

**CHEROKEE COUNTY WATER
AND SEWERAGE AUTHORITY**

CHEROKEE COUNTY, GEORGIA

**FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
AUGUST 31, 2016**

TOGETHER WITH INDEPENDENT AUDITORS' REPORTS

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
FINANCIAL STATEMENTS
AUGUST 31, 2016

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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, 2016, 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.

Auditors' 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.

Opinion

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, 2016, 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.

Emphasis of Matter

As discussed in Note B of the financial statements, Cherokee County Water and Sewerage Authority adopted the provisions of several Governmental Accounting Standards Board (“GASB”) statements: GASB Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Our opinion is not modified with respect to this matter.

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 pages 33 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 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 37 through 47 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 23, 2016 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.

AGH, LLC

AGH, LLC
November 23, 2016

Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2016

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, 2016. 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 2016 by approximately \$15.9 million, from the beginning of the year, \$332.6 million to \$348.5 million. Approximately \$3.9 million of the increase in 2016 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 \$8.6 million. The following tables focus on the Authority's net position (Table 1) and changes in its net position (Table 2).

In 2015 the Authority adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, effective for fiscal years beginning after June 15, 2014. As more fully described in footnotes to the 2016 financial statements, the Authority also adopted GASB Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. All of these statements are effective for fiscal years beginning after June 15, 2015.

Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2016

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

	8/31/2016	8/31/2015	\$ Change	% Change
Other assets	\$ 58,521	\$ 53,640	\$ 4,881	9.1%
Capital assets	444,540	442,739	1,801	0.4%
Total Assets	<u>503,061</u>	<u>496,379</u>	<u>6,682</u>	<u>1.3%</u>
Deferred Outflows of Resources	11,778	6,941	4,837	69.7%
Current liabilities	15,448	15,513	(65)	-0.4%
Long-term liabilities and debt	150,549	154,724	(4,175)	-2.7%
Total Liabilities	<u>165,997</u>	<u>170,237</u>	<u>(4,240)</u>	<u>-2.5%</u>
Deferred Inflows of Resources	358	470	(112)	-23.8%
Net investment in capital assets	301,934	291,425	10,509	3.6%
Restricted net position	1,925	4,949	(3,024)	-61.1%
Unrestricted net position	44,624	36,239	8,385	23.10%
Total Net Position	<u>\$ 348,483</u>	<u>\$ 332,613</u>	<u>\$ 15,870</u>	<u>4.80%</u>

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

	8/31/2016	8/31/2015	\$ Changes	% Change
Operating Revenues:				
Water sales	\$ 27,730	\$ 25,980	\$ 1,750	6.7%
Wastewater treatment sales	16,436	15,608	828	5.3%
Connection fees	467	373	94	25.2%
Other	2,563	2,482	81	3.3%
Non-Operating Revenues:				
Interest	222	147	75	51.0%
Other	1,507	1,007	500	49.70%
Total Revenues	<u>\$ 48,925</u>	<u>\$ 45,597</u>	<u>\$ 3,328</u>	<u>7.30%</u>
Operating Expenses:				
Water	3,473	3,447	26	0.8%
Wastewater	8,594	8,327	267	3.2%
Distribution and administration	13,710	12,898	812	6.3%
Depreciation	11,479	11,220	259	2.3%
Other	1,064	1,051	13	1.2%
Non-Operating Expenses:				
Interest	7,108	7,553	(445)	-5.9%
Other	991	460	531	115.4%
Total Expenses	<u>\$ 46,419</u>	<u>\$ 44,956</u>	<u>\$ 1,463</u>	<u>3.3%</u>
Increase before contributions	2,506	641	1,865	291.0%
Contributed capital	13,365	16,403	(3,038)	-18.5%
Increase in Net Position	<u>\$ 15,871</u>	<u>\$ 17,044</u>	<u>\$ (1,173)</u>	<u>-6.90%</u>

Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2016

The Authority's revenues increased in 2016 by approximately \$3.3 million or 7.3% (\$ 48.9 million in 2016 compared to \$45.6 million in 2015). Total Expenses increased \$1.46 million to approximately \$46.4 million or an approximate 3.3% in 2016. The factors driving these results include:

- The number of water customers in 2016 and 2015 grew by 2.3% and 2.0% respectively. Wastewater customers grew by 3.6% in 2016 compared to 3.4% in 2015. The growth of the water and wastewater customers can be attributed to the return of population growth and new construction activity that is occurring throughout Cherokee County specifically in the areas served by CCWSA's sewer system. The Authority's revenues as displayed in Table 2 above shows total revenues increasing by approximately \$3.3 million or 7.3% in FY 2016. Water sales increased approximately 6.7% as compared with prior year and sewer sales revenue increased approximately 5.3% as compared with the prior year. The Authority experienced an increase in water sales attributable to the further addition of customers to its customer base. Also, weather patterns and environmental factors drive revenue results. For FY 2016 these driving factors were not as extreme, for example, significantly cooler temperatures during the summer were not a factor or exceptionally rainy seasons as in previous years were not a factor. However, less rain and warmer temperatures in effect increased water demand which along with other indicators aided in water sales and in conjunction sewer sales results being on target and slightly higher than the Authority's budget and forecasts. The most recent rate change and revision to the Water and Sewer Rate Structure was effective May 1, 2014.
- Total Expenses of the Authority increased by approximately \$1.5 million to \$46.4 million. In regards to departmental expense increases in FY 2016, distribution and administration increased (6.3%). The majority of the increases in the distribution and administration costs were primarily recognized in increased employee costs of approximately \$345,915. Wastewater Treatment Facilities expenses increased (3.2%). The primary driving factor for the increase in wastewater treatment facilities expenses were recognized in increased employee costs of approximately \$148,912. Water Treatment Facilities expenses increased at a relatively flat rate of approximately (0.8%) in FY 2016.
- Non-Operating expenses include interest on debt service, paying agent fees, loss on disposition of capital assets-net, amortization of deferred amount on refunding and cost of issuance expenses. Specifically, interest on debt service for FY 2016 decreased approximately 5.9% largely due to the refunding of Series 2006 and Series 2007 bond issue which resulted in significant savings for the Authority. However, amortization compared to the prior year of the deferred amounts on refunding increased due to that same refunding of Series 2006 and Series 2007 bond issue as well as issuance costs associated with the refunding of Series 2006 and Series 2007 revenue bonds. Non-Operating Revenues consist of a change in the fair market value of the 1993 & 1995 debt service forward delivery agreements improved in the amount of (\$384,942) in FY 2016.
- The Authority has capital contributions revenues of approximately \$13.4 million for FY 2016. As a result of fewer donated lines accepted by the Authority, capital contributions decreased approximately 18.5% receiving donated assets valued at \$5.2 million in FY 2016. In addition to donated lines, the Authority noted sewer tap fees contributions of approximately \$5.7 million compared to FY 2015 of approximately \$5.8 million. Sewer tap fee contributions in FY 2015 were \$5,847,315 compared to sewer tap fees contributions in FY 2016 of \$5,734,547 resulting in a minimal decrease in sewer tap contributions of \$112,768 or 1.9% decrease. Also, the Authority noted a slight increase of approximately \$143,242 in meter connection fee contributions. The increases in meter connection fee contribution can be attributed to an increase of connections sold by the Authority in FY 2016. In FY 2016 there were approximately 130 more meter connections sold than in the previous fiscal year.
- Management of the Authority attributes the growth of Net Position in 2016 primarily to capital contributions which include developer contributions and easement valuations valued at \$5.2 million as well as water meter connections and sewer tap fees for approximately \$8.2 million.

