

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY

CHEROKEE COUNTY, GEORGIA

FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED

AUGUST 31, 2008 AND 2007

TOGETHER WITH AUDITORS' REPORTS

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
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## INDEPENDENT AUDITOR'S REPORT

Cherokee County Water and Sewerage Authority  
Canton, Georgia

We have audited the accompanying basic financial statements of Cherokee County Water and Sewerage Authority as of and for the years ended August 31, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cherokee County Water and Sewerage Authority as of August 31, 2008 and 2007, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2008 on our consideration of the Authority's internal control over financial reporting and 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 and important for assessing the results of our audit.

The management's discussion and analysis information on pages 3 through 6 and defined benefit plan information on page 31 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the management's discussion and analysis information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The defined benefit plan information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audits were conducted for the purpose of forming opinions on the basic financial statements. The other supplementary information listed in the table of contents on pages 32 through 44 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical table on page 44 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Donner Weiser & Associates, P.C.*

DONNER WEISER & ASSOCIATES, P.C.  
Certified Public Accountants

November 7, 2008

# Cherokee County Water & Sewerage Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS

August 31, 2008

Our discussion and analysis of Cherokee County Water and Sewerage Authority's financial performance provides an overview of the Authority's financial activities for the fiscal years ended August 31, 2008 and 2007. Please read it in conjunction with the Authority's financial statements that begin on page 7.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Balance Sheet and the Statement of Revenues, Expenses and Changes In Net Assets (on pages 7 - 9) 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 Balance Sheet and the Statement of Revenues, Expenses and Changes In Net Assets report information about the Authority and about its activities in a way that helps answer this question. These two statements include all assets and liabilities using the accrual basis of accounting, which is similar to the basis that is used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

### THE AUTHORITY AS A WHOLE

The Authority's net assets increased in 2008 by \$22.0 million, from \$251.0 million to \$273.0 million and in 2007 by \$32.8 million, from \$218.2 million to \$251.0 million. \$19.3 million of the increase in 2008 was attributable to contributions by developers, primarily of water and sewer lines (which totaled \$19.5 million in 2007). Our analysis on the following pages focuses on the Authority's net assets (Table 1) and changes in its net assets (Table 2).

# Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 31, 2008

**Table 1 - Net Assets at Year End (in Millions)**

	2008	2007	2006
Current and other assets	\$ 48.8	\$ 68.5	\$ 58.4
Capital assets	<u>426.0</u>	<u>392.5</u>	<u>349.5</u>
<b>Total Assets</b>	<u>474.8</u>	<u>461.0</u>	<u>407.9</u>
Long term debt outstanding	( 192.3)	( 196.3)	( 174.8)
Other liabilities	<u>( 9.5)</u>	<u>( 13.7)</u>	<u>( 14.9)</u>
<b>Total Liabilities</b>	<u>( 201.8)</u>	<u>( 210.0)</u>	<u>( 189.7)</u>
Net assets:			
Invested in capital assets, net of debt	230.4	206.9	178.5
Restricted	2.9	2.4	1.9
Unrestricted	<u>39.7</u>	<u>41.7</u>	<u>37.8</u>
<b>Total Net Assets</b>	<u>\$273.0</u>	<u>\$251.0</u>	<u>\$218.2</u>

**Table 2 - Changes in Net Assets (in Millions)**

	2008	2007	2006
<b><u>Revenues</u></b>			
<b>Operating revenues:</b>			
Water sales	\$ 21.5	\$ 24.2	\$ 23.1
Wastewater treatment sales	12.5	13.0	12.0
Connection fees	5.4	9.4	12.8
Other	2.3	2.3	2.2
<b>Non-operating revenues:</b>			
Interest	1.6	2.1	1.6
Other	<u>.3</u>	<u>.2</u>	<u>.3</u>
<b>Total revenues</b>	<u>43.6</u>	<u>51.2</u>	<u>52.0</u>
<b><u>Expenses</u></b>			
<b>Operating expenses:</b>			
Water	3.1	3.1	3.4
Wastewater	7.1	6.6	5.7
Distribution and administration	10.2	9.0	8.3
Depreciation	9.7	9.0	8.5
Other	.9	.8	.8
<b>Non-operating expenses:</b>			
Interest	9.6	9.1	8.4
Other	<u>.4</u>	<u>.3</u>	<u>.3</u>
<b>Total expenses</b>	<u>41.0</u>	<u>37.9</u>	<u>35.4</u>
<b><u>Contributed Capital</u></b>	<u>19.3</u>	<u>19.5</u>	<u>14.9</u>
<b><u>Increase In Net Assets</u></b>	<u>\$ 21.9</u>	<u>\$ 32.8</u>	<u>\$ 31.5</u>

# Cherokee County Water & Sewerage Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS

August 31, 2008

The Authority's revenues (see Table 2) decreased in 2008 by 14.8% (\$43.6 million in 2008 compared to \$51.2 million in 2007) and in 2007 decreased by 1.5% (\$51.2 million in 2007 compared to \$52.0 million in 2006). Expenses increased by 8.2% and 7.1%, respectively. The factors driving these results include:

- The number of water customers in 2008 and 2007 grew by 1.7% and 3.3% and wastewater customers grew by 2.7% and 7.1% respectively, reflective of the continuing population growth at decreasing rates that is occurring throughout Cherokee County, and also the desire to install sanitary sewer systems instead of septic-tank systems. In August 2008 the Authority increased both water and sewer rates. Water rates per 1,000 gallons for monthly usage exceeding 2,000 gallons were increased by a range from \$5 to \$6 (12.1% to 14.9%) depending upon the level of consumption. The prior increase of 2.0% occurred in January 2007. Similarly, sewer rates per 1,000 gallons for monthly usage exceeding 2,000 gallons were increased by \$6.60 (13.8%) in August 2008 with the prior increase of 2.0% having occurred in January 2007. In 2008, water and sewer meter charges increased by 30.8% and 21.6% respectively; there were no changes to meter charges in 2007.
- The Authority's revenues decreased compared with the prior year by 14.8% and 1.5% in 2008 and 2007 respectively. The annual growth in expenses in 2008 was 8.2% as compared with 7.1% in 2007. As a result, net assets prior to the value of contributed lines have continued to grow in decreasing amounts, by \$2.6 million in 2008 and \$13.3 million in 2007.

Management of the Authority attributes the decrease in the growth of net assets, in part, to (1) continued effects of drought conditions in Georgia resulting in mandated and voluntary conservation efforts by the Authority's customers and (2) the continued decrease in revenues from connection fees that began in fiscal year 2007. The decrease in connection fee revenue relates primarily to the decline in new residential construction in Cherokee County, which is reflective of recent national and regional real estate market trends.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At August 31, 2008 and 2007, the Authority had \$426.0 and \$392.5 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 \$33.5 million (8.5%) in 2008 and \$43.0 million (12.3%) in 2007.

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

	2008	2007	2006
Land	\$ 3.6	\$ 3.6	\$ 3.6
Structures, line extensions and improvements:			
Completed	349.3	293.4	279.6
Construction-in-progress	71.2	93.8	64.9
Machinery, equipment and furniture	<u>1.9</u>	<u>1.7</u>	<u>1.4</u>
Totals	<u>\$426.0</u>	<u>\$392.5</u>	<u>\$349.5</u>

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# Cherokee County Water & Sewerage Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS

August 31, 2008

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 2009 capital improvement program calls for it to spend approximately \$25.9 million for capital projects, principally for upgrades and improvements to wastewater treatment facilities and for utility relocations within the water system. In connection with existing construction projects, the Authority has outstanding agreements with contractors for approximately \$6.0 million of future work at August 31, 2008. Capital expenditures will be financed by a combination of resources on hand, future system revenues and the proceeds from future revenue bonds, some of which may be issued in 2009. More detailed information about the Authority's capital assets is presented in Note 6 to the financial statements.

