%, reflective of the slow return of population growth that is occurring throughout Cherokee County. The Authority has not adjusted water or sewer rates since 2009. The decrease in the connection fees is due to the Authority showing a portion of the connection fees as capital contribution in the fiscal year 2012, versus all of the connection fees being shown in operating revenue in the fiscal year 2011.
- Expenses of the Authority increased by approximately \$0.5 million to \$42.4 million. The significant increases were seen in wastewater (4.6%) and distribution and administration (3.7%). The increase in wastewater treatment operating costs was primarily due to the increase in chemical supplies in order to maximize efforts to continue odor control prevention at the facilities and surrounding areas. The increase in the distribution and administration costs were primarily recognized in increased employee costs of approximately \$91,000 and increase in maintenance and line repair costs of approximately \$306,000.
- The Authority saw a large decrease in the capital contributions revenues of approximately \$4.1 million or 46.0% in 2012. The significant decrease was noted in the decrease in donated lines from developers, which were approximately \$7.1 million for the year ending August 31, 2011 and \$0.9 million for the year ending August 31, 2012. Management of the Authority attributes the decrease of contributions from developers due to a decrease in new construction activity in Cherokee County.

- Management of the Authority attributes the increase in the growth of net assets in 2012 primarily to capital contributions which include developer contributions valued at \$919,612 as well as water meter connections and sewer tap fees for approximately \$3.8 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2012 and 2011, the Authority had \$424.6 million and \$430.2 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 decrease after additions and disposals of \$4.9 million in 2012.

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

	<u>8/31/2012</u>	<u>8/31/2011</u>
Land and easements	\$ 4,013	\$ 3,557
Construction in progress	<u>7,824</u>	<u>7,567</u>
Total nondepreciable	<u>11,837</u>	<u>11,124</u>
Structures and improvements	411,089	417,374
Machinery and equipment	1,657	1,645
Office furniture and equipment	<u>34</u>	<u>33</u>
Total depreciable	<u>\$ 412,780</u>	<u>\$ 419,052</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 2013 capital improvement program calls for it to spend \$ 21.4 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 \$ 2.2 million in future work at August 31, 2012. 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 4 in the financial statements. Each year the capital improvements program is updated and reviewed on an ongoing basis throughout the year.

Debt Administration

At year-end 2012 and 2011, the Authority had \$169.6 million and \$175.9 million (net of deferred amounts on refundings, discounts and premiums) in revenue bonds outstanding, respectively. The net decreases of \$6.3 million are due primarily to the repayment of the Authority's previously issued debt. Additional information is presented in Note 5 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 Assets.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

The 2012 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 did not anticipate the Board passing rate increases for the water or wastewater rates, and anticipated the consumption and customer based to stay relatively flat as compared to the 2012 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 be relying more heavily 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 ASSETS
AS OF AUGUST 31, 2012

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 45,827,114
Accounts receivable	5,253,463
Accrued interest receivable	5,786
Inventory	224,842
Prepaid expenses	445,337
Restricted assets:	
Cash and cash equivalents	5,062,860
Restricted investments	1,295,443
Total current assets	<u>58,114,845</u>
NON-CURRENT ASSETS	
Capital assets:	
Land	4,012,635
Construction in progress	7,824,114
Structures and improvements	527,069,971
Machinery and equipment	5,711,183
Office furniture and equipment	129,066
	<u>544,746,969</u>
Less accumulated depreciation	120,130,310
Total capital assets, net of accumulated depreciation	<u>424,616,659</u>
Other assets:	
Issuance costs	2,495,943
Street light costs	8,879
	<u>2,504,822</u>
Total non-current assets	<u>427,121,481</u>
Total assets	<u>\$ 485,236,326</u>

See Notes to Financial Statements.

(continued)

LIABILITIES	
CURRENT LIABILITIES	
Payable from current assets:	
Accounts payable	\$ 1,074,468
Construction accounts and retainage payable	9,750
Accrued salaries and vacation	614,923
Customer deposits	3,946,210
Unearned revenue	158,558
	<u>5,803,909</u>
 Payable from restricted assets:	
Revenue bonds payable	6,340,000
Accrued interest payable	675,579
	<u>7,015,579</u>
 Total current liabilities	<u>12,819,488</u>
 LONG-TERM LIABILITIES	
Deferred revenue	334,366
Deferred sewer tap fees	32,953
Revenue bonds payable, net	163,269,038
Other long-term liabilities	687,651
Total long-term liabilities	<u>164,324,008</u>
 Total liabilities	<u>177,143,496</u>
 NET ASSETS	
Invested in capital assets, net of related debt	254,997,871
Restricted for capital projects	828,731
Restricted for debt service	5,529,572
Unrestricted	46,736,656
	<u>46,736,656</u>
 Total net assets	<u>\$ 308,092,830</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2012

Operating revenues:

Charges for services:	
Water sales	\$ 24,472,779
Wastewater treatment sales	14,011,430
Streetlight fees	1,263,493
Water connection fees	307,445
Transfer fees	181,375
Forfeited discounts and penalties	678,897
Other fees and charges	116,788
Total operating revenues	<u>41,032,207</u>

Operating expenses:

Water purchases and production	3,371,731
Wastewater treatment	7,831,106
Street lights	915,727
Distribution and administration	11,243,067
Depreciation	10,625,845
Total operating expenses	<u>33,987,476</u>

Operating income	<u>7,044,731</u>
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Non-operating revenues (expenses):

Interest income	262,804
Miscellaneous income	113,382
Interest expense and fiscal agent fees	(8,295,890)
Amortization expense	(75,984)
Loss on disposal of capital assets	(19,595)
Total non-operating revenues (expenses), net	<u>(8,015,283)</u>

Capital contributions:

Sewerage tap fees	3,057,288
Water meter connections	765,059
Donated assets	919,612
Total capital contributions	<u>4,741,959</u>