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Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2016 and 2015, the Authority had \$444.5 million and \$442.7 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 approximately \$1.8 million in 2016.

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

	<u>8/31/2016</u>	<u>8/31/2015</u>
Land and easements	\$ 7,288	\$ 6,635
Construction in progress including structures, improvements & equipment not in service	<u>30,909</u>	<u>27,697</u>
Total Nondepreciable	<u>38,197</u>	<u>34,332</u>
Structures and improvements	560,217	552,099
Machinery and equipment	9,237	8,261
Office furniture and equipment	<u>334</u>	<u>326</u>
Total Depreciable	<u>569,788</u>	<u>560,686</u>
Less depreciation	<u>(163,445)</u>	<u>(152,280)</u>
Net Capital Assets	<u>\$ 444,540</u>	<u>\$ 442,738</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 2017 capital improvement program calls for it to spend \$19.7 million for capital projects in 2016-2017, 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 \$1.3 million in future work at August 31, 2016. 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, 2016

Debt Administration

At year-end 2016 and 2015, the Authority had \$150.7 million and \$155.7 million (net of discounts and premiums) in revenue bonds outstanding, respectively. The net decrease of \$5.0 million is due primarily to the repayment of the Authority's previously issued debt and the increase in amortization bond premiums from the issuance of the Series 2016 and 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 2017 budget and capital improvement program have been prepared taking into account that economic and population growth for the Authority's service area is expected to increase at a more steady pace than in prior years due to new construction activity in the Authority's service area. 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 during FY 2017. However, rates are analyzed on a regular basis and will be adjusted if deemed necessary. The Authority anticipates the customer base to increase by adding approximately 1,700 new water customers to the system during the year at tap-on fees of \$1,700 for regular residential and sprinkler meters and commercial tap-ons sold at varying rates. The Authority estimates an addition of approximately 1,265 new wastewater treatment customers to the system during the year at tap-on fees starting at \$4,500.
- 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. However, management and the Board of Directors will monitor on a regular basis the need to issue new debt to fund capital improvements.

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 140 W. Main Street, Canton, Georgia 30114.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF NET POSITION
AS OF AUGUST 31, 2016

ASSETS

Current Assets

Cash and cash equivalents	\$	49,139,945
Accounts receivable		6,410,288
Accrued interest receivable		5,786
Prepaid expenses		151,533
Inventories		313,517
Restricted assets in revenue bond sinking fund:		
Cash and cash equivalents		1,195,408
 Total Current Assets		 57,216,477

Noncurrent Assets

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

Unamortized street light costs		8,879
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Capital assets:

Land and easements		7,288,333
Construction-in-progress		30,909,285
Structures and improvements		560,217,003
Machinery and equipment		9,236,894
Office furniture and equipment		333,881

Total capital assets		607,985,396
Less: accumulated depreciation		(163,445,233)

Net capital assets		444,540,163
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Total Noncurrent Assets		445,844,739
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Total Assets		503,061,216
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DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refunding		8,516,642
Deferred pension contribution		1,187,115
Deferred increase in net pension liability		2,074,438

Total Deferred Outflows of Resources		11,778,195
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See Independent Auditors' Report and Accompanying Notes

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF NET POSITION
AS OF AUGUST 31, 2016
(continued)

LIABILITIES

Current Liabilities

Trade accounts payable	\$	1,191,013
Construction accounts and retainage payable		449,823
Accrued salaries and vacations		1,107,776
Unearned revenues		243,824
Unearned sewer connection fees		32,953
Customer deposits		4,437,172
Payable from restricted assets:		
Current portion of long-term debt		7,420,000
Revenue bond interest payable		565,884
		15,448,445
 Total Current Liabilities		 15,448,445

Noncurrent Liabilities

Unearned interest income		151,140
Revenue bonds payable, less current portion, net		143,252,578
Net pension liability		6,852,625
Other long-term liabilities		293,112
		150,549,455
 Total Noncurrent Liabilities		 150,549,455

Total Liabilities		165,997,900
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DEFERRED INFLOWS OF RESOURCES

Deferred decrease in net pension liability		358,012
		358,012

NET POSITION

<u>Net Investment in Capital Assets</u>		301,934,404
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Restricted for:

Debt service		629,524
Bond retirement		1,295,697

<u>Unrestricted</u>		44,623,874
		44,623,874

Total Net Position	\$	348,483,499
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CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2016

Operating Revenues

Metered water sales	\$ 27,730,410
Wastewater treatment sales	16,435,678
Street light fees	1,364,046
Water connection fees	467,202
Transfer fees	217,675
Forfeited discounts and penalties	731,352
Customer repairs and service charges	250,061

Total Operating Revenues	47,196,424
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Operating Expenses

Water purchases and production	3,472,663
Wastewater treatment	8,594,347
Street lights	1,063,994
Distribution and administration	13,710,183
Depreciation	11,479,496

Total Operating Expenses	38,320,683
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Income from Operations	8,875,741
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Non-Operating Revenues

Interest:	
Sinking funds	107,188
Revenue funds	115,314
Change in fair value of derivative	384,942
Amortization of bond premiums, net	919,930
Miscellaneous	202,175

Total Non-Operating Revenues	1,729,549
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CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2016
(continued)

<u>Non-Operating Expenses</u>	
Interest	\$ 7,090,067
Paying agent fees	18,094
Loss on disposition of capital assets, net	83,118
Bond issue costs	413,838
Amortization of deferred amount on refunding	494,213
	8,099,330
 <u>Capital Contributions</u>	
Sewer tap fees	5,734,547
Water connection fees	2,367,398
Donated assets	5,262,904
	13,364,849
 <u>Increase in Net Position</u>	 15,870,809
Net Position, beginning of year	332,612,690
Net Position, end of year	\$ 348,483,499

