CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY

CHEROKEE COUNTY, GEORGIA

FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
AUGUST 31, 2010 AND 2009

TOGETHER WITH INDEPENDENT AUDITORS' REPORTS

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
FINANCIAL STATEMENTS
AUGUST 31, 2010 AND 2009

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3
Basic Financial Statements	
Balance sheets	7
Statements of revenues, expenses and changes in net assets	9
Statements of cash flows	11
Notes to financial statements	13
Postemployment benefits (Required Supplementary Information)	30
Other Supplementary Schedules:	
Schedule of cost of water and purchases and production	31
Schedule of costs of wastewater treatment	32
Schedule of distribution and administration expenses	33
Schedule of revenue and expenses – budget compared with actual	34
Schedule of metered water sales, wastewater treatment sales and number of customers served – last five years	38
Schedule of revenue bond coverage – last five years	39
Schedule of investments	40
Schedules of water, sewer and irrigation rates	41
Statistical table – insurance in force	42
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*	43

AGH BUSINESS ADVISORS
CERTIFIED PUBLIC ACCOUNTANTS

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, 2010 and 2009, 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, 2010 and 2009, 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 issued our report dated November 24, 2010 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 pension and other postemployment benefit plan information on page 30 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The previous years' financial statements were audited by Donner Weiser & Associates, P.C. who merged with Aarons Grant & Habif, LLC on July 1, 2010.

3500 Piedmont Road, Suite 600, Atlanta, Georgia 30305, Phone 404-233-5486, Fax 404-237-8325
E-mail cpa@aghllc.com Web Page www.aghllc.com

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 31 through 42 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 as unaudited and 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 42 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.

Aarons Grant & Habif, LLC

Aarons Grant & Habif, LLC

November 24, 2010

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, 2010 and 2009. 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 - 10) 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 2010 by $7.9 million, from $286.2 million to $294.1 million and in 2009 by $13.2 million, from $273.0 million to $286.2 million. $5.8 million of the increase in 2010 was attributable to contributions by developers, primarily of water and sewer lines (which totaled $11 million in 2009). Our analysis on the following pages focuses on the Authority's net assets (Table 1) and changes in its net assets (Table 2).

Table 1 - Net Assets at Year-End (In Millions)

	2010	2009	2008
Current and other assets	$ 54.3	$ 49.9	$ 48.8
Capital assets	429.2	431.1	426.0
Total Assets	483.5	481.0	474.8
Long-term debt outstanding	(182.4)	(187.6)	(192.3)
Other liabilities	(7.1)	(7.1)	(9.5)
Total Liabilities	(189.5)	(194.7)	(201.8)
Net assets:			
Invested in capital assets, net of debt	246.1	239.4	230.4
Restricted	4.9	2.9	2.9
Unrestricted	43.1	43.9	39.7
Total Net Assets	$ 294.1	$ 286.2	$ 273.0

Table 2 - Changes in Net Assets (in Millions)

	2010	2009	2008
Revenues			
Operating revenues:			
Water sales	$ 24.1	$ 23.7	$ 21.5
Wastewater treatment sales	13.8	13.6	12.5
Connection fees	2.8	2.7	5.4
Other	2.5	2.3	2.3
Non-operating revenues:			
Interest	0.2	0.5	1.6
Other	0.1	0.1	0.3
Total Revenues	$ 43.5	$ 42.9	$ 43.6
Expenses			
Operating expenses:			
Water	$ 3.2	$ 3.0	$ 3.1
Wastewater	7.5	7.7	7.1
Distribution and administration	10.3	10.0	10.2
Depreciation	10.2	8.8	9.7
Other	0.8	1.0	0.9
Non-operating expenses:			
Interest	9.3	10.0	9.6
Other	0.1	0.2	0.4
Total Expenses	41.4	40.7	41.0
Contributed Capital	5.8	11.0	19.3
Increase In Net Assets	$ 7.9	$ 13.2	$ 21.9