### Debt Administration

At year-end 2008 and 2007, the Authority had (net of discounts and premiums) \$192.3 million and \$196.3 million in revenue bonds outstanding, respectively. The increase of \$21.5 million in 2007 and decrease of \$4.0 million in 2008 are due to (1) the issuance of the Series 2007 Revenue Bonds for \$25.0 million to finance the costs of additions and improvements to the water and sewerage system, net of (2) scheduled repayment in both years of the Authority's previously issued debt. Additional information is presented in Note 9 to the financial statements.

In June 2007 the Authority's Series 2007 Revenue Bonds were assigned ratings by Moody's Investors Service, Inc. and Standard and Poor's Rating Services of Aaa and AAA respectively based on the bond insurer's issuance of a policy insuring the payment of principal and interest when due. Thus, the Authority's bonds continue to carry the highest rating possible from these national rating agencies.

The Authority's other significant obligations include customer deposits, accounts payable and accrued interest, salaries and other expenses as can be seen on the Balance Sheet on page 8.

### 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 Director of Finance and Administration at 391 W. Main Street, Canton, Georgia 30114.



CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
BALANCE SHEETS

ASSETS

	AUGUST 31,	
	2008	2007
CURRENT ASSETS		
Cash	\$ 3,872,812	\$ 13,346,990
Investments	31,561,597	22,988,364
Accounts receivable	5,783,680	6,287,133
Accrued interest receivable	5,786	73,112
Prepaid expenses	605,769	577,115
Inventories	189,791	191,921
Restricted cash and investments:		
Revenue bond construction		
Cash	87,538	155,063
Investments	673,958	19,223,341
Revenue bond sinking fund investments	1,301,798	1,749,809
TOTAL CURRENT ASSETS	44,082,729	64,592,848
NONCURRENT ASSETS		
Restricted cash and investments:		
Revenue bond debt service reserve investments	2,414,034	1,296,771
Deferred charges:		
Unamortized bond issue costs	2,263,190	2,585,765
Unamortized street light costs	8,879	8,879
Total deferred charges	2,272,069	2,594,644
Capital assets:		
Land	3,556,929	3,556,929
Construction-in-progress	71,206,013	93,876,696
Structures, line extensions and improvements	428,179,127	363,467,209
Machinery and equipment	6,214,088	5,478,688
Office furniture and equipment	532,916	521,674
	509,689,073	466,901,196
Less: accumulated depreciation	83,653,117	74,374,248
Net capital assets	426,035,956	392,526,948
TOTAL ASSETS	\$ 474,804,788	\$ 461,011,211

See Notes To Financial Statements.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
BALANCE SHEETS  
(Continued)

LIABILITIES AND NET ASSETS

	AUGUST 31,	
	2008	2007
CURRENT LIABILITIES		
Trade accounts payable	\$ 867,491	\$ 955,190
Construction accounts and retainage payable	562,172	695,439
Accrued salaries and vacations	495,374	451,754
Unearned water and sewer treatment revenue	608,726	976,906
Unearned sewer connection fees	285,033	285,033
Customer deposits	3,452,225	3,355,775
Payable from restricted assets:		
Construction accounts payable	760,855	3,181,878
Current portion of long-term debt	4,688,151	3,582,734
Revenue bond interest payable	780,651	602,489
Retainage payable	1,293,508	2,749,800
	13,794,186	16,836,998
TOTAL CURRENT LIABILITIES		
NONCURRENT LIABILITIES		
Deferred interest income	438,105	464,039
Revenue bonds payable, less current portion	187,574,711	192,655,336
	201,807,002	209,956,373
TOTAL LIABILITIES		
NET ASSETS		
Invested in capital assets, net of related debt	230,425,517	206,959,000
Restricted for debt service	521,147	1,147,320
Restricted for bond retirement	2,414,034	1,296,771
Unrestricted	39,637,088	41,651,747
	272,997,786	251,054,838
TOTAL NET ASSETS		
TOTAL LIABILITIES AND NET ASSETS	\$ 474,804,788	\$ 461,011,211

See Notes to Financial Statements.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	FOR THE YEAR ENDED AUGUST 31,	
	2008	2007
OPERATING REVENUES		
Metered water sales	\$ 21,545,310	\$ 24,203,994
Wastewater treatment sales	12,474,370	13,018,909
Street light fees	1,241,086	1,197,733
Water connection fees	1,690,188	2,733,580
Sewer tap fees	3,731,284	6,651,573
Transfer fees	168,775	160,840
Forfeited discounts and penalties	635,777	670,076
Customer repairs and service charges	251,234	301,681
TOTAL OPERATING REVENUES	41,738,024	48,938,386
OPERATING EXPENSES		
Water purchases and production	3,118,064	3,093,866
Wastewater treatment	7,139,436	6,609,408
Street lights	852,990	812,183
Distribution and administration	10,226,174	9,033,430
Depreciation	9,693,294	9,030,220
TOTAL OPERATING EXPENSES	31,029,958	28,579,107
INCOME FROM OPERATIONS	10,708,066	20,359,279
OTHER REVENUES		
Interest		
Sinking funds	186,478	221,749
Construction funds	351,069	393,482
Revenue funds	1,103,186	1,462,735
Gain on equipment disposal	61,575	25,061
Miscellaneous	186,039	205,912
TOTAL OTHER REVENUES	1,888,347	2,308,939
OTHER EXPENSES		
Interest	9,629,428	9,054,826
Paying agent and broker dealer fees	103,253	90,413
Amortization of bond issue costs	122,320	105,499
Loss on abandoned lines	135,365	84,402
Arbitrage rebate	518	-
TOTAL OTHER EXPENSES	9,990,884	9,335,140
CAPITAL CONTRIBUTIONS	19,337,419	19,507,940
INCREASE IN NET ASSETS	21,942,948	32,841,018
NET ASSETS, beginning of period	251,054,838	218,213,820
NET ASSETS, end of period	\$ 272,997,786	\$ 251,054,838

See Notes to Financial Statements.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
STATEMENTS OF CASH FLOWS

Increase (Decrease) In Cash

	FOR THE YEAR ENDED	
	AUGUST 31,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 42,155,786	\$ 48,701,865
Cash paid to suppliers	(13,821,578)	(13,176,273)
Cash paid to employees	(7,585,688)	(7,072,804)
NET CASH PROVIDED BY OPERATING ACTIVITIES	20,748,520	28,452,788
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(25,484,043)	(58,007,631)
Proceeds from investment maturities	34,790,940	39,700,510
Interest received	1,682,124	2,046,788
NET CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES	10,989,021	(16,260,333)
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Net proceeds from issuance and remarketing of revenue bonds	268,023	24,797,069
Payment of revenue bond issue and remarketing costs	(456,156)	(225,350)
Revenue bond principal payments	(4,230,000)	(4,090,000)
Interest paid on bonds	(8,808,085)	(8,421,949)
Capital expenses	(29,211,379)	(35,204,252)
Paying agent and broker fees	(103,253)	(90,413)
Arbitrage rebate	(518)	
Proceeds from disposal of land, equipment and scrap	61,575	25,061
Contributions for capital expenses	1,200,549	1,291,700
NET CASH USED IN CAPITAL FINANCING ACTIVITIES	(41,279,244)	(21,918,134)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
	-	-
NET DECREASE IN CASH	(9,541,703)	(9,725,679)
CASH, Beginning of Period	13,502,053	23,227,732
CASH, End of Period	\$ 3,960,350	\$ 13,502,053
<b>Classified As:</b>		
Current assets	\$ 3,872,812	\$ 13,346,990
Restricted assets - Construction	87,538	155,063
	\$ 3,960,350	\$ 13,502,053

See Notes to Financial Statements.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
STATEMENTS OF CASH FLOWS  
(CONTINUED)

**Increase (Decrease) In Cash**

	FOR THE YEAR ENDED	
	AUGUST 31,	
	2008	2007
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income from operations	\$ 10,708,066	\$ 20,359,279
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	9,693,294	9,030,220
Other revenue	186,039	205,912
(Increase) decrease in:		
Accounts receivable	503,453	(638,190)
Inventories	2,130	(19,833)
Prepaid expenses	(28,654)	(567,393)
Increase (decrease) in:		
Trade accounts payable	(87,698)	(33,912)
Unearned treatment revenue	(368,180)	261,397
Accrued salaries and vacation	43,620	(79,052)
Unearned sewer connection fees	-	(176,000)
Customer deposits	96,450	110,360
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 20,748,520	\$ 28,452,788
NON-CASH CAPITAL FINANCING ACTIVITIES		
Remarketing of Series 2006 and Series 2007 revenue bonds	\$ 50,000,000	\$ -
NON-CASH INVESTING ACTIVITIES		
Acquisition of capital assets contributed by developers	\$ 18,136,870	\$ 18,216,240

See Notes to Financial Statements.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

History and Reporting Entity

The 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 there do not exist water distribution systems and where no other any 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 fiscally independent. No other government is financially accountable for the Authority and its operations are self-sustaining. It has no taxing power; it does, however, have the authority 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.