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2016

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

<u>Cash Flows from Operating Activities:</u>	
Cash received from customers	\$ 46,989,256
Cash paid to suppliers	(17,078,089)
Cash paid to employees	<u>(9,529,668)</u>
Net cash provided by operating activities	<u>20,381,499</u>
 <u>Cash Flows from Investing Activities:</u>	
Interest received	<u>201,739</u>
 <u>Cash Flows from Capital and Related Financing Activities:</u>	
Revenue bond principal payments	(7,130,000)
Interest paid on revenue bonds	(7,106,582)
Proceeds from revenue bond refunding	205,064
Revenue bond issue costs	(199,938)
Deferred amount on refunding	(1,125,796)
Capital expenses	(8,695,276)
Proceeds from sewer tap and water connection fees	8,101,945
Paying agent and broker fees	(18,094)
Proceeds from disposal of equipment and scrap	<u>34,299</u>
Net cash used in capital and related financing activities	<u>(15,934,378)</u>
<u>Net Change in Cash and Cash Equivalents</u>	4,648,860
Cash and Cash Equivalents, beginning of year	<u>45,686,747</u>
Cash and Cash Equivalents, end of year	<u>\$ 50,335,607</u>
 <u>Classified on the Statement of Net Position as:</u>	
Cash and cash equivalents	\$ 49,139,945
Restricted cash and cash equivalents:	
Current	1,195,408
Noncurrent	<u>254</u>
	<u>\$ 50,335,607</u>

See Independent Auditors' Report and Accompanying Notes

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2016
(continued)

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Reconciliation of Income From Operations to Net Cash

Provided By Operating Activities:

Income from operations	\$	8,875,741
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation		11,479,496
Miscellaneous revenue		202,175
Changes in assets and liabilities:		
Accounts receivable		(568,903)
Prepaid expenses		290,097
Inventories		47,799
Trade accounts payable		(228,573)
Accrued salaries and vacations		290,298
Unearned revenues		34,870
Customer deposits		124,692
Net pension liability		1,559,965
Deferred pension outflows		(1,614,519)
Deferred pension inflows		(111,639)
		(111,639)
Net Cash Provided By Operating Activities	\$	20,381,499

Non-Cash Capital and Related Financing Activities:

Acquire contributed capital assets	\$	5,262,904
Revenue bond refunding		40,564,951
Increase (decrease) in fair value of investment derivatives		(384,942)

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

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, 2016

Note B – Summary of Significant Accounting Policies (continued)

Implementation of New Accounting Principles

In compliance with GAAP, as of September 1, 2015 the Authority adopted the following new standards issued by the Governmental Accounting Standards Board (“GASB”) which had no impact on reported net position and are effective for financial statement periods beginning after June 15, 2015:

Statement No. 72 *Fair Value Measurement and Application*. GASB Statement No. 72 defines fair value and provides guidance for determining a fair value measurement for financial reporting purposes. It is intended to enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques.

Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans* and Statement 68 for pension plans and pensions that are within their respective scopes. The objective of this Statement is to improve the usefulness of information about pensions included in the general-purpose external financial reports of state and local governments for making decisions and assessing accountability.

Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 76 identifies the hierarchy of generally accepted accounting principles for governmental financial reporting and establishes the framework for selecting those principles.

Statement No. 79 *Certain External Investment Pools and Pool Participants*. GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool’s participants should measure their investments in that pool at fair value. This is intended to enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement.

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.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note B – Summary of Significant Accounting Policies (continued)

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 Official Code of Georgia (“OCGA”). Unrealized gains and losses are included in the statement of changes in net position. 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.

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 Life</u>
Structures, line extensions and improvements	20 - 50 Years
Machinery and equipment	5-20 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.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note B – Summary of Significant Accounting Policies (continued)

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.

Defined Benefit Pension

For purposes of measuring the net pension liability, deferred outflows and inflows of resources and pension expense related to the Cherokee County Water and Sewerage Authority Retirement Plan (the "Plan"), information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Georgia Municipal Employee Benefit System. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. The Plan's terms do not allow for employee contributions and benefit payments do not include them. Investments are reported at fair value.

Deferred Outflows and Inflows of Resources

Deferred outflows and inflows of resources represent separate financial statement elements of the statement of net position, the components of which are specifically identified by the GASB.

In addition to assets, the statement of net position will sometimes report deferred outflows of resources. This financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an expense until then. The Authority has reported the deferred amount on revenue bond refundings, deferred outflows due to changes to demographic factors related to the pension valuation and deferred outflows of certain defined benefit pension contributions paid during the current year as deferred outflows of resources on the statement of net position.

In addition to liabilities, the Authority may also report deferred inflows of resources. This separate section on the statement of net position represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until that time. The Authority has reported deferred amounts related to changes in actuarial assumptions and changes in expected returns on defined benefit pension investments as deferred inflows.

Amortization

Amortization of bond 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 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. An expense and liability are recognized for accrued vacation leave as it is earned. 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.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note B – Summary of Significant Accounting Policies (concluded)

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.

The Authority's budget for the year ended August 31, 2016 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.

Reclassifications

Certain prior year balance disclosures have been reclassified in order to conform to current year presentation. These reclassifications had no effect on reported net position.

Note C – Cash, Cash Equivalents and Investments

Cash

All of the Authority's cash as of August 31, 2016 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, 2016, cash held in banks totaled \$7,395,034 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 \$7,170,478.

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's investments are reported at fair value. Various inputs are used in determining the fair value of investments. These inputs to valuation techniques are categorized into a fair value hierarchy consisting of three broad levels for financial statement purposes as follows:

Level 1 - unadjusted price quotations in active markets/exchanges for identical assets or liabilities, that each Fund has the ability to access.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

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

Level 2 - other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks and default rates) or other market-corroborated inputs).

Level 3 - unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including each Fund's own assumptions used in determining the fair value of investments)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The following table sets forth by level within the fair value hierarchy, the Authority's investments at fair value at August 31, 2016:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ -	\$ 254	\$ -	\$ 254
Georgia Fund 1 local government investment pool	43,164,875			43,164,875
Repurchase agreement	-	1,295,443	-	1,295,443
Total Investments at Fair Value	\$ 43,164,875	\$ 1,295,697	\$ -	\$ 44,460,572

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, 2016, the Authority's investments in Georgia Fund 1 were rated AAAs by Standard & Poor's Ratings Group; the money market fund and repurchase agreement are not rated.