The Authority's revenues (see Table 2) increased in 2010 by 1.4% ($43.5 million in 2010 compared to $42.9 million in 2009) and decreased in 2009 by 1.6% ($42.9 million in 2009 compared to $43.6 million in 2008). Expenses increased by 1.7% in 2010 and decreased by 0.7% in 2009. The factors driving these results include:

- The number of water customers in 2010 and 2009 grew by 0.5% and 0.7% and wastewater customers grew by 1.3% and 1.0%, 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 previous increase, ranging from 9.0% to 13%, occurred in August 2008. The Authority has not adjusted sewer rates since August 2008. In 2008, charges for water and sewer meters increased by 30.8% and 21.6%, respectively. The Authority has not changed meter charges since 2008.

- The Authority's revenues increased compared with the prior year by 1.4% and decreased by 1.6% in 2010 and 2009, respectively. The annual increase in expenses in 2010 was 1.7% as compared with the decrease of 0.7% in 2009. As a result, net assets prior to the value of contributed lines have continued to grow in decreasing amounts, by $2.1 million in 2010 and $2.2 million in 2009.

- Management of the Authority attributes the decrease in the growth of net assets primarily to the continuing decreases ($5.2 million in 2010 and $8.3 million in 2009) in the value of contributions from developers. Management notes that the small increase in 2010 operating revenues is a reflection of the continued effects of the drought as well as continued conservation efforts by the Authority's customers which began several years ago. Connection fees have shown a slight increase in 2010 of 3.7% over last year after several years of decreases due to a stabilization of the decline in new connection activity over the past few years.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2010 and 2009, the Authority had $429.2 million and $431.1 million, respectively, invested in a range of capital assets including equipment, buildings, land and water and sewer lines (see Table 3). This represents a net decrease after additions and disposals of $1.9 million (0.4%) in 2010 and net increase after additions and disposals of $5.1 million (1.2%) in 2009.

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

	2010	2009	2008
Land	$ 3.6	$ 3.6	$ 3.6
Structures, line extensions and improvements:			
Completed	416.1	416.6	349.3
Construction-in-progress	8.4	9.4	71.2
Machinery, equipment and furniture	1.1	1.5	1.9
Totals	$ 429.2	$ 431.1	$ 426.0

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 2011 capital improvement program calls for it to spend approximately $10.5 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 approximately $2.5 million of future work at August 31, 2010. Capital expenditures will be financed by a combination of resources on hand, future system revenues and the proceeds from future revenue bonds. More detailed information about the Authority's capital assets is presented in Note G to the financial statements.

Debt Administration

At year-end 2010 and 2009, the Authority had $182.4 million and $187.6 million (net of discounts and premiums) in revenue bonds outstanding, respectively. The decreases of $5.2 million and $4.7 million in 2010 and 2009, respectively, are due primarily to the scheduled repayment in both years of the Authority's previously issued debt. In 2010, the Authority also issued revenue refunding bonds totaling $39.7 million to advance refund portions of bonds issued in 1997, 1998 and 2001 that totaled $39.6 million. Additional information is presented in Note J to the financial statements.

The Authority's Revenue Bonds have been assigned ratings by Moody's Investors Service, Inc. and Standard and Poor's Rating Services of Aa3 and AA-, respectively. These very high ratings reflect the rating agencies' consideration of factors such as financial liquidity, debt service coverage and the growth rate of the Authority's customer base.

The Authority's other significant obligations include customer deposits, accounts payable and accrued interest, salaries and other expenses as can be seen on the Balance Sheets on pages 7 and 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 Finance Department at 391 W. Main Street, Canton, Georgia 30114.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
BALANCE SHEETS
AS OF AUGUST 31,

