

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY

CHEROKEE COUNTY, GEORGIA

FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED

AUGUST 31, 2009 AND 2008

TOGETHER WITH AUDITORS' REPORTS

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
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## INDEPENDENT AUDITORS' REPORT

Cherokee County Water and Sewerage Authority  
Canton, Georgia

We have audited the accompanying basic financial statements of Cherokee County Water and Sewerage Authority (the Authority) as of and for the years ended August 31, 2009 and 2008, 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, 2009 and 2008, 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.

As discussed in Note 1 to the basic financial statements, the Authority adopted the provisions of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions, effective September 1, 2008.

In accordance with Government Auditing Standards, we have also issued our report dated November 23, 2009 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 should be considered in assessing the results of our audit.



The management's discussion and analysis information on pages 3 through 6 and defined benefit and other postemployment benefit plan information on page 33 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 postemployment 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 34 through 45 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 45 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 23, 2009

# Cherokee County Water & Sewerage Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS

August 31, 2009

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, 2009 and 2008. 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 Sheets and the Statements 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 Sheets and the Statements 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 2009 by \$13.2 million, from \$273.0 million to \$286.2 million and in 2008 by \$22.0 million, from \$251.0 million to \$273.0 million. \$11.0 million of the increase in 2009 was attributable to contributions by developers, primarily of water and sewer lines (which totaled \$19.3 million in 2008). 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, 2009

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

	2009	2008	2007
Current and other assets	\$ 49.8	\$ 48.8	\$ 68.5
Capital assets	<u>431.1</u>	<u>426.0</u>	<u>392.5</u>
<b>Total Assets</b>	<u>479.9</u>	<u>474.8</u>	<u>461.0</u>
Long term debt outstanding	( 187.6)	( 192.3)	( 196.3)
Other liabilities	( 7.1)	( 9.5)	( 13.7)
<b>Total Liabilities</b>	<u>( 194.7)</u>	<u>( 201.8)</u>	<u>( 210.0)</u>
Net assets:			
Invested in capital assets, net of debt	239.4	230.4	206.9
Restricted	2.9	2.9	2.4
Unrestricted	<u>43.9</u>	<u>39.7</u>	<u>41.7</u>
<b>Total Net Assets</b>	<u>\$286.2</u>	<u>\$273.0</u>	<u>\$251.0</u>

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

<u>Revenues</u>	2009	2008	2007
<b>Operating revenues:</b>			
Water sales	\$ 23.7	\$ 21.5	\$ 24.2
Wastewater treatment sales	13.6	12.5	13.0
Connection fees	2.7	5.4	9.4
Other	2.3	2.3	2.3
<b>Non-operating revenues:</b>			
Interest	.5	1.6	2.1
Other	<u>.1</u>	<u>.3</u>	<u>.2</u>
<b>Total revenues</b>	<u>42.9</u>	<u>43.6</u>	<u>51.2</u>
 <u>Expenses</u>			
<b>Operating expenses:</b>			
Water	3.0	3.1	3.1
Wastewater	7.7	7.1	6.6
Distribution and administration	10.0	10.2	9.0
Depreciation	8.8	9.7	9.0
Other	.9	.9	.8
<b>Non-operating expenses:</b>			
Interest	10.0	9.6	9.1
Other	<u>.2</u>	<u>.4</u>	<u>.3</u>
<b>Total expenses</b>	<u>40.6</u>	<u>41.0</u>	<u>37.9</u>
 <b>Contributed Capital</b>	<u>11.0</u>	<u>19.3</u>	<u>19.5</u>
 <b>Increase In Net Assets</b>	<u>\$ 13.2</u>	<u>\$ 21.9</u>	<u>\$ 32.8</u>

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# Cherokee County Water & Sewerage Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS

August 31, 2009

The Authority's revenues (see Table 2) decreased in 2009 by 1.6% (\$42.9 million in 2009 compared to \$43.6 million in 2008) and in 2008 decreased by 14.8% (\$43.6 million in 2008 compared to \$51.2 million in 2007). Expenses decreased by 1.0% and increased by 8.2%, respectively. The factors driving these results include:

- The number of water customers in 2009 and 2008 grew by 0.7% and 1.7% and wastewater customers grew by 1.0% and 2.7% respectively, reflective of the slow population growth that is occurring throughout Cherokee County. In May 2009 the Authority increased the base water rate by \$1. The prior increase of 9.0%-13% occurred in August 2008. There were no increases in sewer rates since August 2008. In 2008, water and sewer meter charges increased by 30.8% and 21.6% respectively and there have been no changes since that time.
- The Authority's revenues decreased compared with the prior year by 1.6% and 14.8% in 2009 and 2008 respectively. The annual decrease in expenses in 2009 was 1.0% as compared with growth of 8.2% in 2008. As a result, net assets prior to the value of contributed lines have continued to grow in decreasing amounts, by \$2.3 million in 2009 and \$2.6 million in 2008.

Management of the Authority attributes the decrease in the growth of net assets, in part, to: (1) the 2009 decrease of \$8.3 million in the value of contributions from developers; (2) continued effects of drought conditions in Georgia resulting in mandated and voluntary conservation efforts by the Authority's customers and (3) 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, 2009 and 2008, the Authority had \$431.1 and \$426.0 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 \$5.1 million (1.2%) in 2009 and \$33.5 million (8.5%) in 2008.