Georgia Fund 1 was created by OCGA 36-83-8, is a stable net asset value investment pool which is rated by Standard and Poor's as AAAs. The pool is not registered with the SEC as an investment company. Financial oversight of the pool is provided by the (Georgia) Office of the 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 38 days and net asset value is calculated weekly to ensure stability. The pool reports to participants on an amortized cost basis. It distributes earnings (net of management fees) on a monthly basis and determines participant's shares sold and redeemed based on \$1.00 per share. Georgia Fund 1 reports that the fair value factor for the pool is 1.0000; thus, the fair value of the position in the pool is the same as the value of the pool shares. The Georgia Fund 1 investments are reported as cash equivalents.

At August 31, 2016, the repurchase agreement is secured by U.S. government obligations (debt securities) that are classified as held-to-maturity.

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

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

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

The Authority places no limit on the amount that may be invested in any one issuer and 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 \$1,295,443 of investment in a repurchase agreement, the only investment considered as a debt security classified as held-to-maturity at August 31, 2016, is August 1, 2025.

Note D – Accounts Receivable

Accounts receivable consist of the following at August 31, 2016:

Billed	\$ 2,802,073
Unbilled	<u>3,608,215</u>
	<u><u>\$ 6,410,288</u></u>

Note E – Capital Assets

A summary of changes in capital assets for the year ended August 31, 2016 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital Assets not Depreciated:				
Land and easements	\$ 6,752,629	\$ 535,704	\$ -	\$ 7,288,333
Construction-in-progress	27,696,926	6,523,996	(3,311,637)	30,909,285
Other Capital Assets:				
Structures and improvements	551,981,436	8,495,231	(259,664)	560,217,003
Machinery and equipment	8,260,638	1,158,385	(182,129)	9,236,894
Office furniture and equipment	326,069	7,812	-	333,881
Accumulated Depreciation:				
Structures and improvements	(146,411,295)	(10,603,480)	131,863	(156,882,912)
Machinery and equipment	(5,719,058)	(828,141)	182,129	(6,365,070)
Office furniture and equipment	<u>(149,376)</u>	<u>(47,875)</u>	<u>-</u>	<u>(197,251)</u>
Capital Assets, Net	<u><u>\$ 442,737,969</u></u>	<u><u>\$ 5,241,632</u></u>	<u><u>\$ (3,439,438)</u></u>	<u><u>\$ 444,540,163</u></u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note F – Revenue Bonds Payable

A summary of changes in long-term debt for the year ended August 31, 2016 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	\$150,300,000	\$32,980,000	(44,890,000)	\$138,390,000	\$7,420,000
Less unamortized discount	(100,597)	-	13,201	(87,396)	-
Plus unamortized premium	5,513,091	7,790,015	(933,132)	12,369,974	-
	<u>\$155,712,494</u>	<u>\$40,770,015</u>	<u>\$(45,809,931)</u>	<u>\$150,672,578</u>	<u>\$7,420,000</u>

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 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 2016, \$18,880,000 of the outstanding bonds was refunded by the Series 2016 Revenue Refunding Bonds.

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 2016, \$18,880,000 of the outstanding bonds was refunded by the Series 2016 Revenue Refunding Bonds.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2016

Note F – Revenue Bonds Payable (continued)

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.

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.

In February 2016, the Authority issued \$32,980,000 in Water and Sewerage Revenue Refunding Bonds, series 2016, maturing in 2035 at 5.00% interest. The bonds were issued by the Authority for the purpose of advance refunding a portion of each of the Authority’s Series 2006 and 2007 revenue bonds in the aggregate principal amount of \$37,760,000. The cash flows required to service the Series 2016 bonds are approximately \$6.5 million less than those for the refunded bonds providing an economic gain from the refunding of approximately \$5.4 million. The Authority paid \$413,838 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, 2016, outstanding principal balances remain as follows:

Series	
1995	\$ 2,500,000
1997	120,000
1998	4,160,000
2006	18,880,000
2007	18,880,000
	\$ 44,540,000

See Independent Auditors’ Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note F – Revenue Bonds Payable (continued)

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 \$3.7 million in 2016 related to the issuance of the Series 2016 bonds. The deferred amount on refunding, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations using the straight-line method of amortization. The amount remaining at August 31, 2016 is \$8,516,642.

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.).

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>
2017	7,420,000	6,790,603	14,210,603
2018	7,755,000	6,456,353	14,211,353
2019	7,900,000	6,097,278	13,997,278
2020	8,305,000	5,694,678	13,999,678
2021	8,725,000	5,271,103	13,996,103
2022-2026	49,545,000	19,303,703	68,848,703
2027-2031	34,970,000	7,406,975	42,376,975
2032-2035	13,770,000	1,549,350	15,319,350
Total	<u>\$ 138,390,000</u>	<u>\$ 58,570,043</u>	<u>\$ 196,960,043</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 2.03 for the year ended August 31, 2016.

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, 2016, this ratio was 1.43.

The Authority is also required to maintain, using a combination of funds in the debt service reserve account and surety bonds, an amount not less than 125% of the average annual debt service under the bonds of \$12,656,293. As of August 31, 2016, the balances in the debt service reserve account and the surety bonds exceed the minimum requirement.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2016

Note F – Revenue Bonds Payable (concluded)

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 two debt service forward delivery agreements with Lehman Brothers Special Financing, Inc. (“Lehman”). Under these contracts, Lehman has the option to require the Authority to use revenue bond sinking funds to purchase qualified U.S. Treasury securities that will mature by the semi-annual debt service payment dates from a Qualified Dealer (as defined in the agreements) chosen by Lehman.

In exchange for these agreements, Lehman paid the Authority \$958,600 which represented the present value of the expected interest earnings in the sinking fund over the life of the related revenue bonds. The remaining balance of this unearned revenue is \$151,140 at August 31, 2016 and is being recognized on the straight-line basis over the life of each respective agreement.

The forward delivery agreements relate to the following bond series:

<u>Series</u>	<u>Cash Payment</u>
1993 Refunding & Improvement Bonds	\$ 740,600
1995 Revenue Bonds	\$ 218,000

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, 2016 and the corresponding changes in fair value of such derivative instruments for the year then ended were as follows:

<u>Change in Fair Value</u>		<u>Fair Value as of August 31, 2016</u>		
<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
Change in fair value of derivative	\$ 384,942	Other long-term liability	\$ (293,112)	\$50,658,011

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

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.

Note J – Commitments and Contingencies

At August 31, 2016, the Authority has outstanding agreements with contractors for future work on existing construction projects in the approximate amount of \$1.3 million.