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. Fund equity (i.e., net total assets) is segregated into net capital asset, restricted and unrestricted components. 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.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

1. Summary of Significant Accounting Policies (continued):

Measurement Focus and Basis of Accounting (continued)

The Authority's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Authority first utilizes restricted resources to finance qualifying activities.

In preparing the financial statements, the Authority applies all relevant pronouncements of the GASB and all Financial Accounting Standards Board ("FASB") Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

Use of Estimates

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

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 all 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 are based on rates established by the Authority Board.

Water connection and sewer tap fees are recorded as revenue.

Unearned revenue represents charges for customer water and wastewater treatment usage recorded at August 31 for services provided by the Authority subsequent to that date.

Inventories

Inventories are stated at cost (specific identification).

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

1. Summary of Significant Accounting Policies (Continued):

Compensated Absences

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

Investments

Investments are stated at amortized cost and consist of U.S. Government and agency obligations, a repurchase agreement and money market funds including investment in a local government investment pool, interest rate management agreements and other investments as permitted by the laws of the state of Georgia. The Authority has adopted an interest rate management plan meeting the requirements of O.C.G.A. §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.

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

<u>Asset Category</u>	<u>Estimated Useful Lives</u>
Structures, line extensions and improvements	40 Years
Machinery and equipment	5 Years
Office furniture and equipment	5 Years

Expenditures for maintenance and repairs not considered to substantially lengthen the property lives are charged to expense as incurred.

The cost of incomplete construction and system improvement projects is reported as construction-in-progress and is not depreciated.

Amortization

Amortization of bond costs and bond premiums and discounts is computed using the straight-line method over the life of the applicable bond issue.



CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

1. Summary of Significant Accounting Policies (Continued):

Capitalized Interest

Interest costs on the revenue bond debt, net of interest earned, is capitalized into the related cost of the system improvements if material to the Authority's financial statements.

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.

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, 2008 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.

2. Operations:

The Authority produced approximately 98% and 97% of its water needs during the years ended August 31, 2008 and 2007, purchasing most of the remaining water needed from the City of Canton and the Cobb County-Marietta Water Authority. The Authority also purchased 9% of the sewage treatment needed during the years ended August 31, 2008 and 2007, also primarily from the City of Canton and from Cobb County, Georgia.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

3. Cash and Investments:

Cash

All of the Authority's cash as of August 31, 2008 is held in banks located in the State of Georgia. These demand deposits are required by the Authority's revenue bond resolutions (see Note 9) 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, 2008, cash held in banks totaled \$4,698,700 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 \$3,960,350.

Investments

The Authority's investments are all held for non-trading purposes. Permitted investments and the Authority's policies are described in Note 9. 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.

Consistent with the Authority's policy, investments in U.S. government obligations either carry the explicit guarantee of the U.S. government or are rated in the highest category by Moody's Investor Service and by Standard & Poor's Ratings Group. Investments in money market funds are also rated in the highest category by these services.

The local government investment pool "Georgia Fund 1", created by OCGA 36-83-8, is a stable net asset value investment pool which is rated by Standard and Poor's as AAAM. Georgia Fund 1 operates in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940 and is considered to be a 2a-7-like pool. The pool is not registered with the SEC as an investment company. Financial oversight of the pool is provided by The (Georgia) Office of Treasury and Fiscal Services. 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 30 days and net asset value is calculated weekly to ensure stability. The pool distributes earnings (net of management fees) on a monthly basis and determines participant's shares sold and redeemed based on \$1.00 per share. The fair value of the position in the pool is the same as the value of the pool shares.

The fair values of investments are found in Note 15. The carrying amounts as of August 31, 2008 are as follows:

<u>Repurchase Agreement</u>	<u>U.S. Government Obligations</u>	<u>Money Market</u>		<u>Total</u>
		<u>Georgia Fund 1</u>	<u>Other</u>	
<u>\$1,295,442</u>	<u>\$ 630,962</u>	<u>\$32,235,555</u>	<u>\$1,789,428</u>	<u>\$35,951,387</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

3. Cash and Investments (continued):

Investments (continued)

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

At August 31, 2008, the repurchase agreement is secured by U.S. government obligations that are classified as held-to-maturity. U.S. government obligations are debt securities.

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The scheduled maturities of investments in repurchase agreements and debt securities classified as held-to-maturity at August 31, 2008 are as follows:

Within 1 year	\$ 630,962
After 10 years	<u>1,295,442</u>
Total	<u>\$ 1,926,404</u>

**Derivatives:**

To reduce its exposure to anticipated variations in interest rates, the Authority entered into two forward starting interest rate swaps in connection with the \$25 million Series 2006 auction rate revenue bonds issued in May 2006 and the \$25 million Series 2007 auction rate revenue bonds issued in June 2007. Both swaps were effective November 2007 and were terminated in February 2008.

The first swap was executed in January 2006. The intention of the swap was to effectively exchange the variable rate on the bonds for a synthetic fixed rate of 3.605%.

The bonds and the related swap agreement were to mature on August 1, 2035 and the swap's notional amount of \$50 million matched the \$50 million of variable-rate bonds. Starting in fiscal year 2029 the notional value of the swap and the principal amount of the associated debt decline. Under the swap, the Authority paid the counterparty a fixed payment of 3.605% and received a variable payment computed as 70% of the one month London Interbank Offered Rate (LIBOR). Conversely, the bond's variable rates were based on weekly auction procedures.

In May 2006 the Authority entered into an additional interest rate swap in connection with its \$25 million Series 2006 auction rate revenue bonds issued in May 2006 and the \$25 million Series 2007 auction rate revenue bonds issued in June 2007. The intention of the swap was to effectively convert the short-term based variable rate that was to be received under the January 2006 swap to a variable rate that references a longer maturity and historically has generated higher returns.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

3. Cash and Investments (continued):

Investments (continued)

**Derivatives (continued):**

The swap's maturity and notional amounts were as described above. Under the swap, the Authority paid the counterparty 70% of the one month LIBOR rate and received a payment of 64.72% of the ISDA 5 year swap rate.

Interest expense in the accompanying financial statements has been reduced by \$394,404, the net amount received in connection with the operation during the year and the February 2008 termination of the swaps.

4. Accounts Receivable:

Accounts receivable consist of the following at August 31:

	<u>2008</u>	<u>2007</u>
Billed	\$ 5,478,090	\$ 6,119,734
Unbilled	305,590	167,399
	<u>\$ 5,783,680</u>	<u>\$ 6,287,133</u>

5. Restricted Assets:

Certain assets are restricted for construction that is funded through revenue bonds and for revenue bond sinking funds used for payment of debt service on long-term debt.