Change in net assets	3,771,407
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Total net assets, beginning of year, restated	<u>304,321,423</u>
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Total net assets, end of year	<u><u>\$ 308,092,830</u></u>
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See Notes to Financial Statements.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 41,710,762
Payments to suppliers	(13,826,858)
Payments to employees	(9,932,579)
Net cash provided by operating activities	17,951,325
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Other non-operating income	113,382
Net cash provided by noncapital financing activities	113,382
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from tap fees	3,788,347
Principal payments on long-term borrowings	(6,160,000)
Interest paid on long-term borrowings	(8,311,325)
Purchases of capital assets	(4,163,939)
Proceeds from disposal of capital assets	16,133
Net cash used in capital and related financing activities	(14,830,784)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from investment maturities	3,023,016
Interest received	138,255
Net cash provided by investing activities	3,161,271
Net increase in cash and cash equivalents	6,395,194
 Cash and cash equivalents:	
Beginning of year	44,494,780
End of year	\$ 50,889,974
 Classified as:	
Cash and cash equivalents	\$ 45,827,114
Restricted cash and cash equivalents	5,062,860
	\$ 50,889,974

(continued)

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2012

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$	7,044,731
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation		10,625,845
Changes in assets and liabilities:		
Decrease in accounts receivable		421,252
Increase in inventory		(1,458)
Increase in prepaids		(33,548)
Decrease in accounts payable		(210,559)
Decrease in accrued salaries and vacation		(70,380)
Decrease in retainage payable		(81,861)
Increase in unearned revenues		158,558
Increase in customer deposits		98,745
Net cash provided by operating activities	\$	<u>17,951,325</u>

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Donated capital assets	\$	919,612
Change in fair value of hedging derivative		98,613
Total noncash capital and related financing activities	\$	<u>1,018,225</u>

See Notes to Financial Statements.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

The Cherokee County Water and Sewerage Authority (the "Authority"), a body politic, was duly created under the Acts of the General Assembly of the State of Georgia on March 7, 1955. The Authority was created to provide water and related services throughout Cherokee County, Georgia (the "County"). The Authority currently serves customers in Cherokee County and the surrounding counties. Related services include waste treatment, maintenance of water and sewer lines and installation of new water and sewer lines. The Authority is governed by a board consisting of seven members. Six of the 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 Board of Commissioners. The Authority is a fiscally independent entity with self-sustaining operations.

Fund Accounting:

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

A fund is a separate accounting entity with a self-balancing set of accounts. The fund presented in this report is a Proprietary Fund Type - *Enterprise Fund*. Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Measurement Focus and Basis of Accounting:

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the statement of net assets. Net assets are segregated into capital assets net of related debt and restricted and unrestricted net asset components. Proprietary fund operating statements present increases (revenues) and decreases (expenses) in net total assets. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (Continued):

In accounting and reporting for its proprietary operations, the Authority applies all Governmental Accounting Standards Board (GASB) pronouncements, and applies all Financial Accounting Standards Board (FASB) pronouncements and interpretations issued on or before November 30, 1989. Such FASB pronouncements are applied unless they conflict or contradict GASB pronouncements. The Authority also has the option of following subsequent private-sector guidance, subject to the same limitation. The Authority has elected not to follow subsequent private-sector guidance.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The Authority's principal operating revenue is water sales and charges for wastewater processing while the operating expenses include direct general and administrative expenses, distribution, laboratory, water plant, depreciation, and other operating expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted amounts of net assets are available for use for expenses incurred, it is the Authority's policy to use restricted amounts first and then unrestricted amounts as they are needed.

Management Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Cash and Cash Equivalents and Investments:

Cash and cash equivalents includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Authority.

For purposes of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) with an original maturity date of three months or less, to be cash equivalents.

Investments are stated at fair value.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Customer Accounts Receivable:

Customer accounts receivable include billed but uncollected amounts and unbilled receivables based upon a pro rata amount of subsequent monthly billings. Allowances for doubtful accounts are maintained based on historical results adjusted to reflect current conditions.

Inventories:

Inventories of materials and supplies are stated at cost, which approximates market, using the first-in, first-out (FIFO) method. The Authority uses the consumption method of accounting for inventory, in that as materials are purchased they are coded to inventory and then as subsequently used they are expensed in the fund.

Prepaid Items:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items the Authority's financial statements.

Restricted Assets:

Certain proceeds of the revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable covenants.

Bond Premiums, Discounts and Issuance Costs:

Bond premiums, discounts and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. Bond premiums and discounts are presented as an addition and reduction, respectively, of the face amount of bonds payable, whereas issuance costs are recorded as deferred charges.

Deferred Refunding Charges:

Deferred refunding charges represent the difference between the carrying amount of defeased debt and its reacquisition price. Deferred refunding charges are amortized using the straight-line method over the remaining life of the defeased debt, had it not been refunded, or the life of the new debt, whichever is shorter. Unamortized deferred refunding charges are presented as a reduction of the face amount of bonds payable.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets:

Capital assets are carried at cost. Donated capital assets are recorded at their estimated fair value at the date of donation. These assets are depreciated over the estimated useful life using the straight-line method. The Authority defines its capitalization policy as assets costing \$1,000 and having an estimated useful life of greater than one year.

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

Capital assets of the Authority are depreciated or amortized using the straight line method over the following useful lives:

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

Capital Contributions:

Capital contributions consist of capital grants or contributions from developers, customers and other entities.

Compensated Absences:

It is the Authority's policy to permit employees to accumulate earned but unused vacation pay benefits for one year. All vacation pay is accrued when incurred in the financial statements as these amounts will be paid to employees upon termination or retirement.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. DEPOSITS AND INVESTMENTS

Total deposits and investments as of August 31, 2012, are summarized as follows:

<u>As reported in the Statement of Net Assets</u>	
Cash and cash equivalents	\$ 45,827,114
Restricted:	
Cash and cash equivalents	5,062,860
Investments	1,295,443
	<u>\$ 52,185,417</u>
Cash deposited with financial institutions	\$ 6,273,071
Cash equivalent - Georgia Fund 1	40,389,397
Cash equivalent - US Bank Money Market	2,989,329
Cash equivalent - First American Treasury Obligation Mutual Fund	1,238,177
Total cash and cash equivalents	<u>\$ 50,889,974</u>
Restricted investment - Repurchase Agreement	<u>\$ 1,295,443</u>

Credit Risk. State statutes authorize the Authority to invest in obligations of the State of Georgia or other states; obligations issued by the U.S. government; obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States; obligations of any corporation of the U.S. government; prime banker's acceptances; the local government investment pool established by state law; repurchase agreements; and obligations of other political subdivisions of the State of Georgia. As of August 31, 2012, the Authority's investment in Georgia Fund 1 received a rating of AAAM by Standard & Poor's. As of August 31, 2012, the Authority's investments in the First American Treasury Obligation Mutual Fund received a rating of AAAM by Standard & Poor's and the money market and repurchase agreement are not rated.