Note K – Operations

The Authority produced approximately 99.5% of its customers' water needs during the year ended August 31, 2016, purchasing most of the remaining amount from the City of Woodstock and Pickens County. The Authority provided 92.8% of sewage treatment required in the year ended August 31, 2016, purchasing the remainder primarily from the City of Canton and from Cobb County, Georgia.

Note L – Retirement Plans

Governmental Deferred Compensation Plan

The Authority provides a governmental deferred compensation "Section 457" plan (the "457 Plan") authorized by the Authority Board which covers all employees. The 457 Plan is administered by The Variable Annuity Life Insurance Company. It does not allow for employer contributions and so these defined contribution retirement benefits are dependent on employee contributions and investment earnings on those contributions. Participants self-direct the investment of their contributions. Any expenses incurred in conjunction with their investments are paid by the participants. Amounts employees defer under the 457 Plan are immediately vested and subject to statutory limits. Employee deferrals totaled \$290,267 during the year ended August 31, 2016.

Defined Benefit Plan

General Information About The Defined Benefit Pension Plan

The Authority has established the Cherokee County Water and Sewerage Authority Retirement Plan (the "Plan") and participates in the Georgia Municipal Employees Benefit System ("GMEBS") to provide certain retirement and death benefits to Plan members and beneficiaries. Only the Authority may amend the benefit provisions of the Plan. GMEBS is an agent multiple-employer, statewide public employee pension plan established by the Georgia legislature and administered by a board of trustees. GMEBS issues a publicly available financial report that may be obtained by contacting the administrator, Georgia Municipal Association ("GMA"), The Burgess Building, 201 Pryor Street, SW, Atlanta, Georgia 30303.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note L – Retirement Plans (continued)

Benefits Provided.

Normal retirement age	Minimum of 65 with 5 Years of Credited Service, or combined credited service and age equal to at least 80 if still employed (the "Rule of 80")
Early retirement age	55 with 10 Years of Credited Service
Benefit formula	
- at normal retirement age	2.0% x Years of Credited Service (30 maximum) x Final Average Earnings
- at early retirement age	Reduced percentage of normal retirement benefit ranging from 93.3% to 50.0%
Final average earnings	Annual average of 5 consecutive years preceding the most recent termination in which participant's earnings were the highest.
Vesting	100% after 5 Years of Credited Service
Employee contributions	Nonparticipatory

Employees Covered By Benefit Terms. At the January 1, 2016 valuation date the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	27
Inactive employees entitled to but not yet receiving benefits	21
Active employees	174

Contributions. The Authority is required to contribute amounts at least equal to the actuarially determined rate established by the GMEBS board of trustees. The Plan is also subject to the minimum funding standards of the OCGA which will be met by the amount developed under the GMEBS actuarial funding policy. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Plan is non-contributory with respect to the participants. The Authority's contributions were 13.84% of Covered-Employee Payroll for the most recent measurement year ended September 30, 2015.

Net Pension Liability. The Authority's net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of January 1, 2016.

Actuarial Assumptions. The total pension liability in the January 1, 2016 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment expense, including inflation

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note L – Retirement Plans (continued)

Mortality rates used were based on the 1994 Group Annuity Reserving Unisex Table on a plan termination basis and RP-2000 Combined Healthy Mortality Table with sex-distinct rates, set forward two years for males and one year for females for healthy employees. For disabled retirees, the RP-2000 Disabled Retiree Mortality Table with sex-distinct rates was used. The RP-2000 mortality tables were determined to contain sufficient provision appropriate to reasonably reflect future mortality improvement, based on a four-year review of mortality experience for the period January 1, 2010 to June 30, 2014. Mortality experience will be reviewed by GMEBS periodically and updated if necessary.

The long-term expected rate of return on Plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan’s target asset allocation as of September 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Long-Term Nominal Real Rate of Return</u>
Domestic equity	50%	5.95%	9.20%
International equity	15%	6.45%	9.70%
Fixed income	25%	1.55%	4.80%
Real estate	10%	3.75%	7.00%
Cash	0%		
Total	<u>100%</u>		

Discount Rate. The discount rate used to measure the total pension liability is 7.75%. The projection of cash flows used to determine the discount rate assumes that the Authority’s contributions will be made at the actuarially determined rates. Based on this assumption, the Plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note L – Retirement Plans (continued)

Changes in Net Pension Liability

Changes in the net pension liability are as follows for the year ended September 30, 2015 measurement period:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Changes for the year:			
Service cost	\$ 384,036	\$ -	\$ 384,036
Interest	1,505,560	-	1,505,560
Changes of benefit terms	-	-	-
Difference between expected and actual experience	1,068,153	-	1,068,153
Changes of assumptions	-	-	-
Contributions-employer	-	1,283,819	(1,283,819)
Contributions-employee *	-	-	-
Net investment income	-	135,060	(135,060)
Benefit payments *	(557,037)	(557,037)	-
Administrative expense	-	(21,095)	21,095
Other	-	-	-
Net Change	2,400,712	840,747	1,559,965
Balance October 1, 2014	19,705,104	14,412,444	5,292,660
Balance September 30, 2015	<u>\$ 22,105,816</u>	<u>\$ 15,253,191</u>	<u>\$ 6,852,625</u>

* Plan is non-participatory with respect to employee contributions

Sensitivity Of The Net Pension Liability To Changes In The Discount Rate. The following presents the net pension liability of the Authority at August 31, 2016, calculated using the discount rate of 7.75% as well as the amount that would result from using a discount rate that is 1.0% lower (6.75%) or 1.0% higher (8.75% than the current rate:

	1% Rate Decrease	Current Discount Rate	1% Rate Increase
Range of discount rates	<u>6.75%</u>	<u>7.75%</u>	<u>8.75%</u>
Net pension liability ("NPL") August 31, 2016	\$ 6,852,625	\$ 6,852,625	\$ 6,852,625
Increase (decrease) in NPL	<u>2,828,607</u>	<u>-</u>	<u>(2,363,580)</u>
Calculated NPL August 31, 2016	<u>\$ 9,681,232</u>	<u>\$ 6,852,625</u>	<u>\$ 4,489,045</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note L – Retirement Plans (concluded)

Pension Expense And Deferred Outflows And Inflows Of Resources Related To Pensions

For the year ended August 31, 2016 the Authority recognized pension expense of \$1,128,843. The Authority reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in demographics	\$ 1,267,038	\$ -
Difference in projected vs. actual investment earnings	807,400	(265,620)
Changes in assumptions	-	(92,392)
Contributions subsequent to measurement date	1,187,115	-
Total	\$ 3,261,553	\$ (358,012)

Deferred outflows resulting from contributions during the year ended August 31, 2016 subsequent to the measurement date of September 30, 2015 total \$1,187,115 and will be recognized as a reduction in the net pension liability for the year ending August 31, 2017. Other deferred outflows and inflows of resources related to the defined benefit pension will be recognized as follows in pension expense for the years ending August 31:

2016	\$	362,465
2017		362,465
2018		362,465
2019		451,005
2020		178,026
		\$ 1,716,426

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.