	2010	2009
ASSETS		
Current Assets		
Cash	$ 5,271,212	$ 5,620,983
Investments	34,774,124	31,897,704
Accounts receivable	5,360,658	5,320,391
Accrued interest receivable	5,593	5,401
Prepaid expenses	387,335	388,186
Inventories	200,576	208,805
Restricted investments:		
Revenue bond sinking fund investments	1,217,318	1,251,793
Total Current Assets	47,216,816	44,693,263
Noncurrent Assets		
Restricted investments:		
Revenue bond debt service reserve investments	4,353,339	2,417,157
Deferred charges:		
Unamortized bond issue costs	2,172,920	2,155,522
Unamortized street light costs	8,879	8,879
Unamortized watershed study	607,704	607,704
Total deferred charges	2,789,503	2,772,105
Capital assets:		
Land	3,556,929	3,556,929
Construction-in-progress	8,350,764	9,360,621
Structures, line extensions and improvements	512,496,944	503,545,219
Machinery and equipment	6,373,030	6,332,253
Office furniture and equipment	550,410	544,709
Total capital assets	531,328,077	523,339,731
Less: accumulated depreciation	(102,147,081)	(92,265,189)
Net capital assets	429,180,996	431,074,542
Total Noncurrent Assets	436,323,838	436,263,804
Total Assets	$ 483,540,654	$ 480,957,067

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
BALANCE SHEETS
AS OF AUGUST 31,

	2010	2009
LIABILITIES AND NET ASSETS		
Current Liabilities		
Trade accounts payable	$ 859,422	$ 1,247,233
Construction accounts and retainage payable	615,865	327,740
Accrued salaries and vacations	586,159	479,376
Unearned sewer connection fees	100,953	285,033
Customer deposits	3,755,125	3,623,485
Payable from restricted assets:		
Current portion of long-term debt	5,617,288	4,883,151
Revenue bond interest payable	722,017	764,441
Total Current Liabilities	12,256,829	11,610,459
Noncurrent Liabilities		
Deferred interest income	386,236	412,170
Revenue bonds payable, less current portion	176,820,268	182,691,560
Total Noncurrent Liabilities	177,206,504	183,103,730
Total Liabilities	189,463,333	194,714,189
Net Assets		
Invested in capital assets, net of related debt	246,127,575	239,421,805
Restricted for debt service	495,301	487,352
Restricted for bond retirement	4,353,339	2,417,157
Unrestricted	43,101,106	43,916,564
Total Net Assets	294,077,321	286,242,878
Total Liabilities and Net Assets	$ 483,540,654	$ 480,957,067

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED AUGUST 31,

	2010	2009
Operating Revenues		
Metered water sales	$ 24,106,505	$ 23,671,252
Wastewater treatment sales	13,818,212	13,559,105
Street light fees	1,251,173	1,244,934
Water connection fees	939,350	981,909
Sewer tap fees	1,835,666	1,710,209
Transfer fees	172,825	165,075
Forfeited discounts and penalties	811,376	629,888
Customer repairs and service charges	284,142	267,023
Total Operating Revenues	43,219,249	42,229,395
Operating Expenses		
Water purchases and production	3,203,144	3,029,734
Wastewater treatment	7,482,282	7,697,153
Street lights	877,458	876,136
Distribution and administration	10,318,847	9,999,424
Depreciation	10,188,392	8,754,563
Total Operating Expenses	32,070,123	30,357,010
Income from Operations	11,149,126	11,872,385
Other Revenues		
Interest		
Sinking funds	101,342	127,020
Construction funds	-	695
Revenue funds	100,595	357,143
Gain on equipment disposal	26,931	306
Miscellaneous	111,631	150,611
Total Other Revenues	340,499	635,775

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED AUGUST 31,

	2010	2009
Other Expense		
Interest	9,273,588	10,013,440
Paying agent and broker dealer fees	21,344	17,356
Amortization of bond issue costs	112,094	107,668
Loss on abandoned lines	14,043	102,808
Total Other Expense	9,421,069	10,241,272
Capital Contributions	5,765,887	10,978,204
Increase in Net Assets	7,834,443	13,245,092
Net Assets, beginning of year	286,242,878	272,997,786
Net Assets, end of year	$ 294,077,321	$ 286,242,878