Georgia Fund 1, created by OCGA 36-83-8, is a stable net asset value investment pool which follows Standard and Poor's criteria for AAAM rated money market funds. However, 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. The pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal (\$1.00 per share value). 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 value. The fair value of the Authority's position in the pool is the same as the value of pool shares (\$1 per share value). The regulatory oversight agency for Georgia Fund 1 is the State Treasurer of the State of Georgia. The Authority has classified the Georgia Fund 1 funds as cash and cash equivalents.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

At August 31, 2012, the Authority had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Georgia Fund 1	48 days	\$ 40,389,397
First American Treasury Obligation Mutual Fund	54 days	1,238,177
Money Market	n/a	2,989,329
Repurchase Agreement	August 1, 2025	1,295,443
Total		<u>\$ 45,912,346</u>

Interest Rate Risk. The Authority has adopted an interest rate management plan meeting the requirements of O.C.G.A. 36-82-250. The plan permits the Authority to enter into qualified interest rate management agreements. The plan is established to achieve the lowest possible cost of capital within prudent risk parameters.

Custodial Credit Risk – Deposits. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes, and the Authority's policy, require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of August 31, 2012, the Authority's bank balances were properly collateralized as defined by State statutes.

NOTE 3. RECEIVABLES

Receivables consisted of the following at August 31, 2012:

Accounts Receivable:		
Billed	\$	2,456,056
Unbilled		2,673,965
Other		123,442
Gross receivables		<u>5,253,463</u>
Less allowance for uncollectibles		-
Net total receivables	\$	<u>5,253,463</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 4. CAPITAL ASSETS

Capital assets activity for the year ended August 31, 2012 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land and easements	\$ 3,556,929	\$ 455,706	\$ -	\$ 4,012,635
Construction in progress	7,567,463	1,299,236	(1,042,585)	7,824,114
Total	<u>11,124,392</u>	<u>1,754,942</u>	<u>(1,042,585)</u>	<u>11,836,749</u>
Capital assets, being depreciated:				
Structures and improvements	523,427,762	3,738,175	(95,966)	527,069,971
Machinery and equipment	5,172,427	642,552	(103,796)	5,711,183
Office furniture and equipment	120,452	8,614	-	129,066
Total	<u>528,720,641</u>	<u>4,389,341</u>	<u>(199,762)</u>	<u>532,910,220</u>
Less accumulated depreciation for:				
Structures and improvements	(106,053,500)	(9,987,762)	60,238	(115,981,024)
Machinery and equipment	(3,527,003)	(630,681)	103,796	(4,053,888)
Office furniture and equipment	(87,996)	(7,402)	-	(95,398)
Total	<u>(109,668,499)</u>	<u>(10,625,845)</u>	<u>164,034</u>	<u>(120,130,310)</u>
Total capital assets, being depreciated, net	<u>419,052,142</u>	<u>(6,236,504)</u>	<u>(35,728)</u>	<u>412,779,910</u>
Total capital assets, net	<u>\$ 430,176,534</u>	<u>\$ (4,481,562)</u>	<u>\$ (1,078,313)</u>	<u>\$ 424,616,659</u>

The table above includes a restatement to opening balances of \$42,469 to remove the net value of capital assets which were disposed of in prior years but incorrectly remained on the subsidiary listings. Additionally, there was a reclassification of \$607,704 to increase construction in progress for costs which were previously reported as other assets on the statement of net assets.

NOTE 5. LONG-TERM DEBT

Long-term debt activity for the year ended August 31, 2012 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	\$ 178,910,000	\$ -	\$ (6,160,000)	\$ 172,750,000	\$ 6,340,000
Less:					
Unamortized discount	(155,201)	-	13,725	(141,476)	
Deferred amount on refunding	(8,025,917)	-	467,612	(7,558,305)	
Plus unamortized premiums	5,197,195	-	(638,376)	4,558,819	
Total revenue bonds	<u>\$ 175,926,077</u>	<u>\$ -</u>	<u>\$ (6,317,039)</u>	<u>\$ 169,609,038</u>	<u>\$ 6,340,000</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 5. LONG-TERM DEBT (CONTINUED)

Revenue Bonds

In 1991, the Authority issued a Revenue Refunding Series 1991 bonds to advance refund all of the series 1987 and 1988. The original amount of the bonds issued was for \$21,685,000 with an interest rate ranging from 6.30% to 7.50% and maturing in 2018.

In 1993, the Authority issued a Revenue Refunding and Improvement Series 1993 bonds to advance refund all of the series 1991 and to provide proceeds to fund certain additions and improvements to the water and sewerage systems. The original amount of the bonds issued was for \$28,460,000 with an interest rate ranging from 5.30% to 5.50% and maturing in 2023.

In 1995, the Authority issued a Revenue Series 1995 bonds to provide proceeds to fund certain additions and improvements to the water and sewerage systems. The original amount of the bonds issued was for \$22,460,000 with an interest rate of 5.20% and maturing in 2025.

In 2001, the Authority issued a Revenue Series 2001 bonds to provide proceeds to fund certain additions and improvements to the water and sewerage systems as well as to refund portions of the Series 1991, Series 1995, Series 1997, and Series 1998. The original amount of the bonds issued was for \$70,505,000 with an interest rate ranging from 3.25% to 5.125% and maturing in 2030.

In 2003, the Authority issued a Revenue Series 2003 bonds to provide proceeds to fund certain additions and improvements to the water and sewerage systems. The original amount of the bonds issued was for \$34,830,000 with an interest rate ranging from 2.00% to 5.00% and maturing in 2033.

In 2008, the Authority issued a Revenue Series 2008 bonds to provide proceeds to refund the 2006 and 2007 Revenue bonds from auction rate securities to fixed rate securities. The original amount of the bonds issued was for \$50,000,000 with an interest rate ranging from 3.00% to 5.00% and maturing in 2035.