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 meet the Rule of 80 as defined in Note L 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

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2016

Note M – Other Postemployment Benefits (continued)

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, 2016, membership consists of:

Retirees and beneficiaries	12
Active employees	178
 Total participants	 190

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 July 1, 2015 calculating the postemployment healthcare cost for the year ended August 31, 2016. The actuarial valuation estimated the ARC and annual OPEB costs for the year ended August 31, 2016 of \$889,000. The amortization period is open, the amortization method is level-dollar and the postemployment healthcare cost was determined under the projected unit credit actuarial cost method. The calculations for 2016 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, 2016, 2015, 2014, 2012, 2011, 2010 and 2009 (the initial year) were \$889,000, \$478,000, \$546,000, \$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, 2015, the plan was 39.5% funded. The AAL for benefits was \$12.1 million and the actuarial value of assets was \$4.7 million resulting in a UAAL of \$7.3 million. The Covered Payroll was \$9.0 million and the ratio of the UAAL to the covered payroll was 81.1%. The schedule of funding progress, included as 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.

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.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note M – Other Postemployment Benefits (concluded)

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
 AUGUST 31, 2016

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS
 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
7/1/2015	\$ 4,785,000	\$12,118,000	\$ 7,333,000	39.5%	\$ 9,047,000	81.1%
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%

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 POSTEMPLOYMENT BENEFITS REQUIRED SUPPLEMENTARY INFORMATION
 AUGUST 31, 2016

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
 Last 10 Years *

Measurement Period	<u>FYE 9/30/2015</u>	<u>FYE 9/30/2014</u>
Total Pension Liability		
Service cost	\$ 384,036	\$ 416,262
Interest	1,505,560	1,374,131
Changes of benefit terms	-	-
Difference between expected and actual experience	1,068,153	565,359
Changes of assumptions	-	-
Benefit payments **	(557,037)	(485,554)
Administrative expense	-	-
Other	-	(138,589)
	<u>2,400,712</u>	<u>1,731,609</u>
Net Change in Total Pension Liability	2,400,712	1,731,609
Total Pension Liability, beginning of year	<u>19,705,104</u>	<u>17,973,495</u>
	<u>22,105,816</u>	<u>19,705,104</u>
Plan Fiduciary Net Position		
Contributions-employer	1,283,819	1,232,688
Contributions-employee **	N/A	N/A
Net investment income	135,060	1,421,199
Benefit payments **	(557,037)	(485,554)
Administrative expense	(21,095)	(16,290)
	<u>840,747</u>	<u>2,152,043</u>
Net Change in Plan Fiduciary Net Position	840,747	2,152,043
Plan Fiduciary Net Position, beginning of year	<u>14,412,444</u>	<u>12,260,401</u>
	<u>15,253,191</u>	<u>14,412,444</u>
Net Pension Liability ("NPL"), end of year (a) - (b)	<u>\$ 6,852,625</u>	<u>\$ 5,292,660</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	<u>69.00%</u>	<u>73.14%</u>
Covered Employee Payroll	<u>\$ 9,276,547</u>	<u>\$ 8,586,584</u>
NPL as a percentage of Covered Employee Payroll	<u>73.87%</u>	<u>61.64%</u>

Notes to Schedule

Benefit Changes:

The Plan was amended to provide for immediate participation for employees effective January 1, 2015 and had no impact on service credited under the Plan or benefits.

Changes of Assumptions:

For the fiscal year ending in 2016, the eligibility assumption has been changed from one year to immediate. The administrative expense assumption also increased by 0.01% of assets. The increase in the NPL is minimal and is included in the differences between expected and actuarial experience.

* Historical information prior to implementation of GASB 68 is not required

** Plan is non-participatory with respect to employee contributions

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 POSTEMPLOYMENT BENEFITS REQUIRED SUPPLEMENTARY INFORMATION
 AUGUST 31, 2016

SCHEDULE OF DEFINED BENEFIT PLAN CONTRIBUTIONS
 Last 10 Years*

Measurement Period	<u>FYE 9/30/2015</u>	<u>FYE 9/30/2014</u>
Actuarially Determined Contribution	\$ 1,295,035	\$ 1,282,799
Contributions in relation to the Actuarially Determined Contribution	<u>1,283,819</u>	<u>1,232,688</u>
Contribution deficiency (excess)	<u>11,216</u>	<u>50,111</u>
Covered-Employee Payroll	<u>\$ 9,276,547</u>	<u>\$ 8,586,584</u>
Contributions as a percentage of Covered-Employee Payroll	<u>13.84%</u>	<u>14.36%</u>

Notes to Schedule

Valuation Date:

The actuarial methods and assumptions used to set the actuarially determined contributions for the 2015 measurement period are from the January 1, 2015 valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method

Projected unit credit

Amortization method

Closed level dollar for remaining unfunded liability

Remaining amortization period

Remaining period varies for the bases, with a net effective period of 10 years

Asset valuation method

Sum of actuarial value at beginning of year and cash flow during the year plus assumed investment return, adjusted by 10% of the amount that the value is greater or less than the market value at end of year. The actuarial value is adjusted, if necessary, to be within 26% of market value.

Salary increases

3.50% plus age and service based merit increases

Investment rate of return

7.75% including inflation

Retirement age

65 with 5 years of service or Rule of 80

Mortality

The RP-2000 mortality tables are used based on an experience study by GMEBS for the period from January 1, 2010 to June 30, 2014.