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31,

INCREASE (DECREASE) IN CASH

	2010	2009
Cash flows from operating activities:		
Cash received from customers	$ 43,238,173	$ 42,400,264
Cash paid to suppliers	(14,341,893)	(13,265,128)
Cash paid to employees	(7,811,786)	(7,775,006)
Net cash provided by operating activities	21,084,494	21,360,130
Cash flows from investing activities:		
Purchases of investments	(21,364,534)	(15,039,907)
Proceeds from investment maturities	16,586,407	15,424,640
Interest received	175,810	459,309
Net cash used in investing activities	(4,602,317)	844,042
Cash flows from capital financing activities:		
Proceeds from revenue bond refunding	265,708	-
Revenue bond refunding issue costs	(262,439)	-
Revenue bond principal payments	(5,545,000)	(5,350,000)
Interest paid on revenue bonds	(9,040,931)	(9,367,802)
Watershed study deferred charges	-	(607,704)
Capital expenses	(2,304,908)	(5,257,528)
Contributions for capital expenses	50,035	50,980
Paying agent and broker fees	(21,344)	(17,356)
Proceeds from disposal of land, equipment and scrap	26,931	5,871
Net cash used in capital financing activities	(16,831,948)	(20,543,539)
Cash flows from non-capital financing activities	-	-
Net change in cash	(349,771)	1,660,633
Cash, beginning of year	5,620,983	3,960,350
Cash, end of year	$ 5,271,212	$ 5,620,983

See Independent Auditors’ Report and Accompanying Notes

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31,

INCREASE (DECREASE) IN CASH

	2010	2009
Reconciliation of Income From Operations to Net Cash Provided By Operating Activities:		
Income from operations	$ 11,149,126	$ 11,872,385
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	10,188,392	8,754,563
Miscellaneous revenue	111,631	145,046
(Increase) decrease in:		
Accounts receivable	(40,267)	463,289
Prepaid expenses	851	217,583
Inventories	8,229	(19,014)
Increase (decrease) in:		
Trade accounts payable	(387,811)	379,742
Accrued salaries and vacations	106,783	(15,998)
Unearned treatment revenue	-	(608,726)
Unearned sewer connection fees	(184,080)	-
Customer deposits	131,640	171,260
Net Cash Provided By Operating Activities	21,084,494	21,360,130
Non-Cash Capital Financing Activities:		
Issue refunding bonds at a premium to refund $39,645,000 of prior bonds resulting in non-cash decreases to discounts and issue costs and a deferral of refunding costs	$ 41,194,755	-
Non-Cash Investing Activities:		
Acquisition of capital assets contributed by developers	$ 5,715,852	$ 10,927,224

Note A – Organization

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

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

Note B – Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to governmental entities is determined by measurement focus. The Authority's operations are accounted for entirely as a proprietary governmental fund type with an economic resources measurement focus. 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.

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.

Note B – Summary of Significant Accounting Policies (continued)

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 non-pension benefits that are commonly referred to as other postemployment benefits, or OPEB.

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

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.

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

Note B – Summary of Significant Accounting Policies (continued)

Capital Assets

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

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

Asset Category	Estimated Useful Lives
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 Q). 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 and are otherwise expensed as incurred.

Capitalization of Salaries

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

Note B – Summary of Significant Accounting Policies (continued)

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, 2010 is included in the supplementary information to the accompanying financial statements. This budget is based upon certain assumptions and estimates of the staff of the Authority regarding future events, transactions and circumstances. Realization of the results projected in this budget will depend upon implementation by management of the Authority of policies and procedures consistent with the assumptions. There can be no assurance that actual events will correspond with such assumptions, that uncontrollable factors will not affect such assumptions or that the projected results will be achieved. Accordingly the actual results achieved could materially vary from those projected in the budget.

Note C – Operations

The Authority produced approximately 99.6% and 99.7% of its water needs during the years ended August 31, 2010 and 2009, purchasing most of the remaining water needed from the City of Canton and the Cobb County-Marietta Water Authority. The Authority purchased 8.6% of the sewage treatment needed in each of the years ended August 31, 2010 and 2009, primarily from the City of Canton and from Cobb County, Georgia.