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

	2009	2008	2007
Land	\$ 3.6	\$ 3.6	\$ 3.6
Structures, line extensions and improvements:			
Completed	416.7	349.3	293.4
Construction-in-progress	9.4	71.2	93.8
Machinery, equipment and furniture	1.4	1.9	1.7
Totals	<u>\$431.1</u>	<u>\$426.0</u>	<u>\$392.5</u>

# Cherokee County Water & Sewerage Authority

## MANAGEMENT'S DISCUSSION AND ANALYSIS

August 31, 2009

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 2010 capital improvement program calls for it to spend approximately \$29.6 million for capital projects, principally for upgrades and improvements to water and 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 less than \$1.0 million of future work at August 31, 2009. 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 during fiscal year ending August 31, 2010. More detailed information about the Authority's capital assets is presented in Note 6 to the financial statements.

### Debt Administration

At year-end 2009 and 2008, the Authority had (net of discounts and premiums) \$187.6 million and \$192.3 million in revenue bonds outstanding, respectively. The decreases of \$4.7 million and \$4.0 million in 2009 and 2008 respectively are due to the 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,	
	2009	2008
CURRENT ASSETS		
Cash	\$ 5,620,983	\$ 3,872,812
Investments	31,897,704	31,561,597
Accounts receivable	5,320,391	5,783,680
Accrued interest receivable	5,401	5,786
Prepaid expenses	388,186	605,769
Inventories	208,805	189,791
Restricted cash and investments:		
Revenue bond construction		
Cash	-	87,538
Investments	-	673,958
Revenue bond sinking fund investments	1,251,793	1,301,798
TOTAL CURRENT ASSETS	44,693,263	44,082,729
NONCURRENT ASSETS		
Restricted cash and investments:		
Revenue bond debt service reserve investments	2,417,157	2,414,034
Deferred charges:		
Unamortized bond issue costs	2,155,522	2,263,190
Unamortized street light costs	8,879	8,879
Unamortized watershed study	607,704	-
Total deferred charges	2,772,105	2,272,069
Capital assets:		
Land	3,556,929	3,556,929
Construction-in-progress	9,360,621	71,206,013
Structures, line extensions and improvements	503,545,219	428,179,127
Machinery and equipment	6,332,253	6,214,088
Office furniture and equipment	544,709	532,916
	523,339,731	509,689,073
Less: accumulated depreciation	92,265,189	83,653,117
Net capital assets	431,074,542	426,035,956
TOTAL ASSETS	\$ 480,957,067	\$ 474,804,788

See Notes To Financial Statements.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY

BALANCE SHEETS

(CONTINUED)

LIABILITIES AND NET ASSETS

	AUGUST 31,	
	2009	2008
CURRENT LIABILITIES		
Trade accounts payable	\$ 1,247,233	\$ 867,491
Construction accounts and retainage payable	327,740	562,172
Accrued salaries and vacations	479,376	495,374
Unearned water and sewer treatment revenue	-	608,726
Unearned sewer connection fees	285,033	285,033
Customer deposits	3,623,485	3,452,225
Payable from restricted assets:		
Construction accounts payable	-	760,855
Current portion of long-term debt	4,883,151	4,688,151
Revenue bond interest payable	764,441	780,651
Retainage payable	-	1,293,508
TOTAL CURRENT LIABILITIES	11,610,459	13,794,186
NONCURRENT LIABILITIES		
Deferred interest income	412,170	438,105
Revenue bonds payable, less current portion	182,691,560	187,574,711
TOTAL LIABILITIES	194,714,189	201,807,002
NET ASSETS		
Invested in capital assets, net of related debt	239,421,805	230,425,517
Restricted for debt service	487,352	521,147
Restricted for bond retirement	2,417,157	2,414,034
Unrestricted	43,916,564	39,637,088
TOTAL NET ASSETS	286,242,878	272,997,786
TOTAL LIABILITIES AND NET ASSETS	\$ 480,957,067	\$ 474,804,788

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,

	2009	2008
OPERATING REVENUES		
Metered water sales	\$ 23,671,252	\$ 21,545,310
Wastewater treatment sales	13,559,105	12,474,370
Street light fees	1,244,934	1,241,086
Water connection fees	981,908	1,690,188
Sewer tap fees	1,710,209	3,731,284
Transfer fees	165,075	168,775
Forfeited discounts and penalties	629,888	635,777
Customer repairs and service charges	267,024	251,234
TOTAL OPERATING REVENUES	42,229,395	41,738,024
OPERATING EXPENSES		
Water purchases and production	3,029,734	3,118,064
Wastewater treatment	7,697,153	7,139,435
Street lights	876,136	852,990
Distribution and administration	9,999,424	10,226,174
Depreciation	8,754,563	9,693,294
TOTAL OPERATING EXPENSES	30,357,010	31,029,958
INCOME FROM OPERATIONS	11,872,385	10,708,066
OTHER REVENUES		
Interest		
Sinking funds	127,020	186,478
Construction funds	695	351,069
Revenue funds	357,143	1,103,186
Gain on equipment disposal	306	61,575
Miscellaneous	150,611	186,039
TOTAL OTHER REVENUES	635,775	1,888,347
OTHER EXPENSES		
Interest	10,013,440	9,629,428
Paying agent and broker dealer fees	17,356	103,253
Amortization of bond issue costs	107,668	122,320
Loss on abandoned lines	102,808	135,365
Arbitrage rebate	-	518
TOTAL OTHER EXPENSES	10,241,272	9,990,884
CAPITAL CONTRIBUTIONS	10,978,204	19,337,419
INCREASE IN NET ASSETS	13,245,092	21,942,948
NET ASSETS, beginning of period	272,997,786	251,054,838
NET ASSETS, end of period	\$ 286,242,878	\$ 272,997,786