* Historical information prior to implementation of GASB 68 is not required

OTHER SUPPLEMENTARY SCHEDULES

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 SCHEDULE OF COSTS OF WATER PURCHASES AND PRODUCTION
 FOR THE YEAR ENDED AUGUST 31, 2016

Purchased water	\$ <u>67,638</u>
Water production:	
Salaries and wages	1,012,647
Payroll taxes	73,391
Group insurance	226,098
Retirement	92,142
Other postemployment benefits	73,675
Billing and accounting	20,166
Continuing education	33,337
Insurance - other than group	36,862
Lab fees and supplies	55,923
Stream monitoring	57,000
Miscellaneous	1,031
Office supplies	3,649
Operating supplies	265,673
Power	1,184,672
Professional fees	1,886
Repair and maintenance	224,882
Small tools and equipment	2,086
Telephone	24,278
Uniforms	6,184
Computer equipment and maintenance	332
Vehicle	<u>9,111</u>
 Total water production	 <u>3,405,025</u>
 Total water purchases and production before depreciation	 3,472,663
 Depreciation	 <u>1,411,216</u>
 Total water purchases and production cost	 <u><u>\$ 4,883,879</u></u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF COSTS OF WASTEWATER TREATMENT
FOR THE YEAR ENDED AUGUST 31, 2016

Purchased wastewater treatment	\$ <u>794,414</u>
Wastewater treatment:	
Salaries and wages	2,566,605
Payroll taxes	181,561
Group insurance	591,374
Retirement	285,499
Other postemployment benefits	230,845
Billing and accounting	20,166
Insurance - other than group	116,150
Lab fees and supplies	51,297
Regulatory actions	15,125
Professional fees	9,859
Miscellaneous	3,089
Office supplies	8,206
Operating supplies	789,115
Power	1,412,850
Repair and maintenance	1,367,528
Continuing education	46,863
Small tools and equipment	8,924
Telephone	33,337
Uniforms	14,260
Computer equipment and maintenance	3,541
Vehicle	<u>43,739</u>
Total wastewater treatment	<u>7,799,933</u>
Total purchased treatment and wastewater treatment before depreciation	8,594,347
Depreciation	<u>2,285,991</u>
Total wastewater treatment cost	<u><u>\$ 10,880,338</u></u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF DISTRIBUTION AND ADMINISTRATION EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2016

Salaries and wages	\$ 6,552,039
Payroll taxes	470,762
Group insurance	1,748,443
Retirement	728,446
Other postemployment benefits	584,480
Bad debts	63,686
Billing and accounting	394,250
Continuing education	67,479
Contract meter readers	632,749
Director fees and expenses	56,179
Equipment repairs and maintenance	846,052
Insurance - other than group	293,541
Lab fees and supplies	7,697
Legal and audit	64,003
Line and meter repairs	346,013
Miscellaneous	19,536
Office supplies	29,685
Operating supplies	73,519
Postage	8,496
Power	153,604
Professional fees	150,678
Real estate taxes	15,371
Service charges	313,188
Small tools and equipment	27,966
Telephone	91,559
Toilet rebates	32,000
Uniforms	29,141
Computer equipment and maintenance	10,921
Vehicle	210,025
Water tests	-
	<hr/>
Subtotal	14,021,508
	<hr/>
Less capitalized salaries	(311,325)
	<hr/>
Total distribution and administration expenses before depreciation	13,710,183
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Depreciation	7,782,289
	<hr/>
Total distribution and administration expenses	<u>\$ 21,492,472</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, 2016

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Operating Revenues:			
Metered water sales	\$ 25,900,000	\$ 27,730,410	\$ 1,830,410
Wastewater treatment sales	15,500,000	16,435,678	935,678
Street light fees	1,370,000	1,364,046	(5,954)
Water connection fees	2,720,000	467,202	(2,252,798)
Transfer fees	200,000	217,675	17,675
Forfeited discounts and penalties	690,000	731,352	41,352
Customer repairs and service charges	240,000	250,061	10,061
Total Operating Revenues	<u>46,620,000</u>	<u>47,196,424</u>	<u>576,424</u>
Non-Operating Revenues:			
Interest:			
Sinking funds	77,000	107,188	30,188
Revenue funds	45,000	115,314	70,314
Change in fair value of derivative	-	384,942	384,942
Amortization of bond premiums, net		919,930	919,930
Miscellaneous	133,000	202,175	69,175
Total Non-Operating Revenues	<u>255,000</u>	<u>1,729,549</u>	<u>1,474,549</u>
TOTAL REVENUES	<u>46,875,000</u>	<u>48,925,973</u>	<u>2,050,973</u>
EXPENSES			
Operating Expenses:			
Water Purchases and Production:			
Purchased water	58,000	67,638	(9,638)
Water production:			
Salaries and wages	1,033,400	1,012,647	20,753
Payroll taxes	79,100	73,391	5,709
Group insurance	238,000	226,098	11,902
Retirement	105,500	92,142	13,358
Other postemployment benefits	73,675	73,675	-
Billing and accounting	18,000	20,166	(2,166)
Continuing education	39,000	33,337	5,663
Insurance - other than group	38,900	36,862	2,038
Lab fees and supplies	56,500	55,923	577
Stream monitoring	54,800	57,000	(2,200)
Miscellaneous	2,500	1,031	1,469
Office supplies	4,000	3,649	351
Operating supplies	265,000	265,673	(673)
Power	1,264,000	1,184,672	79,328

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, 2016

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Water production (continued):			
Professional fees	\$ 10,000	\$ 1,886	\$ 8,114
Repairs and maintenance	330,000	224,882	105,118
Small tools and equipment	3,000	2,086	914
Telephone	21,000	24,278	(3,278)
Uniforms	6,000	6,184	(184)
Computer equipment and maintenance	7,000	332	6,668
Vehicle expense	15,000	9,111	5,889
Operating expenses before depreciation	3,722,375	3,472,663	249,712
Depreciation	1,401,500	1,411,216	(9,716)
Total Water Purchases and Production	5,123,875	4,883,879	239,996
Wastewater Treatment:			
Purchased wastewater treatment	791,000	794,414	(3,414)
Wastewater treatment:			
Salaries and wages	2,536,100	2,566,605	(30,505)
Payroll taxes	194,000	181,561	12,439
Group insurance	651,000	591,374	59,626
Retirement	330,400	285,499	44,901
Other postemployment benefits	230,845	230,845	-
Billing and accounting	19,000	20,166	(1,166)
Insurance - other than group	122,000	116,150	5,850
Lab fees and supplies	60,000	51,297	8,703
Regulatory actions	20,000	15,125	4,875
Professional fees	10,000	9,859	141
Miscellaneous	3,500	3,089	411
Office supplies	13,200	8,206	4,994
Operating supplies	987,300	789,115	198,185
Power	1,460,000	1,412,850	47,150
Repairs and maintenance	1,436,700	1,367,528	69,172
Continuing education	47,000	46,863	137
Small tools and equipment	11,800	8,924	2,876
Telephone	32,500	33,337	(837)
Uniforms	15,000	14,260	740
Computer equipment and maintenance	7,500	3,541	3,959
Vehicle expense	65,000	43,739	21,261
Operating expenses before depreciation	9,043,845	8,594,347	449,498
Depreciation	2,198,800	2,285,991	(87,191)
Total Wastewater Treatment	11,242,645	10,880,338	362,307