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CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

6. Capital Assets:

A summary of changes in capital assets for the years ended August 31, 2008 and 2007 is as follows (in thousands):

<u>August 31, 2008</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 3,557	\$ -	\$ -	\$ 3,557
Construction-in- progress	<u>93,877</u>	<u>23,286</u>	<u>45,957</u>	<u>71,206</u>
	<u>97,434</u>	<u>23,286</u>	<u>45,957</u>	<u>74,763</u>
Other capital assets:				
Structures and improvements	363,467	65,100	388	428,179
Machinery and equipment	5,479	925	190	6,214
Office furniture	<u>522</u>	<u>11</u>	<u>-</u>	<u>533</u>
	<u>369,468</u>	<u>66,036</u>	<u>578</u>	<u>434,926</u>
Less accumulated depreciation:				
Structures	70,049	9,079	253	78,875
Machinery	3,867	597	162	4,302
Office furniture	<u>459</u>	<u>17</u>	<u>-</u>	<u>476</u>
	<u>74,375</u>	<u>9,693</u>	<u>415</u>	<u>83,653</u>
Capital Assets, Net	<u>\$392,527</u>	<u>\$ 79,629</u>	<u>\$ 46,120</u>	<u>\$426,036</u>
<u>August 31, 2007</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 3,557	\$ -	\$ -	\$ 3,557
Construction-in- progress	<u>64,859</u>	<u>31,884</u>	<u>2,866</u>	<u>93,877</u>
	<u>68,416</u>	<u>31,884</u>	<u>2,866</u>	<u>97,434</u>
Other capital assets:				
Structures and improvements	341,231	22,477	241	363,467
Machinery and equipment	4,957	691	169	5,479
Office furniture	<u>516</u>	<u>6</u>	<u>-</u>	<u>522</u>
	<u>346,704</u>	<u>23,174</u>	<u>410</u>	<u>369,468</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

6. Capital Assets (continued):

Less accumulated  
depreciation:

Structures	\$ 61,677	\$ 8,528	\$ 156	\$ 70,049
Machinery	3,551	485	169	3,867
Office furniture	442	17	-	459
	<u>65,670</u>	<u>9,030</u>	<u>325</u>	<u>74,375</u>

Capital Assets, Net	<u>\$349,450</u>	<u>\$ 46,028</u>	<u>\$ 2,951</u>	<u>\$392,527</u>
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7. Unearned Sewer Connection Fees:

The Authority has entered into agreements with several developers to provide for the construction of sewer lines. Under the terms of some of the agreements, the developers have advanced to the Authority the funds needed to complete the construction projects. In other cases, the developer has constructed the needed lines. The various agreements associated with these arrangements provide for repayment by the Authority of the amounts advanced or the developer's costs to construct the lines, through tap-ons by the developer and from the proceeds of sewer tap fees collected from tap-ons to these sewer lines by other customers.

Transactions associated with these agreements for the years ended August 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 285,033	\$ 461,033
Repayments to developers from developer tap-ons and from sewer tap fees collected by the Authority and forfeited to the Authority	<u>-</u>	<u>( 176,000)</u>
Balance, end of year	<u>\$ 285,033</u>	<u>\$ 285,033</u>

8. Deferred Interest Income:

The Authority has entered into forward supply contracts for the sale of securities to the bond paying agent. Under the terms of the contracts, the bond paying agent will purchase securities supplied by providers to be held in the sinking fund until the funds are needed to pay debt service on the revenue bonds. In exchange for this purchase agreement, the providers have paid the Authority a fee which represents the present value of all of the interest earnings in the sinking fund over the life of the outstanding revenue bonds. The Authority is amortizing this interest over the life of the bonds using the straight-line method of amortization.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

8. Deferred Interest Income (continued):

Activity during the years ended August 31, 2008 and 2007 was as follows:

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$464,039	\$489,974
Recognition of interest income	( 25,934)	( 25,935)
Balance, end of year	<u>\$438,105</u>	<u>\$464,039</u>

9. Revenue Bonds Payable:

Revenue bonds payable consist of the following at August 31:

	<u>2008</u>	<u>2007</u>
Refunding Series 1991 revenue bonds dated June 1, 1991, bearing interest from 6.30% to 7.50%, first principal payment due August 1, 1991 and final maturity August 1, 2018	\$ 100,000	\$ 100,000
Refunding and Improvement Series 1993 revenue bonds dated December 15, 1993, bearing interest of 5.30% and 5.50%, first principal payment due August 1, 2009 and final maturity of August 1, 2023	27,535,000	27,625,000
Series 1995 revenue bonds dated December 15, 1995, bearing interest of 5.20%, first principal payment due August 1, 1996 and final maturity of August 1, 2025	15,145,000	15,145,000
Series 1997 revenue bonds dated December 1, 1997, bearing interest from 3.75% to 5.25%, first principal payment due August 1, 1998 and final maturity of August 1, 2027	14,555,000	14,555,000
Series 1998 revenue bonds dated December 4, 1998, bearing interest from 3.40% to 4.875%, first principal payment due August 1, 2000 and final maturity of August 1, 2028	11,140,000	11,140,000

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

9. Revenue Bonds Payable (continued):

Series 2001 revenue bonds dated May 1, 2001, bearing interest from 3.25% to 5.125%, first principal payment due August 1, 2001 and final maturity of August 1, 2030	\$ 46,915,000	\$ 50,290,000
Series 2003 revenue bonds dated June 26, 2003, bearing interest from 2.00% to 5.00%, first principal payment due August 1, 2005 and final maturity of August 1, 2033	31,285,000	32,050,000
Series 2006 revenue bonds dated May 11, 2006 and remarketed April 3, 2008, bearing interest from 3.00% to 5.00%, first principal payment due August 1, 2009 and final maturity of August 1, 2035	25,000,000	25,000,000
Series 2007 revenue bonds dated June 21, 2007 and remarketed April 3, 2008, bearing interest from 3.00% to 5.00%, first principal payment due August 1, 2009 and final maturity of August 1, 2035	<u>25,000,000</u>	<u>25,000,000</u>
	196,675,000	200,905,000
Less:		
unamortized bond discount	( 1,692,531)	( 1,972,026)
deferred amount on refunding	( 3,476,461)	( 3,207,604)
Plus unamortized premium	<u>756,854</u>	<u>512,700</u>
	192,262,862	196,238,070
Less current portion (net of discount and deferral)	<u>( 4,688,151)</u>	<u>( 3,582,734)</u>
	<u>\$187,574,711</u>	<u>\$192,655,336</u>



CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

9. Revenue Bonds Payable (continued):

A summary of changes in long-term debt for the years ended August 31, 2008 and 2007 is as follows (in thousands):

<u>August 31, 2008</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Revenue bonds	\$200,905	\$ -	(\$ 4,230)	\$196,675
Less:				
unamortized discount	( 1,972)	( -)	279	( 1,693)
deferred amount on refunding	( 3,208)	( 851)	583	( 3,476)
Plus unamortized premium	513	268	( 24)	757
	<u>\$196,238</u>	<u>(\$ 583)</u>	<u>(\$ 3,392)</u>	<u>\$192,263</u>

<u>August 31, 2007</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Revenue bonds	\$179,995	\$ 25,000	(\$ 4,090)	\$200,905
Less:				
unamortized discount	( 1,990)	( 78)	96	( 1,972)
deferred amount on refunding	( 3,777)	( -)	569	( 3,208)
Plus unamortized premium	533	-	( 20)	513
	<u>\$174,761</u>	<u>\$ 24,922</u>	<u>(\$ 3,445)</u>	<u>\$196,238</u>

In June 1991, the Authority issued \$21,685,000 of Refunding Series 1991 revenue bonds to advance refund all of the Series 1987 and 1988 revenue bonds in the aggregate principal amount of \$20,000,000. Pursuant to the issuance of the Refunding Series 1991 revenue bonds, all of the covenants, agreements and other obligations of the Authority under the Series 1987 and 1988 revenue bond resolutions are discharged and satisfied, and the outstanding bonds are deemed to be paid and no longer outstanding. The Refunding Series 1991 revenue bonds rank on a parity with prior bonds issued by the Authority as to a lien on the net revenues of the Authority securing the payment of principal and interest. 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.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

9. Revenue Bonds Payable (continued):

In December 1993, the Authority issued \$28,460,000 in Water and Sewerage Revenue Bonds, with an average interest rate of 5.49%, to advance refund all of the Series 1991 revenue bonds in the principal amount of \$10,000,000, at an interest rate of 7.10%, and to provide funds to make certain additions and improvements to the water and sewerage systems. After deducting the discount and paying \$1,260,804 in underwriting fees, insurance, and other issuance costs, the Authority received \$11,199,196 for the aforementioned system additions and improvements.