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,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 42,400,264	\$ 42,155,786
Cash paid to suppliers	(13,265,128)	(13,821,578)
Cash paid to employees	(7,775,006)	(7,585,688)
NET CASH PROVIDED BY OPERATING ACTIVITIES	21,360,130	20,748,520
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(15,039,907)	(25,484,043)
Proceeds from investment maturities	15,424,640	34,790,940
Interest received	459,309	1,682,124
NET CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES	844,042	10,989,021
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Net proceeds from issuance and remarketing of revenue bonds	-	268,023
Payment of revenue bond issue and remarketing costs	-	(456,156)
Revenue bond principal payments	(5,350,000)	(4,230,000)
Interest paid on bonds	(9,367,802)	(8,808,085)
Watershed study deferred charges	(607,704)	-
Capital expenses	(5,257,528)	(29,211,379)
Paying agent and broker fees	(17,356)	(103,253)
Arbitrage rebate	-	(518)
Proceeds from disposal of land, equipment and scrap	5,871	61,575
Contributions for capital expenses	50,980	1,200,549
NET CASH USED IN CAPITAL FINANCING ACTIVITIES	(20,543,539)	(41,279,244)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	-	-
NET INCREASE (DECREASE) IN CASH	1,660,633	(9,541,703)
CASH, Beginning of Period	3,960,350	13,502,053
CASH, End of Period	\$ 5,620,983	\$ 3,960,350
Classified As:		
Current assets	\$ 5,620,983	\$ 3,872,812
Restricted assets - Construction	-	87,538
	\$ 5,620,983	\$ 3,960,350

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,	
	2009	2008
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income from operations	\$ 11,872,385	\$ 10,708,066
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	8,754,563	9,693,294
Other revenue	145,046	186,039
(Increase) decrease in:		
Accounts receivable	463,289	503,453
Prepaid expenses	217,583	(28,654)
Inventories	(19,014)	2,130
Increase (decrease) in:		
Trade accounts payable	379,742	(87,698)
Accrued salaries and vacation	(15,998)	43,620
Unearned treatment revenue	(608,726)	(368,180)
Customer deposits	171,260	96,450
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 21,360,130</u>	<u>\$ 20,748,520</u>
NON-CASH CAPITAL FINANCING ACTIVITIES		
Remarketing of Series 2006 and Series 2007 revenue bonds	<u>\$ -</u>	<u>\$ 50,000,000</u>
NON-CASH INVESTING ACTIVITIES		
Acquisition of capital assets contributed by developers	<u>\$ 10,927,224</u>	<u>\$ 18,136,870</u>

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 on 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.

The Authority adopted GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions, as of September 1, 2008 which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits that are commonly referred to as other postemployment benefits, or OPEB.

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.



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

1. Summary of Significant Accounting Policies (Continued):

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).

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. 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 on the straight-line method over the following economic lives:

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

During the year ended August 31, 2009 management revised its estimate of the useful life of all structures, line extensions and improvements from 40 years to 50 years (see Note 16).



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

1. Summary of Significant Accounting Policies (Continued):

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.

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, 2009 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.

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

2. Operations:

The Authority produced approximately 99.7% and 97.7% of its water needs during the years ended August 31, 2009 and 2008, 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, 2009 and 2008, also primarily from the City of Canton and from Cobb County, Georgia.

3. Cash and Investments:

Cash

All of the Authority's cash as of August 31, 2009 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, 2009, cash held in banks totaled \$5,938,639 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 \$5,620,983.

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 19 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.

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

3. Cash and Investments (continued):

Investments (continued)

The fair values of investments are found in Note 15. The carrying amounts as of August 31, 2009 are as follows:

<u>Repurchase Agreement</u>	<u>Money Market</u>		<u>Total</u>
	<u>Georgia Fund 1</u>	<u>Other</u>	
<u>\$1,295,442</u>	<u>\$31,897,704</u>	<u>\$2,373,508</u>	<u>\$35,566,654</u>

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

At August 31, 2009, 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 maturity of \$1,295,442 of investment in a repurchase agreement, the only investment considered as a debt security classified as held-to-maturity at August 31, 2009, is greater than ten years.