In 2010, the Authority issued a Revenue Refunding Series 2010 bonds to provide proceeds to advance refund the Authority's remaining Series 1997 and 1998 revenue bonds and a portion of the Series 2001 revenue bonds. The original amount of the bonds issued was for \$39,710,000 with an interest rate ranging from 3.00% to 5.00% and maturing in 2028.

In 2011, the Authority issued a Revenue Refunding Series 2011 bonds to provide proceeds to advance refund the Authority's remaining Series 2001 and a portion of the Series 2003 revenue bonds. The original amount of the bonds issued was for \$29,310,000 with an interest rate ranging from 3.00% to 5.00% and maturing in 2030.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. LONG-TERM DEBT (CONTINUED)

Revenue Bonds (Continued)

Through the issuance of the refunding bonds noted above, the Authority has advance refunded the 1991, 1995 and 2003, all of which are considered defeased, as the outstanding bonds have not reached their respective call dates (maturity dates) and thus the liability has been removed from the Authority's general ledger, however balances remain outstanding as of August 31, 2012 for the three series noted above and are \$11,525,000, \$3,980,000, and \$8,220,000, respectively.

Revenue bond debt service requirements to maturity are as follows:

Fiscal year ending August 31,	Principal	Interest	Total
2013	\$ 6,340,000	\$ 8,106,953	\$ 14,446,953
2014	6,565,000	7,881,828	14,446,828
2015	6,835,000	7,616,903	14,451,903
2016	7,130,000	7,314,353	14,444,353
2017	7,420,000	7,019,603	14,439,603
2018-2022	42,720,000	29,508,813	72,228,813
2023-2027	54,300,000	17,895,219	72,195,219
2028-2032	30,360,000	6,329,163	36,689,163
2033-2035	11,080,000	1,011,125	12,091,125
Total	<u>\$ 172,750,000</u>	<u>\$ 92,683,960</u>	<u>\$ 265,433,960</u>

NOTE 6. DERIVATIVE FINANCIAL INSTRUMENTS

The fair value balances and notional amounts of investment derivative instruments outstanding at August 31, 2012 and the corresponding changes in fair value of such derivative instruments for the year ended August 31, 2012, was as follows:

	Change in Fair Value		Fair Value as of August 31, 2012		
	Classification	Amount	Classification	Amount	Notional
Investment derivatives:					
	Gain on investment derivative		Other long-term liability		
Forward delivery contract		\$ 98,613		\$ (687,651)	\$ 60,297,334

Forward Delivery Agreements – The Authority has entered into contracts with Lehman Brothers and Salomon Brothers (the Dealers). Under these contracts, the Authority is required to make monthly purchases of qualified U.S. Treasury securities, at the option of the Dealers, at the market value at the time of purchase, out of their debt service sinking funds. These investments will mature on or before the annual debt service payment dates.

NOTES TO FINANCIAL STATEMENTS

NOTE 6. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The Authority and the Dealers, Lehman Brothers Special Financing, Inc. (1993 & 1995 Series) and Salomon Brothers Holding Company (2001 Series), have entered into three such debt service forward delivery agreements, with respect to the debt service funds related to the following bond series:

Series	Cash Payment
1993 Refunding & Improvement Bonds	\$ 740,600
1995 Revenue Bonds	218,000
2001 Refunding & Improvement Bonds	162,995

When the Authority entered into these agreements an upfront cash payment of \$1,121,595 was received by the Authority which represented the present value of the future cash flows. The cash received was recorded as deferred revenue and is being amortized over the life of the agreements. Deferred revenue in the statements of net assets related to these forward delivery agreements was \$334,366 and \$360,301 at August 31, 2012 and 2011, respectively.

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

The Authority has entered into these forward delivery arrangements for speculative purposes to obtain a higher long-term yield than short term and not for the purpose of hedging any financial risk. Therefore the fair value of these forward delivery arrangements will be classified as derivative investments (other long-term liability) in the statements of net assets and the gains or losses are reported as nonoperating revenues (expenses) on the statements of revenues, expenses and changes in net assets.

NOTE 7. COMPENSATED ABSENCES

The Authority's accrued compensated absences activity for the year ended August 31, 2012 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 457,783	\$ 464,237	\$ (448,523)	\$ 473,497	\$ 473,497

NOTES TO FINANCIAL STATEMENTS

NOTE 8. DEFINED BENEFIT PENSION PLAN

Plan Description

The Authority's defined benefit plan, the Cherokee County Water and Sewerage Authority Retirement Plan (the "Plan"), provides retirement benefits, death benefits to plan members and beneficiaries. The Plan is affiliated with the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer pension plan administered by the Georgia Municipal Association. Contributions made by the Authority are commingled with contributions made by other members of GMEBS for investment purposes. The Authority does not own any securities on its own. Investment income from the securities is allocated on a pro rata basis. The Georgia Municipal Association issues a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained by writing to Georgia Municipal Association, Risk Management and Employee Benefit Services, 201 Pryor Street, SW, Atlanta, Georgia 30303 or by calling (404) 688-0472.

As provided by state law, benefit provisions for participants in GMEBS are established by the respective employers. As authorized by the Authority, the plan provides pension benefits and death benefits for plan members and beneficiaries. All full time employees are eligible to participate after one year. Benefits start vesting after one year of service and are fully vested after five.

At January 1, 2012, the date of the most recent actuarial valuation, there were 197 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	15
Terminated vested participants	13
Active employees	169
Total	<u>197</u>

Funding Policy

The Plan is subject to minimum funding standards of the Georgia Public Retirement Systems Standards law. The board of Trustees of GMEBS has adopted a recommended actuarial funding policy for the plan which meets state minimum requirements and will accumulate sufficient funds to provide the benefits under the plan. The funding policy for the plan is to contribute an amount equal to or greater than the recommended contribution described below. For 2012, the actuarially determined contribution rate was 14.99% of covered payroll.

For the year ended August 31, 2012, the Authority's recommended and actual contributions were \$1,105,481. The recommended contribution was determined as part of the January 1, 2011 actuarial valuation using the projected unit credit actuarial cost method. Actuarial assumptions include a 7.75% rate of return on investments and projected salary increases of 3.5% plus age and service based merit increases. The period for amortizing the remaining unfunded actuarial accrued liability is 12 years as a level dollar amount. This amortization period is closed for this plan year.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Funding Policy (Continued)

The actuarial value of the plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a ten year period.