Note D – Cash and Investments

Cash
All of the Authority's cash as of August 31, 2010 is held in banks located in the State of Georgia. These demand deposits are required by the Authority's revenue bond resolutions (see Note J) 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, 2010, cash held in banks totaled $5,870,752 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 $5,271,212.

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

Note D – Cash and Investments (continued)

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 42 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 P. The carrying amounts as of August 31, 2010 are as follows:

	Money Market Funds		
Repurchase Agreement	Georgia Fund 1	Other	Total
$1,295,442	$35,991,431	$3,057,908	$40,344,781

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

At August 31, 2010, 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, 2010, is greater than ten years.

Note E – Accounts Receivable

Accounts receivable consist of the following at August 31:

	2010	2009
Billed	3,341,007	2,803,240
Unbilled	2,019,651	2,517,151
	5,360,658	5,320,391

Note F – Restricted Assets

Certain assets are restricted for bond sinking funds used for payment of debt service on long-term debt.

Note G – Capital Assets

A summary of changes in capital assets for the years ended August 31, 2010 and 2009 is as follows:

2010	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not Depreciated:				
Land	$ 3,556,929	$ -	$ -	$ 3,556,929
Construction-in-progress	9,360,621	1,872,123	(2,881,980)	8,350,764
Other Capital Assets:				
Structures and improvements	503,545,219	9,016,069	(64,344)	512,496,944
Machinery and equipment	6,332,253	306,375	(265,598)	6,373,030
Office furniture	544,709	5,701		550,410
Accumulated Depreciation:				
Structures	(86,826,443)	(9,597,023)	40,902	(96,382,564)
Machinery	(4,944,690)	(575,027)	265,598	(5,254,119)
Office furniture	(494,056)	(16,342)	-	(510,398)
Capital Assets, Net	$ 431,074,542	$ 1,011,876	$ (2,905,422)	$ 429,180,996

2009	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not Depreciated:				
Land	$ 3,556,929	$ -	$ -	$ 3,556,929
Construction-in-progress	71,206,013	1,880,012	(63,725,404)	9,360,621
Other Capital Assets:				
Structures and improvements	428,179,126	75,607,138	(241,045)	503,545,219
Machinery and equipment	6,214,089	122,418	(4,254)	6,332,253
Office furniture	532,916	11,793	-	544,709
Accumulated Depreciation:				
Structures	(78,875,446)	(8,089,234)	138,237	(86,826,443)
Machinery	(4,301,144)	(647,800)	4,254	(4,944,690)
Office furniture	(476,527)	(17,529)	-	(494,056)
Capital Assets, Net	$ 426,035,956	$ 68,866,798	$ (63,828,212)	$ 431,074,542

Note H – 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 year ended August 31, 2009. During the year ended August 31, 2010, revenue of $184,080 was recognized associated with these arrangements.

Note I – Deferred Interest Income

The Authority has entered into forward supply contracts for the sale of securities to the paying agent for the bonds. Under the terms of the contracts, the 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, 2010 and 2009 was as follows:

	2010	2009
Balance, beginning of year	$ 412,170	$ 438,105
Recognition of interest income	(25,934)	(25,935)
Balance, end of year	$ 386,236	$ 412,170

Note J – Revenue Bonds Payable

Revenue bonds payable consist of the following at August 31,

	2010	2009
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 of August 1, 2018	$ 100,000	$ 100,000
Refunding and Improvement Series 1993 revenue bonds dated December 15, 1993, bearing interest from 5.30% to 5.50%, first principal payment due August 1, 1994 and final maturity of August 1, 2023	27,395,000	27,440,000

Note J – Revenue Bonds Payable (continued)

	2010	2009
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, advance refunded January 27, 2010	-	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, advance refunded January 27, 2010	-	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, partially advance refunded January 27, 2010	25,915,000	43,490,000
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	29,710,000	30,505,000
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	23,935,000	24,475,000
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	23,935,000	24,475,000

Note J – Revenue Bonds Payable (continued)