4. Accounts Receivable:

Accounts receivable consist of the following at August 31:

	<u>2009</u>	<u>2008</u>
Billed	\$ 2,803,240	\$ 5,478,090
Unbilled	2,517,151	305,590
	<u>\$ 5,320,391</u>	<u>\$ 5,783,680</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, 2009 and 2008 is as follows (in thousands):

<u>August 31, 2009</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>71,206</u>	<u>1,880</u>	<u>63,725</u>	<u>9,361</u>
	<u>74,763</u>	<u>1,880</u>	<u>63,725</u>	<u>12,918</u>
Other capital assets:				
Structures and improvements	428,179	75,607	241	503,545
Machinery and equipment	6,214	122	4	6,332
Office furniture	<u>533</u>	<u>12</u>	<u>-</u>	<u>545</u>
	<u>434,926</u>	<u>75,741</u>	<u>245</u>	<u>510,422</u>
Less accumulated depreciation:				
Structures	78,875	8,089	138	86,826
Machinery	4,302	648	4	4,946
Office furniture	<u>476</u>	<u>18</u>	<u>-</u>	<u>494</u>
	<u>83,653</u>	<u>8,755</u>	<u>142</u>	<u>92,266</u>
Capital Assets, Net	<u>\$426,036</u>	<u>\$ 68,866</u>	<u>\$ 63,828</u>	<u>\$431,074</u>
 <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>

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

6. Capital Assets (continued):

Less accumulated depreciation:

Structures	\$ 70,049	\$ 9,079	\$ 253	\$ 78,875
Machinery	3,867	597	162	4,302
Office furniture	459	17	-	476
	<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>
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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.

There were no transactions associated with these agreements for the years ended August 31, 2009 and 2008.

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.

Activity during the years ended August 31, 2009 and 2008 was as follows:

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$438,105	\$464,039
Recognition of interest income	( 25,935)	( 25,934)
Balance, end of year	<u>\$412,170</u>	<u>\$438,105</u>

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

9. Revenue Bonds Payable:

Revenue bonds payable consist of the following at August 31:

	<u>2009</u>	<u>2008</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	27,440,000	27,535,000
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
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	43,490,000	46,915,000

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

9. Revenue Bonds Payable (continued):

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

\$ 30,505,000      \$ 31,285,000

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

24,475,000      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

24,475,000      25,000,000

191,325,000      196,675,000

Less:

unamortized bond discount      ( 1,601,796)      ( 1,692,531)

deferred amount on refunding      ( 2,875,759)      ( 3,476,461)

Plus unamortized premium      727,266      756,854

187,574,711      192,262,862

Less current portion (net of discount and deferral)

( 4,883,151)      ( 4,688,151)

\$182,691,560      \$187,574,711

A summary of changes in long-term debt for the years ended August 31, 2009 and 2008 is as follows (in thousands):

<u>August 31, 2009</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Revenue bonds	\$196,675	\$ -	(\$ 5,350)	\$191,325
Less:				
unamortized discount	( 1,693)	( -)	92	( 1,601)
deferred amount on refunding	( 3,476)	( -)	600	( 2,876)
Plus unamortized premium	757	-	( 30)	727
	<u>\$192,263</u>	<u>\$ -</u>	<u>(\$ 4,688)</u>	<u>\$187,575</u>

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

9. Revenue Bonds Payable (continued):

<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>

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.

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.



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

9. Revenue Bonds Payable (continued):

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).

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).

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

9. Revenue Bonds Payable (continued):

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%.

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.

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

9. Revenue Bonds Payable (continued):

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, 2009 is \$2,875,759.

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:

Year ending August 31,	Principal	Interest
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	6,470,000	8,250,539
2015 - 2019	37,285,000	36,310,586
2020 - 2024	47,550,000	26,036,978
2025 - 2029	51,760,000	12,927,667
2030 - 2034	21,605,000	3,793,250
2035	3,180,000	159,000
	<u>\$191,325,000</u>	<u>\$122,874,435</u>

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

9. Revenue Bonds Payable (continued):

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, 2009 and 2008, this revenue bond coverage was 1.44 and 1.49, 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, 2009 and 2008, this ratio was 1.26 and 1.12, 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, 2009, the balance in the Debt Service Reserve Account is \$2,417,157 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.

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.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

11. Commitments and Contingencies:

At August 31, 2009 and 2008, the Authority has outstanding agreements with contractors for future work on existing construction projects in the approximate amount of \$590 thousand and \$6 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 \$186,143 and \$217,670 during 2009 and 2008 respectively.

Defined Benefit Plan

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

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

The Authority's required contribution including administration fees for years ended August 31, 2009, 2008 and 2007 was \$1,095,370, \$972,591 and \$841,696, respectively, 100% of which was contributed with no net pension obligation at year end.

The contribution requirements of the Authority are established and may be amended by the GMEBS RT Board of Trustees and meet the

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

13. Retirement Plans (continued):

applicable standards under Public Retirement Systems Standards Law (Georgia Code Section 47-20-10).

The required contributions for the plan years ended June 30, 2009 and 2008 are based on actuarial valuations of the plan on July 1, 2008 and 2007. 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; and a 5.5% salary increase is assumed.