Annual Pension Cost

The Authority's annual pension cost for the pension plan and related assumption for the plan year ended August 31, 2012 are as follows:

Basis of Valuation

Current Valuation Date	January 1, 2012
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

Trend Information for The Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Authority Contribution	Percentage of APC Contributed	Net Pension Obligation (Asset)
8/31/08	\$ 972,591	\$ 972,591	100 %	\$ -
8/31/09	1,095,370	1,095,370	100	-
8/31/10	1,246,671	1,246,671	100	-
8/31/11	1,193,080	1,193,080	100	-
8/31/12	1,105,481	1,105,481	100	-

The following is a schedule of funding progress, using the actuarial cost method:

Measurement Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as A Percentage of Covered Payroll
1/1/12	\$ 9,065,814	\$ 13,033,345	\$ 3,967,531	69.56 %	\$ 7,757,992	51.14 %

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the actuarial accrued liability.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Annual Pension Cost (Continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

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

NOTE 9. DEFERRED COMPENSATION PLAN

The Authority has a deferred compensation plan for its employees under Internal Revenue Code section 457. The plan allows any full time employee to voluntarily defer receipt their gross compensation, not to exceed the maximum annual contribution established by the Internal Revenue Service. The Authority does not contribute to the plan. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the participants in the deferred compensation plan. Actual contributions to the plan were \$192,411 for the year ending August 31, 2012.

The Authority's deferred compensation plans do not meet the criteria in NGCA statement 1, Governmental Accounting and Financial Reporting Principles, paragraph 26(3)(8), for inclusion in the financial statements of the Authority.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The Cherokee County Water and Sewerage Authority Other Post-Employment Benefits Plan (the "OPEB Plan") is 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 Georgia Municipal Association issues a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained by writing to Georgia Municipal Association, Risk Management and Employee Benefit Services, 201 Pryor Street, SW, Atlanta, Georgia 30303 or by calling (404) 688-0472.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Benefits

The Authority provides postemployment health insurance benefits to all employees who retire after meeting age and tenure conditions and who do not have other coverage.

Prior to June 2012, the coverage required eligible retirees to be at least age 62 or above and have completed from 15 to 20 continuous years of service at retirement and have participated in the Authority's health insurance plan, at the level of requested coverage, for a minimum of six months prior to retirement. The retiree's spouse and dependent(s) would have been eligible to also receive coverage under certain circumstances. Retirees paid from 50% to 20% of the cost of their own coverage and 75% to 60% for spouse and dependent coverage depending upon the employee's age at retirement. For retirees who qualify, the benefits are coordinated with Medicare gaps to ensure a true Medicare carve-out plan. Effective June 2012 the tiered age pricing was abolished and a new set of guidelines were established by the Board of Directors. (Board vote at March 26, 2012 meeting).

Effective June 2012 and thereafter, the postemployment health benefits require employees to meet the "Rule of 80" as defined in the Defined Benefit Retirement Plan (GMEBS) and have a minimum of 15 continuous years of service at the CCWSA. Employees and the beneficiaries must still meet other eligibility criteria as specified in stipulations set by the Board of Directors. Retirees that are confirmed eligible must pay 20% of their own coverage and 40% of dependent coverage. For retirees who qualify, the benefits are coordinated with Medicare gaps to ensure a true Medicare carve-out plan.

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

Plan Membership

As of September 1, 2011, the most recent actuarial valuation date, the Plan membership included the following categories of participants:

Retirees, beneficiaries, and dependents	5
Active participants	176
	<u>181</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Contributions

The annual required contribution for the current year was determined as part of the September 1, 2011, actuarial valuation. The actuarial assumptions included:

Cost Method	Projected Unit Credit
Actuarial Asset Valuation Method	Market Value
Assumed Rate of Return on Investments	4.50%
Annual Inflation	3.25%
Healthcare Cost Trend Rate	8.0%
Ultimate Healthcare Cost Trend Rate	5.0%
Year of Ultimate Trend Rate	2017
Amortization Method	Level dollar, open
Remaining Amortization Period	20 years

The following is a schedule of funding progress using the projected unit credit cost method. As of the most recent valuation date, January 1, 2011, the funded status of the Plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
9/1/2011	\$ 1,559,000	\$ 5,483,000	\$ 3,924,000	28.4%	\$ 8,173,000	48.0%

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of September 1, 2011.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Annual OPEB Cost

The recommended contribution was determined as part of the September 1, 2011 actuarial valuation. The chart below shows the annual OPEB cost for the current and two preceding years, along with the amount and percentage actually contributed by the Authority.

<u>Schedule of Employer Costs and Contributions</u>				
<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
August 31, 2012	\$ 505,000	\$ 505,000	100%	\$ -
August 31, 2011	852,000	852,000	100%	-
August 31, 2010	475,000	475,000	100%	-

NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES

The Authority is subject to legal actions in the ordinary course of business. In the opinion of management and legal counsel, the Authority has adequate legal defenses and insurance coverage with respect to such actions and the liability, if any, which might result from these proceedings, would not have a material adverse effect on the financial position of the Authority.

Additionally, the Authority has contractual commitments of approximately \$2,190,800 on uncompleted contracts as of August 31, 2012.

NOTE 12. RISK MANAGEMENT

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; workers compensation; health care; errors and omissions; injuries to employees; and natural disasters. The Authority purchases commercial insurance for all risks of loss. Settled claims have not exceeded purchased commercial insurance coverage in any of the past three years. There was no significant reduction in insurance coverage since last fiscal year.