	2010	2009
Series 2010 revenue refunding bonds dated January 27, 2010, bearing interest from 3.00% to 5.00%, first principal payment due August 1, 2011 and final maturity of August 1, 2028	39,710,000	-
Total revenue bonds payable	185,845,000	191,325,000
Less:		
Unamortized bond discount	(878,693)	(1,601,796)
Deferred amount on refunding	(4,921,697)	(2,875,759)
Plus unamortized premium	2,392,946	727,266
	182,437,556	187,574,711
Less current portion (net of discount and deferral)	(5,617,288)	(4,883,151)
	$ 176,820,268	$ 182,691,560

A summary of changes in long-term debt for the years ended August 31, 2010 and 2009 is as follows:

2010	Beginning Balance	Additions	Reductions	Ending Balance
Revenue bonds	$ 191,325,000	$ 39,710,000	$ (45,190,000)	$ 185,845,000
Less:				
Unamortized discount	(1,601,796)	-	723,103	(878,693)
Deferred amount on refunding	(2,875,759)	(2,335,806)	289,868	(4,921,697)
Plus unamortized premium	727,266	1,750,463	(84,783)	2,392,946
	$ 187,574,711	$ 39,124,657	$ (44,261,812)	$ 182,437,556

2009	Beginning Balance	Additions	Reductions	Ending Balance
Revenue bonds	$ 196,675,000	$ -	$ (5,350,000)	$ 191,325,000
Less:				
Unamortized discount	(1,692,531)	-	90,735	(1,601,796)
Deferred amount on refunding	(3,476,461)	-	600,702	(2,875,759)
Plus unamortized premium	756,854	-	(29,588)	727,266
	$ 192,262,862	$ -	$ (4,688,151)	$ 187,574,711

Note J – Revenue Bonds Payable (continued)

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.

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.

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 and the remainder was refunded by the Series 2010 revenue refunding bonds.

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 and the remainder was refunded by the Series 2010 revenue refunding bonds.

Note J – 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. A portion of this series was refunded by the Series 2010 revenue refunding bonds.

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.

In January 2010, the Authority issued $39,710,000 in Water and Sewerage Revenue Refunding Bonds with interest rates ranging from 3.00% to 5.00%. The bonds were issued by the Authority for the purpose of advance refunding the Authority's remaining Series 1997 and 1998 revenue bonds and a portion of the 2001 revenue bonds in the aggregate principal amount of $39,645,000. The cash flows required to service the Series 2010 revenue bonds are approximately $4.0 million less than those for the refunded debt providing an economic gain from the refunding of approximately $2.2 million. The Authority paid $470,916 in underwriting fees and other issuance costs in connection with the refunding.

The U.S. government securities purchased in connection with the defeased and advance refunded bonds are deposited in irrevocable trusts with escrow agents to provide for all future debt service payments of the affected bonds. As a result, the bonds are considered to be defeased and the liabilities for them have been removed from long-term debt.

Note J – Revenue Bonds Payable (continued)

The defeasance, advance refundings and remarketing of the bonds described above resulted in differences between the reacquisition prices and the net carrying amounts of the old debt totaling $10,214,472, including $2,335,806 in 2010 related to the issuance of the Series 2010 revenue refunding 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, 2010 is $4,921,697.

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
2011	5,890,000	8,664,190
2012	6,120,000	8,440,683
2013	6,355,000	8,201,583
2014	6,595,000	7,964,908
2015	6,875,000	7,688,758
2016 – 2020	39,210,000	33,574,106
2021 – 2025	49,675,000	23,090,378
2026 – 2030	44,965,000	10,349,344
2031 – 2035	20,160,000	2,752,600
Total	$ 185,845,000	$ 110,726,550

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, 2010 and 2009, this revenue bond coverage was 1.49 and 1.44, respectively.

Effective with the issuance of the Series 2001 bonds, the Authority's annual net system revenues exclusive of water connection and sewer tap fees must be no less than this highest annual amount of debt service payable during any future sinking fund year. For the years ended August 31, 2010 and 2009, this ratio was 1.30 and 1.26, 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 $14,563,758. As of August 31, 2010, the Debt Service Reserve Account and the surety bonds exceed the minimum requirement.