Also in December 1993, the Authority issued \$17,975,000 in Water and Sewerage Revenue Bonds, with an average interest rate of 6.46%, to advance refund all of the Series 1985-A revenue bonds in the principal amount of \$16,025,000, at an average interest rate of 8.98%, and to provide funds for the purpose of paying expenses associated with the advance refunding. The net proceeds of \$17,298,839 (after payment of \$676,161 in underwriting fees, insurance, and other issuance costs) plus an additional \$817,271 of Series 1985-A sinking fund monies were used to purchase U.S. government securities. In April 2001 all of the outstanding bonds from this series (\$11,925,000) were defeased with funds provided by the Authority's general operations.

In December 1995, the Authority issued \$22,460,000 in Water and Sewerage Revenue Bonds, with an interest rate of 5.20%, to provide funds to make certain additions and improvements to the water and sewerage systems. After deducting the discount, paying \$1,163,133 in underwriting fees, insurance, and other issuance costs, and funding certain debt service requirements in the amount of \$1,295,442, the Authority received net proceeds of \$20,001,425. A portion of this series was refunded by the Series 2001 revenue bonds (see below).

In December 1997, the Authority issued \$16,095,000 in Water and Sewerage Revenue Bonds, with interest rates from 3.75% to 5.25%, to provide funds to make certain additions, extensions and improvements to the water and sewerage systems. After deducting the discount, paying \$990,097 in underwriting fees, insurance, and other issuance costs, and funding certain debt service requirements in the amount of \$849,223, the Authority received net proceeds of \$14,255,680. A portion of this series was refunded by the series 2001 revenue bonds (see below).

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

9. Revenue Bonds Payable (continued):

In December 1998, the Authority issued \$21,345,000 in Water and Sewerage Revenue Bonds, with interest rates from 3.40% to 4.875%, to provide funds to make certain additions, extensions and improvements to the water and sewerage systems. After deducting the discount, paying \$744,201 in underwriting fees, insurance and other issuance costs, and funding certain debt service requirements in the amount of \$1,244,495, the net proceeds of \$19,356,304 were used to purchase certificates of deposit and U.S. government securities. A portion of this series was refunded by the series 2001 revenue bonds (see below).

In May 2001, the Authority issued \$70,505,000 in Water and Sewerage Revenue Bonds 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. After deducting the discount and paying \$939,962 in underwriting fees, insurance, and other issuance costs, the Authority received \$35,244,620 for the aforementioned system additions and improvements.

In June 2003, the Authority issued \$34,830,000 in Water and Sewerage Revenue Bonds, with interest rates from 2.00% to 5.00%, to provide funds to make certain additions, extensions and improvements to the water and sewerage systems. After adding the premium, deducting the discount and paying \$534,691 in underwriting fees, insurance and other issuance costs, the net proceeds of \$34,356,829 were invested in a local government investment pool.

In May 2006, the Authority issued \$25,000,000 in Water and Sewerage Revenue Bonds as auction rate securities. The bonds were issued to provide funds to make certain additions, extensions and improvements to the water and sewerage systems. After deducting the discount and paying \$348,266 in underwriting fees, insurance and other issuance costs, the net proceeds of \$24,534,984 were invested in a local government investment pool. 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%.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

9. Revenue Bonds Payable (continued):

In June 2007, the Authority issued \$25,000,000 in Water and Sewerage Revenue Bonds as auction rate securities. The bonds were issued to provide funds to make certain additions, extensions and improvements to the water and sewerage systems. After deducting the discount and paying \$350,530 in underwriting fees, insurance and other issuance costs, the net proceeds of \$24,571,720 were invested in a local government investment pool. These bonds were remarketed in April 2008 in order to convert their interest rates to long-term fixed rates that range from 3.00% to 5.00%.

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

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.

The defeasance, advance refundings and remarketing of the bonds as described above resulted in differences between the reacquisition prices and the net carrying amounts of the old debt totaling \$7,878,666 including \$851,389 in 2008 related to the remarketing of the Series 2006 and 2007 revenue bonds. This difference, reported in the accompanying financial statements as a deduction from revenue bonds payable, is being charged to operations through the year 2035 using the straight-line method of amortization. The amount remaining at August 31, 2008 is \$3,476,461.

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 Municipal Bond Investors Assurance Corporation and 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:

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

9. Revenue Bonds Payable (continued):

Year ending August 31,	Principal	Interest
2009	\$ 5,350,000	\$ 9,367,801
2010	5,545,000	9,173,291
2011	5,750,000	8,965,496
2012	5,975,000	8,746,189
2013	6,205,000	8,511,439
2014 - 2018	35,570,000	38,024,291
2019 - 2023	45,265,000	28,329,448
2024 - 2028	57,815,000	15,759,931
2029 - 2033	22,990,000	4,894,850
2034 - 2035	6,210,000	469,500
	<u>\$196,675,000</u>	<u>\$132,242,236</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. For the years ended August 31, 2008 and 2007, this revenue bond coverage was 1.49 and 2.35, respectively.

Effective with the issuance of the Series 2001 bonds, the Authority's annual net system revenues exclusive of water connection and sewer tap-on fees must be no less than this highest annual amount of debt service payable during any future sinking fund year. For the years ended August 31, 2008 and 2007, this ratio was 1.12 and 1.65, respectively.

The Authority is also required to maintain, using a combination of funds in the Debt Service Reserve Account and surety bonds, an amount equal to the highest annual debt service under the bonds of \$14,723,839. At August 31, 2008, the balance in the Debt Service Reserve Account is \$2,414,034 and the surety bonds are in place.

The bond resolutions 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.

Cash and investments associated with bond construction projects and sinking funds are restricted to such use and are classified as restricted assets on the balance sheet.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

10. 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.

11. Commitments and Contingencies:

At August 31, 2008 and 2007, the Authority has outstanding agreements with contractors for future work on existing construction projects in the approximate amount of \$6.0 million and \$17.9 million respectively.

12. Restricted Net Assets:

Net assets restricted for debt service include the excess of assets over certain liabilities restricted for the debt service on revenue bonds. Net assets restricted for bond retirement represents assets set aside for that purpose as required by the revenue bond resolution (See Note 9).

13. Retirement Plans:

Governmental Plans

The Authority has a governmental deferred compensation "Section 457" plan authorized by the Authority Board which covers all employees over age seventeen and one year of employment with the Authority and is administered by an independent third party administrator. Amounts that employees may defer under the Section 457 plan are subject to statutory limits, may not exceed 3% of compensation and totaled \$217,670 and \$200,934 during 2008 and 2007 respectively.

Defined Benefit Plan

The Authority has established the Cherokee County Water and Sewerage Authority Retirement Plan, a non-contributory defined benefit plan through membership with the GMEBS Retirement Trust Fund. This plan provides retirement annuities and death benefits for CCWSA employees age 18 and older who have been employed by the Authority for one year. Employees are fully vested after five years of service.

GMEBS Retirement Fund is an agent multiple-employer fund. Contributions made by the Authority are co-mingled with other members of the GMEBS Retirement Trust Fund. The GMEBS Retirement Trust Fund issues stand-alone financial statements that can be obtained by contacting Georgia Municipal Association, 201 Pryor Street, SW, Atlanta, Georgia 30303.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

13. Retirement Plans (continued):

The Authority's required contribution including administration fees for years ended August 31, 2008, 2007 and 2006 was \$972,591, \$841,696 and \$731,215, respectively, 100% of which was contributed with no net pension obligation at year end.