NOTES TO FINANCIAL STATEMENTS

NOTE 13. PRIOR PERIOD RESTATEMENTS

The Authority has determined that a restatement of beginning net assets was necessary to correct (1) reporting of capital assets which were overstated in prior years for deletions which were not removed from the subsidiary ledgers; (2) reporting of derivate financial instruments at fair value; (3) reporting of the amortization of the premiums, discounts and issuance costs related to the Authority's revenue bonds using the effective interest method rather than pervious straight-line method; and (4) reporting of the amortization of deferred charges on refunding of revenue bonds. These adjustments resulted in a change to the beginning net assets of the Authority as follows:

Net assets, as previously reported	\$ 303,577,351
Effect of proper reporting of capital assets	(42,469)
Effect of proper reporting of derivative instrument	(786,264)
Effect of proper reporting of premiums, discounts and issuance costs	594,215
Effect of proper reporting of deferred costs of refundings	978,590
Net assets, as restated	<u>\$ 304,321,423</u>

REQUIRED SUPPLEMENTARY INFORMATION

**CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULES OF FUNDING PROGRESS
POST-EMPLOYMENT BENEFIT PLANS**

Funded Status

The tables below set forth required supplementary information to be disclosed in the schedule of funding progress. The items presented are based on the actuarial valuation date:

Defined Benefit Pension - Schedule of Funding Progress

Measurement Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as A Percentage of Covered Payroll
7/1/2007	\$ 3,769,040	\$ 8,512,103	\$ 4,743,063	44.28 %	\$ 6,064,133	78.22 %
7/1/2008	4,728,106	9,797,532	5,069,426	48.26	6,681,445	75.87
7/1/2009	5,119,742	11,165,572	6,045,830	45.85	7,114,270	84.98
1/1/2010	6,297,180	10,620,778	4,323,598	59.29	7,114,270	60.77
1/1/2011	7,764,946	11,887,944	4,122,998	65.32	7,209,463	57.19
1/1/2012	9,065,814	13,033,345	3,967,531	69.56	7,757,992	51.14

Note: See assumptions used for the Schedule of Funding Progress in Note 8 to the financial statements.

Other Postemployment Benefits - Schedule of Funding Progress

Measurement Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as A Percentage of Covered Payroll
9/1/2008	\$ -	\$ 2,591,000	\$ 2,591,000	0.00 %	\$ 7,381,000	35.10 %
9/1/2010	976,000	5,292,000	4,316,000	18.44	7,677,000	56.22
9/1/2011	1,559,000	5,483,000	3,924,000	28.43	8,173,000	48.01

Note: See assumptions used for the Schedule of Funding Progress in Note 10 to the financial statements.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF COSTS OF WATER PURCHASES AND PRODUCTION
FOR THE FISCAL YEAR ENDED AUGUST 31, 2012

Purchased water	\$	51,394
Water production:		
Salaries and wages		1,003,924
Payroll taxes		74,455
Group insurance		179,644
Retirement		105,038
Other postemployment benefits		48,803
Billing and accounting		14,992
Continuing education		29,522
Insurance - other than group		41,138
Lab fees and supplies		46,930
Stream monitoring		122,800
Miscellaneous		1,386
Office supplies		3,138
Operating supplies		240,549
Postage		24
Power		1,135,032
Professional fees		1,741
Repair and maintenance		221,147
Small tools and equipment		1,605
Telephone		19,686
Uniforms		6,202
Vehicle		22,581
Total water production		3,320,337
Total water purchases and production before depreciation		3,371,731
Depreciation		1,362,156
Total water purchases and production costs	\$	4,733,887

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF COSTS OF WASTEWATER TREATMENT
FOR THE FISCAL YEAR ENDED AUGUST 31, 2012

Purchased wastewater treatment	\$	765,608
Wastewater treatment:		
Salaries and wages		2,106,983
Payroll taxes		155,644
Group insurance		429,415
Retirement		302,757
Other postemployment benefits		137,715
Billing and accounting		14,992
Continuing education		28,454
Insurance - other than group		118,971
Lab fees and supplies		43,882
Regulatory actions		2,750
Legal fees		21,869
Miscellaneous		3,749
Office supplies		9,055
Operating supplies		1,102,263
Postage		709
Power		1,316,935
Repair and maintenance		1,129,188
Small tools and equipment		9,143
Telephone		30,705
Uniforms		15,370
Vehicle		84,949
Total wastewater treatment		7,065,498
Total purchased treatment and wastewater treatment before depreciation		7,831,106
Depreciation		2,065,003
Total wastewater treatment cost	\$	9,896,109

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF COSTS OF DISTRIBUTION AND ADMINISTRATION EXPENSES
FOR THE FISCAL YEAR ENDED AUGUST 31, 2012

Salaries and wages	\$	5,574,291
Payroll taxes		402,995
Group insurance		1,168,684
Retirement		679,659
Other postemployment benefits		318,482
Bad debts		80,123
Billing and accounting		365,786
Consumer reports		7,600
Continuing education		43,985
Contract meter readers		593,617
Directors' fees and expenses		56,542
Equipment repairs and maintenance		627,135
Insurance - other than group		266,187
Lab fees and supplies		5,979
Legal and audit		118,276
Line and meter repairs		525,971
Miscellaneous		23,814
Office supplies		25,986
Operating supplies		64,416
Postage		8,503
Power		129,908
Professional fees		111,184
Real estate taxes		11,113
Small tools and equipment		15,932
Telephone		53,812
Toilet rebates		24,400
Uniforms		21,808
Vehicle		344,688
Water tests		4,200
Subtotal		11,675,076
Less capitalized salaries		(432,009)
Total distribution and administration expenses before depreciation		11,243,067
Depreciation		7,198,686
Total distribution and administration expenses	\$	18,441,753

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED TO ACTUAL
FOR THE FISCAL YEAR ENDED AUGUST 31, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Operating revenues:			
Metered water sales	\$ 23,720,000	\$ 24,472,779	\$ 752,779
Wastewater treatment	14,138,100	14,011,430	(126,670)
Street light fees	1,264,000	1,263,493	(507)
Water connections	982,100	307,445	(674,655)
Transfer fees	170,000	181,375	11,375
Penalties and discounts	700,000	678,897	(21,103)
Other	124,500	116,788	(7,712)
Total operating revenue	<u>41,098,700</u>	<u>41,032,207</u>	<u>(66,493)</u>
EXPENSES			
Operating expenses:			
Water purchases and production:			
Water purchases	45,000	51,394	(6,394)
Salaries and wages	998,100	1,003,924	(5,824)
Payroll taxes	76,400	74,455	1,945
Group insurance	170,700	179,644	(8,944)
Retirement	106,800	105,038	1,762
Other postemployment benefits	48,803	48,803	-
Billing and accounting	14,400	14,992	(592)
Continuing education	29,000	29,522	(522)
Insurance - other than group	41,900	41,138	762
Lab fees and supplies	55,500	46,930	8,570
Stream monitoring	123,000	122,800	200
Miscellaneous	1,500	1,386	114
Office supplies	1,500	3,138	(1,638)
Operating supplies	275,000	240,549	34,451
Postage	500	24	476
Power	1,156,000	1,135,032	20,968
Professional fees	10,000	1,741	8,259
Repair and maintenance	258,800	221,147	37,653
Small tools and equipment	2,000	1,605	395
Telephone	15,000	19,686	(4,686)
Uniforms	5,000	6,202	(1,202)
Vehicle	21,000	22,581	(1,581)
Depreciation	1,308,000	1,362,156	(54,156)
Total water purchases and production	<u>4,763,903</u>	<u>4,733,887</u>	<u>30,016</u>