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

As of the most recent actuarial valuation date on July 1, 2009, the plan was 45.9% funded. The actuarial accrued liability for benefits was \$11.2 million and the actuarial value of assets was \$5.1 million resulting in an unfunded actuarial accrued liability (UAAL) of \$6.0 million. The covered payroll (annual payroll of active employees covered by the plan) was \$7.1 million and the ratio of the UAAL to the covered payroll was 85.0%. The schedule of funding progress, included as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

14. Other Postemployment Benefits:

Plan Description

In addition to the pension benefits described in Note 13, 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



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

14. Other Post-Employment Benefits (continued):

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 13.

The Authority provides post-retirement health insurance benefits to all employees who retire after meeting age and tenure conditions and who do not have other coverage. Eligible retirees must be at least age 62, 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. For retirees who qualify, the benefits are coordinated with Medicare (a "Medicare carve-out plan").

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

Membership

At August 31, 2009, membership consists of:

Retirees and beneficiaries	5
Active employees	<u>176</u>
Total participants	<u>181</u>

Funding Policy

The Authority currently plans to contribute 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, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

At August 31, 2008 prior to implementing GASB Statement No. 45, 5 retirees were eligible to receive benefits. Post-retirement health insurance benefit expenses in 2008 were recognized on a pay-as-you-go basis in the accounting period in which the liability was incurred; the Authority's expense net of participant contributions was \$15,646 for the year ended August 31, 2008.

Annual OPEB Cost and Net OPEB Obligation

In accordance with GASB Statement No. 45 (GASBS 45), an actuarial study was prepared calculating the postemployment healthcare cost as of September 1, 2008. The actuarial evaluation estimated the

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

14. Other Post-Employment Benefits (continued):

Unfunded Actuarial Accrued Liability (UAAL) at \$2,591,000 and an ARC of \$481,000 for the year ended August 31, 2009. The Authority's ARC for the year was equal to the annual OPEB cost as GASBS 45 was implemented prospectively and the transition liability was set at zero at August 31, 2008. The postemployment healthcare cost was determined under the Projected Unit Credit Actuarial Cost Method. The calculation was based on: an 8.0% investment rate of return including a 3.5% inflation assumption; an initial annual healthcare cost trend rate of 12.0% graded to arrive at an ultimate rate of 5.0%; and the amortization of the UAAL over a 20-year open period. This represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and the amortization of the UAAL over 20 years. The current ARC of \$481,000 is 6.5% of annual covered payroll. The following table presents the OPEB cost, the amount contributed and changes in the OPEB plan for the current year:

ARC	\$481,000
Interest on Net OPEB Obligation (Asset)	-
Adjustment to the ARC	-
Annual OPEB Cost	481,000
Contributions made	481,000
Change in Net OPEB Obligation	-
Net OPEB Obligation beginning of year	-
Net OPEB Obligation end of year	<u>\$ -</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended August 31, 2009 are as follows:

<u>FISCAL YEAR</u> <u>ENDED</u>	<u>ANNUAL OPEB</u> <u>COST</u>	<u>PERCENTAGE OF OPEB</u> <u>COST CONTRIBUTED</u>	<u>NET OPEB</u> <u>OBLIGATION</u>
August 31, 2009	\$481,000	100.0%	\$ -

Funded Status

Based on the most recent actuarial valuation on September 1, 2008, the funded status of the plan as of August 31, 2009 is:

Actuarial Accrued Liability (AAL)	\$2,591,000
Actuarial Value of Plan Assets	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	\$2,591,000
Funded Ratio(Actuarial Value of Plan Assets/AAL)	0.0%
Covered Payroll (Active Plan Members	\$7,381,000
UAAL as a Percentage of Covered Payroll	35.1%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include



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

14. Other Post-Employment Benefits (continued):

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. The schedule of funding progress, included as RSI following the notes to the financial statements, will present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

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.

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, 2009 and 2008 are as follows:

<u>August 31, 2009</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash	\$ 5,620,983	\$ 5,620,983
Repurchase agreements	\$ 1,295,442	\$ 1,295,442
Money market funds	\$ 34,271,212	\$ 34,271,212
Revenue bonds payable	\$187,574,711	\$193,224,940
<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	\$192,262,682	\$195,076,431

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

16. Change in Useful Life of Water and Sewer Systems:

During the year ended August 30, 2009, management increased its estimate of the useful lives of structures, line extensions and improvements from 40 to 50 years to reflect technological changes. This change had the effect of decreasing depreciation expense and increasing income from operations and the change in net assets for 2009 by \$2,587,900.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
POSTEMPLOYMENT BENEFITS-REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

DEFINED BENEFIT PENSION SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
07/01/09	\$5,119,742	\$11,165,572	\$6,045,830	45.9%	\$7,114,270	85.0%
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%

OTHER POSTEMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liab. (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
9/1/08	\$ -	\$ 2,591,000	\$2,591,000	0.0%	\$7,381,000	35.1%

The Authority implemented GASB Statement No. 45 for the year ended August 31, 2009. Information for prior years is not available.