The contribution requirements of plan members and the Authority are determined under Public Retirement Systems Standards Law (Georgia Code Section 47-20-10).

The required contributions for the plan years ended June 30, 2008 and 2007 are based on actuarial valuations of the plan on July 1, 2007 and 2006. The following actuarial methods and assumptions are used to prepare the plan valuation for both years: the actuarial cost method used is projected unit credit; an 8% investment rate of return is assumed; a 0.5% salary increase is assumed for merit and/or seniority; and a 5.0% salary increase is assumed for inflation.

Also for both years: the actuarial asset valuation method is to combine the prior year's actuarial value with current year contributions, disbursements and expected return on investments and adjust the result by 10% of the difference between the actuarial and market values (if necessary the actuarial value is further adjusted to be within 20% of market value); the amortization method used is level dollar; and the amortization periods are closed, as follows:

- 30 Yrs - Initial Unfunded Actuarial Liability (began in 2001)
- 15 Yrs - Actuarial Gains and Losses
- 20 Yrs - Plan Provisions
- 30 Yrs - Actuarial Assumptions and Cost Methods

14. Other Post-Employment Benefits:

In addition to the pension benefits described in Note 13, post-retirement health insurance benefits are available to all employees who retire after meeting age and tenure conditions and who do not have other coverage. Eligible retirees must be at least age 62, have completed from 15 to 20 continuous years of service depending upon age at retirement and have participated in the Authority's health insurance plan for six months prior to retirement. The retiree's spouse and dependent(s) may also receive coverage under certain circumstances. The Authority will pay from 50% to 80% of the cost of the employee's coverage and 25% to 40% of the spouse and dependent coverage depending upon the age of the employee at retirement. This benefit may be modified or eliminated at the Authority Board's discretion.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

14. Other Post-Employment Benefits (continued):

At August 31, 2008 and 2007 five retirees were eligible to receive benefits. Post-retirement health insurance benefit expenses are recognized in the accounting period in which the liability is incurred. The Authority's expense net of participant contributions was \$15,646 and \$10,077 for the years ended August 31, 2008 and 2007 respectively.

15. Fair Values of Financial Instruments:

Estimated fair values of the Authority's financial instruments (all of which are held for non-trading purposes) at August 31, 2008 and 2007 are as follows:

<u>August 31, 2008</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash	\$ 3,960,350	\$ 3,960,350
Repurchase agreements	\$ 1,295,442	\$ 1,295,442
US government obligations	\$ 630,962	\$ 624,655
Money market funds	\$ 34,024,983	\$ 34,024,983
Revenue bonds payable	\$192,262,862	\$195,076,431
	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>August 31, 2007</u>		
Cash	\$ 13,502,053	\$ 13,502,053
Repurchase agreements	\$ 1,295,442	\$ 1,295,442
US government obligations	\$ 3,080,069	\$ 3,038,351
Money market funds	\$ 40,882,774	\$ 40,882,774
Revenue bonds payable	\$196,238,070	\$199,697,520



CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
DEFINED BENEFIT PENSION TRUST-REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

I. SCHEDULE OF FUNDING PROGRESS:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
07/01/08	\$4,728,106	\$9,797,532	\$5,069,426	48.3%	\$6,681,445	75.9%
07/01/07	\$3,769,040	\$8,512,103	\$4,743,063	44.3%	\$6,064,133	78.2%
07/01/06	\$2,803,460	\$7,183,633	\$4,380,173	39.0%	\$5,657,044	77.4%

II. SCHEDULE OF EMPLOYER CONTRIBUTIONS:

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
8/31/08	\$972,591	100.0%
8/31/07	\$841,696	100.0%
8/31/06	\$731,215	100.0%

III. NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Valuation Dates	7/1/2008, 7/1/2007 and 7/1/2006
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar
Amortization Period	30 Yrs - Initial Unfunded Actuarial Liability beginning in 2001
(All amortization periods are closed for this plan year)	15 Yrs - Actuarial Gains and Losses 20 Yrs - Plan Provisions 30 Yrs - Actuarial Assumptions and Cost Methods
Actuarial Asset Valuation Method	Combine the prior year's actuarial value with current year contributions, disbursements and expected return on investments; adjust the result by 10% of the difference between the actuarial and market values; if necessary the actuarial value is further adjusted to be within 20% of market value.
Actuarial Assumptions:	
Investment Rate of Return	8.0% Per Annum
Projected Salary Increases	5.0% Per Annum - Inflation 0.5% Per Annum - Merit or Seniority
Cost of Living Adjustment	N/A
Post Retirement Benefit Increases	N/A

OTHER SUPPLEMENTARY SCHEDULES

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULES OF COSTS OF WATER PURCHASES AND PRODUCTION

	FOR THE YEAR ENDED AUGUST 31,	
	2008	2007
Purchased water	\$ 230,723	\$ 356,249
Water production:		
Salaries and wages	864,107	833,762
Payroll taxes	63,411	62,288
Group insurance	111,798	104,996
Retirement	96,884	86,823
Billing and accounting	18,033	11,299
Continuing education	18,736	17,728
Insurance - other than group	76,228	77,968
Lab fees and supplies	40,750	20,067
Stream Monitoring	118,163	100,750
Miscellaneous	2,838	3,861
Office supplies	1,328	1,910
Operating supplies	257,960	299,402
Power	961,760	942,487
Professional fees	16,533	4,097
Repair and maintenance	198,003	123,316
Small tools and equipment	1,020	917
Telephone	13,367	18,763
Uniforms	6,203	5,725
Vehicle	20,219	21,458
	2,887,341	2,737,617
Total before depreciation	3,118,064	3,093,866
Depreciation	677,891	674,248
Total	\$ 3,795,955	\$ 3,768,114

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULES OF COSTS OF WASTEWATER TREATMENT

	FOR THE YEAR ENDED AUGUST 31,	
	2008	2007
Purchased wastewater treatment	\$ 584,952	\$ 628,980
Wastewater treatment:		
Salaries and wages	2,107,397	1,902,474
Payroll taxes	150,924	140,012
Group insurance	311,584	248,904
Retirement	279,243	245,177
Billing and accounting	18,223	11,447
Continuing education	24,783	29,804
Insurance - other than group	137,852	141,029
Lab fees and supplies	63,681	66,473
Regulatory actions	12,525	15,645
Legal fees	19,420	12,291
Miscellaneous	8,353	6,758
Office supplies	7,551	7,282
Operating supplies	1,106,695	955,999
Power	1,070,488	1,042,270
Repair and maintenance	1,087,539	1,030,868
Small tools and equipment	4,567	4,980
Telephone	31,325	28,531
Uniforms	21,823	20,837
Vehicle	90,511	69,647
	6,554,484	5,980,428
Total before depreciation	7,139,436	6,609,408
Depreciation	1,217,470	1,184,130
Total	\$ 8,356,906	\$ 7,793,538

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULES OF DISTRIBUTION AND ADMINISTRATION EXPENSES

	FOR THE YEAR ENDED AUGUST 31,	
	2008	2007
Salaries and wages	\$ 4,657,804	\$ 4,257,516
Payroll taxes	338,507	312,933
Group insurance	736,778	606,560
Retirement	581,302	495,401
Bad debts	69,338	64,205
Billing and accounting	363,516	356,441
Consumer reports	6,500	6,225
Continuing education	27,992	26,685
Contract meter readers	571,515	555,856
Directors' fees and expenses	57,431	66,759
Equipment repairs and maintenance	457,776	308,862
Insurance - other than group	357,167	364,173
Lake Allatoona/Upper Etowah Study	333,255	120,793
Legal and audit	139,622	154,546
Line and meter repairs	815,309	735,779
Miscellaneous	39,876	35,292
Office supplies	21,492	24,034
Operating supplies	69,617	57,076
Postage	11,022	11,736
Power	169,325	222,275
Professional fees	215,792	237,916
Real estate taxes	13,630	13,630
Small tools and equipment	19,981	16,720
Stream monitoring	54,385	
Telephone	49,583	53,437
Toilet rebates	11,650	
Uniforms	25,699	21,429
Vehicle	325,156	213,156
	10,541,020	9,339,435
Less capitalized salaries	314,846	306,005
Total before depreciation	10,226,174	9,033,430
Depreciation	7,797,933	7,171,842
Total	\$ 18,024,107	\$ 16,205,272