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, 2016

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Distribution and Administration:			
Salaries and wages	\$ 6,505,400	\$ 6,552,039	\$ (46,639)
Payroll taxes	497,700	470,762	26,938
Group insurance	1,803,000	1,748,443	54,557
Retirement	836,500	728,446	108,054
Other postemployment benefits	584,480	584,480	-
Bad debts	100,000	63,686	36,314
Billing and accounting	421,000	394,250	26,750
Continuing education	85,500	67,479	18,021
Contract meter readers	636,000	632,749	3,251
Directors' fees and expenses	60,200	56,179	4,021
Equipment repairs and maintenance	874,000	846,052	27,948
Insurance - other than group	308,500	293,541	14,959
Lab fees and supplies	8,500	7,697	803
Legal and audit	95,000	64,003	30,997
Line and meter repairs	500,000	346,013	153,987
Miscellaneous	35,000	19,536	15,464
Office supplies	34,700	29,685	5,015
Operating supplies	83,000	73,519	9,481
Postage	11,300	8,496	2,804
Power	160,500	153,604	6,896
Professional fees	193,000	150,678	42,322
Real estate taxes	20,000	15,371	4,629
Small tools and equipment	29,000	27,966	1,034
Service Charges	265,000	313,188	(48,188)
Telephone	96,000	91,559	4,441
Toilet rebates	30,000	32,000	(2,000)
Uniforms	30,000	29,141	859
Computer equipment and maintenance	17,500	10,921	6,579
Vehicle expense	292,000	210,025	81,975
 Total distribution and administration expense before depreciation	 14,612,780	 14,021,508	 591,272
 Depreciation	 <u>7,752,000</u>	 <u>7,782,289</u>	 <u>(30,289)</u>
 Subtotal	 22,364,780	 21,803,797	 560,983
 Less capitalized salaries	 <u>(395,376)</u>	 <u>(311,325)</u>	 <u>(84,051)</u>
 Total Distribution and Administration	 <u>21,969,404</u>	 <u>21,492,472</u>	 <u>476,932</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED WITH ACTUAL
FOR THE YEAR ENDED AUGUST 31, 2016

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Streetlights	\$ 1,067,000	\$ 1,063,994	\$ 3,006
Total Operating Expenses	<u>39,402,924</u>	<u>38,320,683</u>	<u>1,082,241</u>
Non-Operating Expenses:			
Interest	7,258,990	7,090,067	168,923
Paying agent fees	20,000	18,094	1,906
Loss on disposition of capital assets, net	-	83,118	(83,118)
Bond issue costs	-	413,838	(413,838)
Amortization of deferred amount on refunding	<u>241,230</u>	<u>494,213</u>	<u>(252,983)</u>
Total Non-Operating Expenses	<u>7,520,220</u>	<u>8,099,330</u>	<u>(579,110)</u>
TOTAL EXPENSES	<u>46,923,144</u>	<u>46,420,013</u>	<u>503,131</u>
CAPITAL CONTRIBUTIONS	<u>4,996,000</u>	<u>13,364,849</u>	<u>8,368,849</u>
CHANGE IN NET POSITION	<u>\$ 4,947,856</u>	<u>\$ 15,870,809</u>	<u>\$ 10,922,953</u>

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Metered Water Sales	<u>\$ 27,730,410</u>	<u>\$ 25,980,155</u>	<u>\$ 24,286,454</u>	<u>\$ 22,544,847</u>	<u>\$ 24,472,779</u>
Number of Customers Served	<u>70,893</u>	<u>69,302</u>	<u>67,965</u>	<u>66,573</u>	<u>65,519</u>
Sales Per Customer	<u>\$ 391.16</u>	<u>\$ 374.88</u>	<u>\$ 357.34</u>	<u>\$ 338.65</u>	<u>\$ 373.52</u>
Wastewater Treatment Sales	<u>\$ 16,435,678</u>	<u>\$ 15,607,818</u>	<u>\$ 14,538,327</u>	<u>\$ 13,529,139</u>	<u>\$ 14,011,430</u>
Number of Customers Served	<u>32,174</u>	<u>31,044</u>	<u>30,012</u>	<u>28,944</u>	<u>28,053</u>
Sales Per Customer	<u>\$ 510.84</u>	<u>\$ 502.76</u>	<u>\$ 484.42</u>	<u>\$ 467.42</u>	<u>\$ 499.46</u>

See Independent Auditors' Report

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

	2016		2015		2014		2013		2012	
	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)	\$28,882	\$20,313	\$27,068	\$18,623	\$23,150	\$16,786	\$21,199	\$14,828	\$21,869	\$17,739
Highest annual debt service requirements	\$14,237	\$14,237	\$14,421	\$14,421	\$14,421	\$14,421	\$14,421	\$14,421	\$14,452	\$14,452
<u>Revenue Bond Coverage:</u>										
Actual	2.03	1.43	1.88	1.29	1.61	1.16	1.47	1.03	1.51	1.23
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, 2016

CONSUMPTION (GALLONS)	WATER NET	SEWER NET	IRRIGATION NET
0	\$ 9.00	\$ 12.60	\$ 12.00
1,000	10.10	12.60	13.10
2,000	11.20	12.60	14.20
3,000	16.45	19.55	19.45
4,000	21.70	26.50	24.70
5,000	26.95	33.45	29.95
6,000	32.20	40.40	35.20
7,000	37.45	47.35	40.45
8,000	42.70	54.30	45.70
9,000	47.95	61.25	50.95
10,000	53.20	68.20	56.20
Over 10,000	Additional \$6.30 per 1,000	Additional \$6.95 per 1,000	Additional \$6.30 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, 2014.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 STATISTICAL TABLE OF INSURANCE IN FORCE
 AS OF AUGUST 31, 2016

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 per occurrence \$100,000 forgery & alteration \$500,000 computer fraud
Commercial Property: Fire and Extended Coverage including boiler and machinery	\$239,334,543 blanket coverage for buildings \$4,830,700 blanket coverage for business property
Inland Marine	\$2,836,415 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, \$500,000 aggregate limit, and \$500,000 disease limit
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 \$1,000,000 for employee benefits liability - each claim \$3,000,000 for employee benefits liability - aggregate \$1,000,000 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



B U S I N E S S A D V I S O R S
C E R T I F I E D P U B L I C A C C O U N T A N T 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

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, 2016, 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 23, 2016.

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.

AGH, LLC

AGH, LLC
November 23, 2016