OTHER SUPPLEMENTARY SCHEDULES

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

FOR THE YEAR ENDED AUGUST 31,		
	2009	2008
Purchased water	\$ 43,385	\$ 230,723
Water production:		
Salaries and wages	890,873	864,107
Payroll taxes	65,959	63,411
Group insurance	126,306	111,798
Retirement	104,247	96,884
Other postemployment benefits	57,500	-
Billing and accounting	12,757	18,033
Continuing education	18,268	18,736
Insurance - other than group	81,814	76,228
Lab fees and supplies	41,145	40,750
Stream Monitoring	121,738	118,163
Miscellaneous	1,422	2,838
Office supplies	1,620	1,328
Operating supplies	300,986	257,960
Power	982,520	961,760
Professional fees	4,472	16,533
Repair and maintenance	140,889	198,003
Small tools and equipment	1,131	1,020
Telephone	13,368	13,367
Uniforms	6,319	6,203
Vehicle	13,015	20,219
	<u>2,986,349</u>	<u>2,887,341</u>
Total before depreciation	3,029,734	3,118,064
Depreciation	<u>1,170,885</u>	<u>677,891</u>
Total	<u>\$ 4,200,619</u>	<u>\$ 3,795,955</u>

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

	FOR THE YEAR ENDED AUGUST 31,	
	2009	2008
Purchased wastewater treatment	\$ 631,352	\$ 584,952
Wastewater treatment:		
Salaries and wages	2,185,220	2,107,397
Payroll taxes	159,252	150,924
Group insurance	384,894	311,584
Retirement	337,270	279,243
Other postemployment benefits	130,800	-
Billing and accounting	12,991	18,223
Continuing education	24,222	24,783
Insurance - other than group	147,241	137,852
Lab fees and supplies	51,341	63,681
Regulatory actions	5,150	12,525
Legal fees	24,548	19,420
Miscellaneous	2,870	8,353
Office supplies	14,124	7,551
Operating supplies	946,077	1,106,695
Power	1,525,580	1,070,488
Repair and maintenance	988,764	1,087,539
Small tools and equipment	5,002	4,567
Telephone	35,453	31,325
Uniforms	23,940	21,823
Vehicle	61,062	90,511
	<u>7,065,801</u>	<u>6,554,483</u>
Total before depreciation	7,697,153	7,139,435
Depreciation	<u>979,364</u>	<u>1,217,470</u>
Total	<u>\$ 8,676,517</u>	<u>\$ 8,356,905</u>

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

	FOR THE YEAR ENDED AUGUST 31,	
	2009	2008
Salaries and wages	\$ 4,682,915	\$ 4,657,804
Payroll taxes	339,407	338,507
Group insurance	881,901	736,778
Retirement	637,747	581,302
Other postemployment benefits	292,700	-
Bad debts	110,601	69,338
Billing and accounting	389,564	363,516
Consumer reports	7,125	6,500
Continuing education	23,313	27,992
Contract meter readers	584,002	571,515
Directors' fees and expenses	57,263	57,431
Equipment repairs and maintenance	651,824	457,776
Insurance - other than group	381,883	357,167
Lake Allatoona/Upper Etowah Study	-	333,255
Legal and audit	188,806	139,622
Line and meter repairs	425,405	815,309
Miscellaneous	31,612	39,876
Office supplies	23,064	21,492
Operating supplies	50,664	69,617
Postage	13,195	11,022
Power	133,423	169,325
Professional fees	94,472	215,792
Real estate taxes	23,665	13,630
Small tools and equipment	15,681	19,981
Stream monitoring	-	54,385
Telephone	50,075	49,583
Toilet rebates	24,200	11,650
Uniforms	23,563	25,699
Vehicle	207,296	325,156
	<u>10,345,366</u>	<u>10,541,020</u>
Less capitalized salaries	<u>345,942</u>	<u>314,846</u>
Total before depreciation	9,999,424	10,226,174
Depreciation	<u>6,604,314</u>	<u>7,797,933</u>
Total	<u>\$ 16,603,738</u>	<u>\$ 18,024,107</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULE OF REVENUES AND EXPENSES - BUDGET COMPARED WITH ACTUAL  
FOR THE YEAR ENDED AUGUST 31, 2009

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUE			
Operating Revenue:			
Metered water sales	\$ 23,026,000	\$ 23,671,252	\$ 645,252
Wastewater treatment	13,726,000	13,559,105	(166,895)
Street light fees	1,299,000	1,244,934	(54,066)
Water connection fees	1,560,600	981,908	(578,692)
Sewer tap fees	3,145,500	1,710,209	(1,435,291)
Transfer fees	180,100	165,075	(15,025)
Forfeited discounts and penalties	729,000	629,888	(99,112)
Customer repairs and service charges	294,000	267,024	(26,976)
Sale of inventories	-	-	-
Total Operating Revenue	43,960,200	42,229,395	(1,730,805)
Non-Operating Revenue:			
Interest:			
Sinking funds	78,100	127,020	48,920
Construction funds	2,500	695	(1,805)
Revenue funds	836,700	357,143	(479,557)
Gain on sale of assets	-	306	306
Miscellaneous	216,900	150,611	(66,289)
Total Non-Operating Revenue	1,134,200	635,775	(498,425)
Capital Contributions	-	10,978,204	10,978,204
TOTAL REVENUE	\$ 45,094,400	\$ 53,843,374	\$ 8,748,974
EXPENSES			
Operating Expenses:			
Water Purchases and Production:			
Purchased water	\$ 80,000	\$ 43,385	\$ 36,615
Water production:			
Salaries and wages	894,300	890,873	3,427
Payroll taxes	68,400	65,959	2,441
Group insurance	134,800	126,306	8,494
Retirement	146,600	104,247	42,353
Other postemployment benefits	57,500	57,500	-
Billing and accounting	14,200	12,757	1,443
Continuing education	22,400	18,268	4,132
Insurance - other than group	80,600	81,814	(1,214)
Lab fees and supplies	56,000	41,145	14,855
Stream Monitoring	122,800	121,738	1,062
Miscellaneous	3,700	1,422	2,278
Office supplies	1,400	1,620	(220)
Operating supplies	278,100	300,986	(22,886)
Power	1,138,000	982,520	155,480



CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULE OF REVENUES AND EXPENSES - BUDGET COMPARED WITH ACTUAL  
FOR THE YEAR ENDED AUGUST 31, 2009  
(Continued)

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Water production (continued):			
Professional fees	\$ 15,000	\$ 4,472	\$ 10,528
Repairs and maintenance	208,100	140,889	67,211
Small tools and equipment	1,000	1,131	(131)
Telephone	15,400	13,368	2,032
Uniforms	6,600	6,319	281
Vehicle expense	23,300	13,015	10,285
Operating expenses before depreciation	3,368,200	3,029,734	338,466
Depreciation	1,169,700	1,170,885	(1,185)
Total Water Purchases and Production	4,537,900	4,200,619	337,281
Wastewater Treatment:			
Purchased wastewater treatment	660,000	631,352	28,648
Wastewater treatment:			
Salaries and wages	2,462,900	2,185,220	277,680
Payroll taxes	188,400	159,252	29,148
Group insurance	310,600	384,894	(74,294)
Retirement	403,700	337,270	66,430
Other postemployment benefits	130,800	130,800	-
Billing and accounting	14,200	12,991	1,209
Continuing education	30,400	24,222	6,178
Insurance - other than group	145,000	147,241	(2,241)
Lab fees and supplies	75,000	51,341	23,659
Regulatory actions	20,000	5,150	14,850
Professional fees	13,000	24,548	(11,548)
Miscellaneous	9,500	2,870	6,630
Office supplies	5,400	14,124	(8,724)
Operating supplies	1,122,900	946,077	176,823
Power	1,263,300	1,525,580	(262,280)
Repairs and maintenance	1,193,500	988,764	204,736
Small tools and equipment	5,200	5,002	198
Telephone	35,500	35,453	47
Uniforms	24,100	23,940	160
Vehicle expense	103,900	61,062	42,838
Operating expenses before depreciation	8,217,300	7,697,153	520,147
Depreciation	981,900	979,364	2,536
Total Wastewater Treatment	9,199,200	8,676,517	522,683

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULE OF REVENUES AND EXPENSES - BUDGET COMPARED WITH ACTUAL  
FOR THE YEAR ENDED AUGUST 31, 2009  
(Continued)

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Distribution and Administration:			
Salaries and wages	\$ 4,750,000	\$ 4,682,915	\$ 67,085
Payroll taxes	363,400	339,407	23,993
Group insurance	765,300	881,901	(116,601)
Retirement	778,500	637,747	140,753
Other postemployment benefits	292,700	292,700	-
Bad debts	70,000	110,601	(40,601)
Billing and accounting	406,300	389,564	16,736
Consumer reports	7,500	7,125	375
Continuing education	25,600	23,313	2,287
Contract meter readers	638,500	584,002	54,498
Directors' fees and expenses	60,200	57,263	2,937
Equipment repairs and maintenance	473,000	651,824	(178,824)
Insurance - other than group	376,000	381,883	(5,883)
Lake Allatoona/Upper Etowah Study	275,000	-	275,000
Legal and audit	182,800	188,806	(6,006)
Line and meter repairs	880,700	425,405	455,295
Miscellaneous	22,200	31,612	(9,412)
Office supplies	23,600	23,064	536
Operating supplies	77,100	50,664	26,436
Postage	11,900	13,195	(1,295)
Power	208,700	133,423	75,277
Professional fees	250,800	94,472	156,328
Real estate taxes	22,000	23,665	(1,665)
Small tools and equipment	24,300	15,681	8,619
Stream monitoring	31,000	-	31,000
Telephone	56,800	50,075	6,725
Toilet rebates	18,000	24,200	(6,200)
Uniforms	28,000	23,563	4,437
Vehicle expense	372,800	207,296	165,504
Total before depreciation and capitalization of salaries	11,492,700	10,345,366	1,147,334
Depreciation	6,607,000	6,604,314	2,686
Total before capitalization of salaries	18,099,700	16,949,680	1,150,020
Less capitalized salaries	(306,000)	(345,942)	39,942
Total Distribution and Administration	17,793,700	16,603,738	1,189,962

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULE OF REVENUES AND EXPENSES - BUDGET COMPARED WITH ACTUAL  
FOR THE YEAR ENDED AUGUST 31, 2009  
(CONTINUED)