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULE OF REVENUES AND EXPENSES - BUDGET COMPARED WITH ACTUAL  
FOR THE YEAR ENDED AUGUST 31, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<b>REVENUE</b>			
Operating Revenue:			
Metered water sales	\$ 21,333,439	\$ 21,545,310	\$ 211,871
Wastewater treatment	11,995,221	12,474,370	479,149
Street light fees	1,267,000	1,241,086	(25,914)
Water connection fees	1,779,988	1,690,188	(89,800)
Sewer tap fees	4,227,136	3,731,284	(495,852)
Transfer fees	163,400	168,775	5,375
Forfeited discounts and penalties	789,000	635,777	(153,223)
Customer repairs and service charges	337,200	251,234	(85,966)
Sale of inventories	-	-	-
Total Operating Revenue	<u>41,892,384</u>	<u>41,738,024</u>	<u>(154,360)</u>
Non-Operating Revenue:			
Interest:			
Sinking funds	267,500	186,478	(81,022)
Construction funds	337,700	351,069	13,369
Revenue funds	1,229,500	1,103,186	(126,314)
Gain on sale of assets	-	61,575	61,575
Miscellaneous	187,100	186,039	(1,061)
Total Non-Operating Revenue	<u>2,021,800</u>	<u>1,888,347</u>	<u>(133,453)</u>
Capital Contributions	<u>-</u>	<u>19,337,419</u>	<u>19,337,419</u>
<b>TOTAL REVENUE</b>	<u>\$ 43,914,184</u>	<u>\$ 62,963,790</u>	<u>\$ 19,049,606</u>
<b>EXPENSES</b>			
Operating Expenses:			
Water Purchases and Production:			
Purchased water	\$ 428,000	\$ 230,723	\$ 197,277
Water production:			
Salaries and wages	919,600	864,107	55,493
Payroll taxes	70,400	63,411	6,989
Group insurance	116,200	111,798	4,402
Retirement	113,600	96,884	16,716
Billing and accounting	12,200	18,033	(5,833)
Continuing education	22,400	18,736	3,664
Insurance - other than group	84,000	76,228	7,772
Lab fees and supplies	71,900	40,750	31,150
Stream Monitoring	118,600	118,163	437
Regulatory actions	-	-	-
Miscellaneous	3,900	2,838	1,062
Office supplies	4,200	1,328	2,872
Operating supplies	357,000	257,960	99,040
Power	1,193,700	961,760	231,940

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULE OF REVENUES AND EXPENSES - BUDGET COMPARED WITH ACTUAL  
FOR THE YEAR ENDED AUGUST 31, 2008

(CONTINUED)

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Water production (continued):			
Professional fees	\$ 15,000	\$ 16,533	\$ (1,533)
Repairs and maintenance	118,100	198,003	(79,903)
Small tools and equipment	1,200	1,020	180
Telephone	21,200	13,367	7,833
Uniforms	6,300	6,203	97
Vehicle expense	22,000	20,219	1,781
Operating expenses before depreciation	3,699,500	3,118,064	581,436
Depreciation	681,600	677,891	3,709
Total Water Purchases and Production	4,381,100	3,795,955	585,145
Wastewater Treatment:			
Purchased wastewater treatment	672,000	584,952	87,048
Wastewater treatment:			
Salaries and wages	2,208,400	2,107,397	101,003
Payroll taxes	169,000	150,924	18,076
Group insurance	267,800	311,584	(43,784)
Retirement	272,800	279,243	(6,443)
Billing and accounting	12,200	18,223	(6,023)
Continuing education	36,400	24,783	11,617
Insurance - other than group	152,300	137,852	14,448
Lab fees and supplies	75,000	63,681	11,319
Regulatory actions	20,000	12,525	7,475
Professional fees	13,000	19,420	(6,420)
Miscellaneous	7,400	8,353	(953)
Office supplies	7,300	7,551	(251)
Operating supplies	1,079,500	1,106,695	(27,195)
Power	1,358,100	1,070,488	287,612
Repairs and maintenance	1,083,400	1,087,539	(4,139)
Small tools and equipment	4,700	4,567	133
Telephone	32,600	31,325	1,275
Uniforms	24,200	21,823	2,377
Vehicle expense	88,500	90,511	(2,011)
Operating expenses before depreciation	7,584,600	7,139,436	445,164
Depreciation	1,121,300	1,217,470	(96,170)
Total Wastewater Treatment	8,705,900	8,356,906	348,994

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULE OF REVENUES AND EXPENSES - BUDGET COMPARED WITH ACTUAL  
FOR THE YEAR ENDED AUGUST 31, 2008

(CONTINUED)

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Distribution and Administration:			
Salaries and wages	\$ 4,746,900	\$ 4,657,804	\$ 89,096
Payroll taxes	363,200	338,507	24,693
Group insurance	659,800	736,778	(76,978)
Retirement	586,300	581,302	4,998
Bad Debts	70,000	69,338	662
Billing and accounting	371,000	363,516	7,484
Consumer reports	8,300	6,500	1,800
Continuing education	25,600	27,992	(2,392)
Contract meter readers	690,500	571,515	118,985
Directors' fees and expenses	70,200	57,431	12,769
Equipment repairs and maintenance	336,900	457,776	(120,876)
Insurance - other than group	394,800	357,167	37,633
Lake Allatoona/Upper Etowah Study	500,000	333,255	166,745
Legal and audit	197,900	139,622	58,278
Line and meter repairs	817,800	815,309	2,491
Miscellaneous	37,500	39,876	(2,376)
Office supplies	26,400	21,492	4,908
Operating supplies	69,000	69,617	(617)
Postage	12,700	11,022	1,678
Power	291,000	169,325	121,675
Professional fees	238,900	215,792	23,108
Real estate taxes	20,000	13,630	6,370
Small tools and equipment	19,800	19,981	(181)
Stream monitoring	-	54,385	(54,385)
Telephone	59,400	49,583	9,817
Toilet rebates	-	11,650	(11,650)
Uniforms	23,400	25,699	(2,299)
Vehicle expense	294,100	325,156	(31,056)
Total before depreciation and capitalization of salaries	10,931,400	10,541,020	390,380
Depreciation	7,286,300	7,797,933	(511,633)
Total before capitalization of salaries	18,217,700	18,338,953	(121,253)
Less capitalized salaries	(340,500)	(314,846)	(25,654)
Total Distribution and Administration	17,877,200	18,024,107	(146,907)



CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULE OF REVENUES AND EXPENSES - BUDGET COMPARED WITH ACTUAL  
FOR THE YEAR ENDED AUGUST 31, 2008  
(Continued)

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Streetlights	\$ 809,000	\$ 852,990	\$ (43,990)
Total Operating Expenses	<u>31,773,200</u>	<u>31,029,958</u>	<u>743,242</u>
Non-Operating Expenses:			
Interest	9,590,100	9,629,428	(39,328)
Paying agent, broker fees	85,200	103,253	(18,053)
Amortization of bond issue costs	112,300	122,320	(10,020)
Loss on abandoned lines	-	135,365	(135,365)
Arbitrage rebate recovery	-	518	(518)
Total Non-Operating Expenses	<u>9,787,600</u>	<u>9,990,884</u>	<u>(203,284)</u>
TOTAL EXPENSES	<u>41,560,800</u>	<u>41,020,842</u>	<u>539,958</u>
NET INCOME	<u>\$ 2,353,384</u>	<u>\$ 21,942,948</u>	<u>\$ 19,589,564</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULES OF METERED WATER SALES, WASTEWATER TREATMENT SALES AND  
NUMBER OF CUSTOMERS SERVED  
LAST FIVE YEARS