Note J – Revenue Bonds Payable (continued)

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.

Note K – Risk Management

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

Note L – Commitments and Contingencies

At August 31, 2010 and 2009, the Authority has outstanding agreements with contractors for future work on existing construction projects in the approximate amount of $2,511,000 and $590,000, respectively.

Note M – 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 J).

Note N – Retirement Plans

Governmental Plans
The Authority has a governmental deferred compensation "Section 457" plan (the "Plan") authorized by the Authority Board which covers all employees over age seventeen and with at least one year of employment with the Authority. The Plan is administered by an independent third party administrator. Amounts employees may defer under the Plan are subject to statutory limits and may not exceed 3% of compensation. Employee deferrals totaled $173,742 and $186,143 during the years ended August 31, 2010 and 2009, 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.

Note N – Retirement Plans (continued)

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, 2010, 2009 and 2008 was $1,246,671, $1,095,370 and $972,591, respectively, 100% of which was contributed with no net pension obligation at year-end.

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

The required contributions for the years ended August 31, 2010 and 2009 are based on actuarial valuations of the plan on July 1, 2009 and 2008. The following actuarial methods and assumptions are used to prepare the plan valuations for both years: the actuarial cost method used is projected unit credit; a 5.5% salary increase is assumed; and an 8.00% investment rate of return is assumed. The assumptions for both the salary increase and the investment rate of return include an inflation component of 5.0%.

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

As of the most recent actuarial valuation date on January 1, 2010, the plan was 59.3% funded. The actuarial accrued liability ("AAL") for benefits was $10.6 million and the actuarial value of assets was $6.3 million resulting in an unfunded actuarial accrued liability ("UAAL") of $4.3 million. The covered payroll (annual payroll of active employees covered by the plan) was $7.1 million and the ratio of the UAAL to the covered payroll was 60.8%. The schedule of funding progress, included as required supplementary information ("RSI") following the notes to these financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Note O – Other Postemployment Benefits

Plan Description

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

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.

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, 2010, membership consists of:

Retirees and beneficiaries	6
Active employees	168
Total participants	174

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

In accordance with GASB 45, an actuarial study was prepared as of September 1, 2008, calculating the postemployment healthcare cost for each of the years ended August 31, 2010 and 2009. The actuarial evaluation estimated an ARC and annual OPEB cost of $475,000 for the year ended August 31, 2010. The Authority's ARC for the year ended August 31, 2009 was $481,000 and was equal to the annual OPEB cost as GASB 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 $475,000 is 6.4% of annual covered payroll.

Note O – Other Postemployment Benefits (continued)

The following table presents the OPEB cost, the amount contributed and changes in the OPEB plan for the current year:

ARC	$ 475,000
Interest on Net OPEB Obligation (Asset)	-
Adjustment to the ARC	-
Annual OPEB Cost	475,000
Less: Contributions	(475,000)
Change in Net OPEB Obligation	-
Net OPEB Obligation beginning of year	-
Net OPEB Obligation end of year	$ -

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, 2010 are as follows:

Fiscal Year Ended	Annual OPEB Cost	% of OPEB Cost Contributed	Net OPEB Obligation
August 31, 2010	$ 475,000	100.00%	$ -

Funded Status

Based on the most recent actuarial valuation on September 1, 2008, the funded status of the plan as of August 31, 2010 is:

Actuarial Accrued Liability (AAL)	$ 3,211,000
Less: Actuarial Value of Plan Assets	(976,458)
Unfunded Actuarial Accrued Liability (UAAL)	$ 2,234,542
Funded Ratio (Actuarial Value of Plan Assets/AAL)	30.4%
Covered Payroll (Active Plan Members)	$ 7,381,000
UAAL as a Percentage of Covered Payroll	30.3%

Actuarial valuations of an ongoing OPEB plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, included as RSI following the notes to these financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the UAAL for benefits.