(continued)

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED TO ACTUAL
FOR THE FISCAL YEAR ENDED AUGUST 31, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Wastewater treatment			
Purchased wastewater treatment	738,000	765,608	(27,608)
Salaries and wages	2,172,000	2,106,983	65,017
Payroll taxes	166,200	155,644	10,556
Group insurance	402,000	429,415	(27,415)
Retirement	301,500	302,757	(1,257)
Other postemployment benefits	137,715	137,715	-
Billing and accounting	14,500	14,992	(492)
Continuing education	28,400	28,454	(54)
Insurance - other than group	120,800	118,971	1,829
Lab fees and supplies	45,300	43,882	1,418
Regulatory actions	20,000	2,750	17,250
Legal fees	20,000	21,869	(1,869)
Miscellaneous	3,500	3,749	(249)
Office supplies	11,500	9,055	2,445
Operating supplies	905,000	1,102,263	(197,263)
Postage	1,400	709	691
Power	1,450,000	1,316,935	133,065
Repair and maintenance	1,240,500	1,129,188	111,312
Small tools and equipment	20,200	9,143	11,057
Telephone	32,000	30,705	1,295
Uniforms	15,000	15,370	(370)
Vehicle	73,000	84,949	(11,949)
Depreciation	2,029,800	2,065,003	(35,203)
Total wastewater treatment	<u>9,948,315</u>	<u>9,896,109</u>	<u>52,206</u>
Distribution and administration			
Salaries and wages	5,474,000	5,574,291	(100,291)
Payroll taxes	418,800	402,995	15,805
Group insurance	1,149,700	1,168,684	(18,984)
Retirement	697,200	679,659	17,541
Other postemployment benefits	318,482	318,482	-
Bad debts	110,000	80,123	29,877
Billing and accounting	386,400	365,786	20,614
Consumer reports	7,500	7,600	(100)
Continuing education	45,600	43,985	1,615
Contract meter readers	629,600	593,617	35,983
Directors' fees and expenses	60,200	56,542	3,658
Equipment repairs and maintenance	586,600	627,135	(40,535)
Insurance - other than group	271,100	266,187	4,913
Lab fees and supplies	12,500	5,979	6,521
Legal and audit	190,000	118,276	71,724

(continued)

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED TO ACTUAL
FOR THE FISCAL YEAR ENDED AUGUST 31, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Line and meter repairs	454,800	525,971	(71,171)
Miscellaneous	25,000	23,814	1,186
Office supplies	33,000	25,986	7,014
Operating supplies	61,200	64,416	(3,216)
Postage	10,000	8,503	1,497
Power	141,000	129,908	11,092
Professional fees	90,000	111,184	(21,184)
Real estate taxes	26,000	11,113	14,887
Small tools and equipment	17,400	15,932	1,468
Telephone	55,800	53,812	1,988
Toilet rebates	30,000	24,400	5,600
Uniforms	20,000	21,808	(1,808)
Vehicle	316,000	344,688	(28,688)
Water tests	7,000	4,200	2,800
Depreciation	7,133,700	7,198,686	(64,986)
Capitalized salaries	(290,800)	(432,009)	141,209
Total distribution and administration	<u>18,487,782</u>	<u>18,441,753</u>	<u>46,029</u>
Streetlights	<u>908,000</u>	<u>915,727</u>	<u>(7,727)</u>
Total operating expenses	<u>34,108,000</u>	<u>33,987,476</u>	<u>120,524</u>
Operating income	6,990,700	7,044,731	(187,017)
NON-OPERATING REVENUES (EXPENSES)			
Interest income	123,600	262,804	139,204
Miscellaneous income	115,000	113,382	(1,618)
Interest expense and fiscal agent fees	(8,505,900)	(8,295,890)	210,010
Amortization expense	(116,600)	(75,984)	40,616
Loss on disposal of capital assets	-	(19,595)	(19,595)
Total non-operating revenues (expenses)	<u>(8,383,900)</u>	<u>(8,015,283)</u>	<u>368,617</u>
Capital contributions	<u>1,740,000</u>	<u>4,741,959</u>	<u>3,001,959</u>
Change in Net Assets	<u>\$ 346,800</u>	<u>\$ 3,771,407</u>	<u>\$ 3,183,559</u>

**CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF METERED WATER SALES, WASTEWATER TREATMENT
SALES AND NUMBER OF CUSTOMERS SERVED
FOR THE FISCAL YEAR ENDING AUGUST 31,**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Metered water sales	\$ 24,472,779	\$ 25,177,691	\$ 24,106,505	\$ 23,671,252	\$ 21,545,310
Number of customers served	65,519	64,659	64,221	63,928	63,477
Sales per customer	<u>\$ 373.52</u>	<u>\$ 389.39</u>	<u>\$ 375.37</u>	<u>\$ 370.28</u>	<u>\$ 339.42</u>
Wastewater treatment sales	\$ 14,011,430	\$ 13,787,286	\$ 13,818,212	\$ 13,559,105	\$ 12,474,370
Number of customers served	28,053	27,579	27,014	26,655	26,413
Sales per customer	<u>\$ 499.46</u>	<u>\$ 499.92</u>	<u>\$ 511.52</u>	<u>\$ 508.69</u>	<u>\$ 472.28</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF REVENUE BOND COVERAGE (IN THOUSANDS)
FISCAL YEAR ENDED AUGUST 31,