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Metered water sales	<u>\$21,545,310</u>	<u>\$24,203,994</u>	<u>\$23,048,171</u>	<u>\$18,817,891</u>	<u>\$17,485,309</u>
Number of customers served as of 8/31	<u>63,477</u>	<u>62,412</u>	<u>60,406</u>	<u>57,413</u>	<u>54,887</u>
Wastewater treatment sales	<u>\$12,474,370</u>	<u>\$13,018,909</u>	<u>\$12,035,505</u>	<u>\$ 9,403,720</u>	<u>\$ 8,583,874</u>
Number of customers served as of 8/31	<u>26,413</u>	<u>25,721</u>	<u>24,015</u>	<u>21,708</u>	<u>19,536</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULES OF REVENUE BOND COVERAGE

LAST FIVE YEARS  
(In Thousands)

	2008		2007		2006		2005		2004	
	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)	\$21,939	\$16,517	\$31,305	\$21,920	\$33,264	\$20,515	\$27,456	\$16,189	\$26,236	\$15,408
Highest annual debt service requirements	\$14,724	\$14,724	\$13,312	\$13,312	\$12,345	\$12,345	\$11,466	\$11,466	\$11,466	\$11,466
Revenue Bond Coverage:	1.49	1.12	2.35	1.65	2.69	1.66	2.39	1.41	2.29	1.34
Actual	1.20	1.00	1.20	1.00	1.20	1.00	1.20	1.00	1.20	1.00
Required										

Note: Net revenue available for debt service including water connection and sewer tap fees (abbreviated above as "Tap Fees") equals income from operations plus depreciation and other income except interest earned on construction funds and the value of contributed capital. Required revenue coverage is also measured excluding water connection and sewer tap fees.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULE OF INVESTMENTS  
AUGUST 31, 2008

	<u>FACE VALUE</u>	<u>MATURITY DATE</u>	<u>INTEREST RATE</u>	<u>AMORTIZED COST</u>	<u>MARKET VALUE</u>
<u>REVENUE FUND</u>					
Local Government					
Investment pool:					
Georgia Fund	<u>\$ 31,561,597</u>	N/A	Various	<u>\$ 31,561,597</u>	<u>\$ 31,561,597</u>
 <u>REVENUE BOND SINKING FUND AND DEBT SERVICE RESERVE</u>					
Repurchase					
Agreement	\$ 1,295,442	08/01/25	5.360%	\$ 1,295,442	\$ 1,295,442
FNMA Discount					
Note	106,000	02/02/09	5.730%	103,367	104,749
U.S. Treasury					
Note	324,000	01/31/09	4.875%	331,254	327,823
U.S. Treasury					
Note	188,000	07/31/09	4.625%	196,341	192,083
U.S. Gov't					
Securities					
Money Market					
Funds	<u>1,789,428</u>	N/A	Various	<u>1,789,428</u>	<u>1,789,428</u>
	<u>\$ 3,702,870</u>			<u>\$ 3,715,832</u>	<u>\$ 3,709,525</u>
 <u>REVENUE BOND CONSTRUCTION</u>					
Local government investment pool:					
Georgia Fund 1	<u>\$ 623,958</u>	N/A	Various	<u>\$ 623,958</u>	<u>\$ 623,958</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULES OF WATER RATES  
AUGUST 31, 2008 AND 2007

<u>CONSUMPTION (GALLONS)</u>	<u>2008</u>		<u>2007</u>	
	<u>NET</u>	<u>After Due Date</u>	<u>NET</u>	<u>After Due Date</u>
0	\$ 7.00	\$ 7.70	\$ 8.70	\$ 9.57
1,000	8.10	8.91	8.70	9.57
2,000	9.20	10.12	18.70	9.57
3,000	14.20	15.62	13.05	14.36
4,000	19.20	21.12	17.40	19.14
5,000	24.20	26.62	21.75	23.93
6,000	29.20	32.12	26.10	28.71
7,000	34.20	37.62	30.45	33.50
8,000	39.20	43.12	34.80	38.28
9,000	44.20	48.62	39.15	43.07
10,000	49.20	54.12	43.50	47.85
11,000	55.20	60.72	48.85	53.74
12,000	61.20	67.32	54.20	59.62
13,000	67.20	73.92	59.55	65.51
14,000	73.20	80.52	64.90	71.39
15,000	79.20	87.12	70.25	77.28
16,000	85.20	93.72	75.60	83.16
17,000	91.20	100.32	80.95	89.05
18,000	97.20	106.92	86.30	94.93
19,000	103.20	113.52	91.65	100.82
20,000	109.20	120.12	97.00	106.70
Over 20,000	\$6.00/1,000		\$5.35/1,000	

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULES OF SEWER RATES  
AUGUST 31, 2008 AND 2007

<u>CONSUMPTION</u> <u>(GALLONS)</u>	<u>2008</u>		<u>2007</u>	
	<u>NET</u>	<u>After</u> <u>Due Date</u>	<u>NET</u>	<u>After</u> <u>Due Date</u>
0	\$ 11.60	\$ 12.76	\$ 11.60	\$ 12.76
1,000	11.60	12.76	11.60	12.76
2,000	11.60	12.76	11.60	12.76
3,000	18.20	20.02	17.40	19.14
4,000	24.80	27.28	23.20	25.52
5,000	31.40	34.54	29.00	31.90
6,000	38.00	41.80	34.80	38.28
7,000	44.60	49.06	40.60	44.66
8,000	51.20	56.32	46.40	51.04
9,000	57.80	63.58	52.20	57.42
10,000	64.40	70.84	58.00	63.80
11,000	71.00	78.10	63.80	70.18
12,000	77.60	85.36	69.60	76.56
13,000	84.20	92.62	75.40	82.94
14,000	90.80	99.88	81.20	89.32
15,000	97.40	107.14	87.00	95.70
16,000	104.00	114.40	92.80	102.08
17,000	110.60	121.66	98.60	108.46
18,000	117.20	128.92	104.40	114.84
19,000	123.80	136.18	110.20	121.22
20,000	130.40	143.44	116.00	127.60
Over 20,000	\$6.60/1,000		\$5.80/1,000	

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
STATISTICAL TABLE - INSURANCE IN FORCE  
AUGUST 31, 2008  
(UNAUDITED)

<u>TYPE OF COVERAGE</u>	<u>LIMITS OF LIABILITY</u>
Public Officials and Employment Practices Legal Liability	\$1,000,000 for each loss and \$1,000,000 aggregate for each policy year
Commercial Automobile	\$1,000,000 each for liability and uninsured motorist covering owned and non-owned vehicles
Commercial Crime	\$400,000 employee dishonesty \$200,000 forgery, theft disappearance, destruction, computer fraud
Commercial Property: Fire and Extended Coverage including boiler and machinery	Blanket coverage all equipment \$153,097,134
Inland Marine	\$1,541,002 computers, software and contractors equipment - owned and rented  \$194,372 electronic data processing
Workers Compensation	\$500,000 for bodily injury each accident, and \$500,000 disease aggregate and per employee
Commercial Umbrella	\$10,000,000 for each occurrence
Commercial General Liability	\$2,000,000 general aggregate  \$2,000,000 products and completed operations aggregate  \$1,000,000 personal injury  \$1,000,000 each occurrence  Includes dam collapse, failure to supply, and employee benefits liabilities with separate limits

INTERNAL CONTROL AND COMPLIANCE





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

Cherokee County Water and Sewerage Authority  
Canton, Georgia

We have audited the financial statements of Cherokee County Water and Sewerage Authority (the Authority) as of and for the year ended August 31, 2008, and have issued our report thereon dated November 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

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

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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.

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

*Donner Weiser & Associates, PC*

DONNER WEISER & ASSOCIATES, P.C.  
Certified Public Accountants

November 7, 2008