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Streetlights	\$ 840,000	\$ 876,136	\$ (36,136)
Total Operating Expenses	32,370,800	30,357,010	2,013,790
Non-Operating Expenses:			
Interest	9,988,800	10,013,440	(24,640)
Paying agent, broker fees	32,500	17,356	(17,356)
Amortization of bond issue costs	115,500	107,668	(75,168)
Loss on abandoned lines	-	102,808	12,692
Total Non-Operating Expenses	10,136,800	10,241,272	(104,472)
TOTAL EXPENSES	42,507,600	40,598,282	1,909,318
NET INCOME	\$ 2,586,800	\$ 13,245,092	\$ 10,658,292

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Metered water sales	<u>\$23,671,252</u>	<u>\$21,545,310</u>	<u>\$24,203,994</u>	<u>\$23,048,171</u>	<u>\$18,817,891</u>
Number of customers served as of 8/31	<u>63,928</u>	<u>63,477</u>	<u>62,412</u>	<u>60,406</u>	<u>57,413</u>
Wastewater treatment sales	<u>13,559,105</u>	<u>\$12,474,370</u>	<u>\$13,018,909</u>	<u>\$12,035,505</u>	<u>\$ 9,403,720</u>
Number of customers served as of 8/31	<u>26,655</u>	<u>26,413</u>	<u>25,721</u>	<u>24,015</u>	<u>21,708</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULES OF REVENUE BOND COVERAGE

LAST FIVE YEARS  
(In Thousands)

	2009		2008		2007		2006		2005	
	With	Without	With	Without	With	Without	With	Without	With	Without
Net revenue available for debt service (see Note)	Tap Fees	Tap Fees	Tap Fees	Tap Fees	Tap Fees	Tap Fees	Tap Fees	Tap Fees	Tap Fees	Tap Fees
	\$21,262	\$18,570	\$21,939	\$16,517	\$31,305	\$21,920	\$33,264	\$20,515	\$27,456	\$16,189
Highest annual debt service requirements	\$14,724	\$14,724	\$14,724	\$14,724	\$13,312	\$13,312	\$12,345	\$12,345	\$11,466	\$11,466
Revenue Bond Coverage:										
Actual	1.44	1.26	1.49	1.12	2.35	1.65	2.69	1.66	2.39	1.41
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 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, 2009

	<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>\$ 31,897,704</u>	N/A	Various	<u>\$ 31,897,704</u>	<u>\$ 31,897,704</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
U.S. Gov't					
Securities					
Money Market					
Funds	<u>2,373,508</u>	N/A	Various	<u>2,373,508</u>	<u>2,373,508</u>
	<u>\$ 3,668,950</u>			<u>\$ 3,668,950</u>	<u>\$ 3,668,950</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULES OF WATER, SEWER AND IRRIGATION RATES  
AUGUST 31, 2009 AND 2008

CONSUMPTION (GALLONS)	2009				2008			
	WATER NET	SEWER NET	IRRIGATION NET	WATER NET	SEWER NET	IRRIGATION NET		
0	\$ 8.00	\$ 11.60	\$ 11.00	\$ 7.00	\$ 11.60	\$ -		
1,000	9.10	11.60	12.10	8.10	11.60	-		
2,000	10.20	11.60	13.20	9.20	11.60	-		
3,000	15.20	18.20	18.20	14.20	18.20	-		
4,000	20.20	24.80	23.20	19.20	24.80	-		
5,000	25.20	31.40	28.20	24.20	31.40	-		
6,000	30.20	38.00	33.20	29.20	38.00	-		
7,000	35.20	44.60	38.20	34.20	44.60	-		
8,000	40.20	51.20	43.20	39.20	51.20	-		
9,000	45.20	57.80	48.20	44.20	57.80	-		
10,000	50.20	64.40	53.20	49.20	64.40	-		
11,000	56.20	71.00	59.20	55.20	71.00	-		
12,000	62.20	77.60	65.20	61.20	77.60	-		
13,000	68.20	84.20	71.20	67.20	84.20	-		
14,000	74.20	90.80	77.20	73.20	90.80	-		
15,000	80.20	97.40	83.20	79.20	97.40	-		
16,000	86.20	104.04	89.20	85.20	104.00	-		
17,000	92.20	110.60	95.20	91.20	110.60	-		
18,000	98.20	117.20	101.20	97.20	117.20	-		
19,000	104.20	123.80	107.20	103.20	123.80	-		
20,000	110.20	130.40	113.20	109.20	130.40	-		
Over 20,000	\$6.00/ 1,000	\$6.60/ 1,000	\$6.00/ 1,000	\$6.00/ 1,000	\$6.60/ 1,000	\$ -		

There is a 10% penalty added when paid after due date.  
Irrigation rates were not in effect until the year ended August 31, 2009.



CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
STATISTICAL TABLE - INSURANCE IN FORCE  
AUGUST 31, 2009  
(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 \$233,883,634
Inland Marine	\$1,938,192 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	\$3,000,000 general aggregate  \$3,000,000 products and completed operations aggregate  \$1,000,000 personal injury  \$1,000,000 each occurrence  Includes dam collapse, failure to supply, and employee benefits liabilities with separate limits

INTERNAL CONTROL AND COMPLIANCE



Donner  
Weiser &  
Associates, P.C.

*certified public accountants & business advisors*

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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, 2009, and have issued our report thereon dated November 23, 2009. 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 23, 2009