	2012		2011		2010		2009		2008	
	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 (1)	\$ 21,950	\$ 18,128	\$ 21,704	\$ 19,263	\$ 21,678	\$ 18,903	\$ 21,262	\$ 18,570	\$ 21,939	\$ 16,517
Highest annual debt service requirement	\$ 14,452	\$ 14,452	\$ 14,452	\$ 14,452	\$ 14,564	\$ 14,564	\$ 14,724	\$ 14,724	\$ 14,724	\$ 14,724
Revenue Bond Coverage:										
Actual	1.52	1.25	1.50	1.33	1.49	1.30	1.44	1.26	1.49	1.12
Required	1.20	1.00	1.20	1.00	1.20	1.00	1.20	1.00	1.20	1.00

(1) Net revenues available for debt service includes all charges for service, including water connection and sewer tap fees. The available revenues are income from operations, plus depreciation. Required revenue bond coverage is measured both including and excluding the water and sewer tap fees.

**CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF WATER, SEWER, AND IRRIGATION RATES
FISCAL YEAR ENDED AUGUST 31,**

Consumption (gallons)	2012			2011		
	Water Net	Sewer Net	Irrigation Net	Water Net	Sewer Net	Irrigation Net
0	\$ 8.00	\$ 11.60	\$ 11.00	\$ 8.00	\$ 11.60	\$ 11.00
1,000	9.10	11.60	12.10	9.10	11.60	12.10
2,000	10.20	11.60	13.20	10.20	11.60	13.20
3,000	15.20	18.20	18.20	15.20	18.20	18.20
4,000	20.20	24.80	23.20	20.20	24.80	23.20
5,000	25.20	31.40	28.20	25.20	31.40	28.20
6,000	30.20	38.00	33.20	30.20	38.00	33.20
7,000	35.20	44.60	38.20	35.20	44.60	38.20
8,000	40.20	51.20	43.20	40.20	51.20	43.20
9,000	45.20	57.80	48.20	45.20	57.80	48.20
10,000	50.20	64.40	53.20	50.20	64.40	53.20
11,000	56.20	71.00	59.20	56.20	71.00	59.20
12,000	62.20	77.60	65.20	62.20	77.60	65.20
13,000	68.20	84.20	71.20	68.20	84.20	71.20
14,000	74.20	90.80	77.20	74.20	90.80	77.20
15,000	80.20	97.40	83.20	80.20	97.40	83.20
16,000	86.20	104.00	89.20	86.20	104.00	89.20
17,000	92.20	110.60	95.20	92.20	110.60	95.20
18,000	98.20	117.20	101.20	98.20	117.20	101.20
19,000	104.20	123.80	107.20	104.20	123.80	107.20
20,000	110.20	130.40	113.20	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	Additional \$6.00 per 1,000	Additional \$6.60 per 1,000	Additional \$6.00 per 1,000

There is a 10% penalty applied with paid after the 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, 2012.

**CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 STATISTICAL TABLE OF INSURANCE IN FORCE
 AS OF AUGUST 31, 2012**

TYPE OF COVERAGE	LIMITS OF LIABILITY
Public Officials and Employment Practices Legal Liability	\$1,000,000 for each loss \$3,000,000 aggregate for each policy year
Commercial Automobile	\$1,000,000 each for liability and uninsured motorist covering owned and non-owned vehicles
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	\$234,103,634 blanket coverage all equipment
Inland Marine	\$2,471,103 computers, software and contractors equipment - owned and rented \$1,000,000 electronic data processing
Workers Compenstion	\$500,000 for bodily injury each accident, and \$500,000 disease aggregate and per employee
Commercial Umbrella	\$10,000,000 for each occurrence
Commercial General Liability	\$3,000,000 general aggregate \$3,000,000 products and completed operations aggregate \$1,000,000 personal injury \$1,000,000 each occurrence Includes dam collapse, failure to supply, and employee benefit liabilities with separate limits

COMPLIANCE SECTION



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

**To the Board of the
Cherokee County Water and Sewerage Authority
Canton, Georgia**

We have audited the basic financial statements of the Cherokee County Water and Sewerage Authority (the "Authority") as of and for the year ended August 31, 2012, and have issued our report thereon dated February 1, 2013. 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

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 an opinion on the effectiveness of the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2012-1 to be a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Authority in a separate letter dated February 1, 2013.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of the Authority, management, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Atlanta, Georgia
February 1, 2013

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED AUGUST 31, 2012

SECTION I SUMMARY OF AUDITOR RESULTS

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting: Material weaknesses identified?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no
Significant deficiencies identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

Federal Awards

There was not an audit of major federal award programs for the year ended August 31, 2012 due to the total amount expended being less than \$500,000.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED AUGUST 31, 2012

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

2012-1 Fund Balance (Prior Period Adjustment)

Criteria: Internal controls should be in place to ensure that financial statements are properly presenting the financial position and results of the Authority in accordance with accounting principles generally accepted in the United States of America.

Condition: Internal controls were not sufficient to detect misstatements in the reporting of the opening net assets of the Authority.

Context/Cause: During our testing, audit adjustments were required to adjust the opening net assets to properly record (a) capital assets which were overstated by approximately \$42,000 for assets disposed of in prior year activity however were not removed from the subsidiary listings and thus the trial balance; (b) reporting of the fair value of the derivative instruments related to the forward debt service contracts which required an adjustment of approximately \$786,000; (c) reporting of the amortization of the premiums, discounts and issuance costs related to the Authority's revenue bonds which required an adjustment of approximately \$594,000; and (d) reporting of the amortization and calculation of deferred charges on refunding of revenue bonds, requiring adjustments of approximately \$979,000.

Effects: Audit adjustments of approximately \$2,401,000 were needed to correctly report opening net assets. The net of the audit adjustments increased the total net assets of the Authority by approximately \$745,000.

Recommendation: We recommend the Authority carefully review the financial statements and applicable reporting requirements under generally accepted accounting principles to ensure that all information and financial data is properly stated.

Auditee's Response: We concur with the finding. We will take necessary steps in the future to ensure that all applicable reporting requirements under generally accepted accounting principles and government accounting standards are appropriately and timely applied.