Note O – Other Postemployment Benefits (continued)

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.

Note P – Fair Value of Financial Instruments

Estimated fair value of the Authority's financial instruments (all of which are held for non-trading purposes) at August 31, 2010 and 2009 is as follows:

August 31, 2010	Carrying Amount	Fair Value
Cash	$ 5,271,212	$ 5,271,212
Repurchase agreements	$ 1,295,442	$ 1,295,442
Money market funds	$ 39,049,339	$ 39,049,337
Revenue bonds payable	$ 182,437,556	$ 203,565,967
August 31, 2009		
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

Note Q – 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, 2010 AND 2009

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
01/01/2010	$6,297,180	$10,620,778	$4,323,598	59.3%	$7,114,270	60.8%
07/01/2009	$5,119,742	$11,165,572	$6,045,830	45.9%	$7,114,270	85.0%
07/01/2008	$4,728,106	$9,797,532	$5,069,426	48.3%	$6,681,445	75.9%
07/01/2007	$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
9/1/2009	$ 976,458	$ 3,211,000	$ 2,234,542	30.4%	$ 7,381,000	30.3%
9/1/2008	$ -	$ 2,591,000	$ 2,591,000	0.0%	$ 7,381,000	35.1%

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

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

	2010	2009
Purchased water	$ 45,512	$ 43,385
Water production:		
Salaries and wages	929,100	890,873
Payroll taxes	67,435	65,959
Group insurance	138,741	126,306
Retirement	120,886	104,247
Other postemployment benefits	56,333	57,500
Billing and accounting	13,041	12,757
Continuing education	16,755	18,268
Insurance - other than group	54,925	81,814
Lab fees and supplies	38,764	41,145
Stream monitoring	147,800	121,738
Miscellaneous	1,118	1,422
Office supplies	4,041	1,620
Operating supplies	282,828	300,986
Power	1,041,676	982,520
Professional fees	1,620	4,472
Repair and maintenance	206,042	140,889
Small tools and equipment	257	1,131
Telephone	13,344	13,368
Uniforms	6,575	6,319
Vehicle	16,351	13,015
Total water production	3,157,632	2,986,349
Total water purchases and production before depreciation	3,203,144	3,029,734
Depreciation	1,238,535	1,170,885
Total water purchases and production cost	$ 4,441,679	$ 4,200,619

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

	2010	2009
Purchased wastewater treatment	$ 667,502	$ 631,352
Wastewater treatment:		
Salaries and wages	2,033,034	2,185,220
Payroll taxes	146,732	159,252
Group insurance	365,367	384,894
Retirement	355,540	337,270
Other postemployment benefits	128,333	130,800
Billing and accounting	13,278	12,991
Insurance - other than group	97,071	147,241
Lab fees and supplies	45,980	51,341
Regulatory actions	4,000	5,150
Legal fees	4,764	24,548
Miscellaneous	2,544	2,870
Office supplies	11,717	14,124
Operating supplies	834,561	946,077
Power	1,495,195	1,525,580
Repair and maintenance	1,134,277	988,764
Continuing education	21,985	24,222
Small tools and equipment	8,688	5,002
Telephone	32,238	35,453
Uniforms	23,600	23,940
Vehicle	55,876	61,062
Total wastewater treatment	6,814,780	7,065,801
Total purchased treatment and wastewater treatment before depreciation	7,482,282	7,697,153
Depreciation	2,027,152	979,364
Total wastewater treatment cost	$ 9,509,434	$ 8,676,517

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

	2010	2009
Salaries and wages	$ 4,956,434	$ 4,682,915
Payroll taxes	350,413	339,407
Group insurance	920,631	881,901
Retirement	753,712	637,747
Other postemployment benefits	290,333	292,700
Bad debts	107,979	110,601
Billing and accounting	417,982	389,564
Consumer reports	7,425	7,125
Continuing education	25,375	23,313
Contract meter readers	586,105	584,002
Directors' fees and expenses	53,511	57,263
Equipment repairs and maintenance	444,496	651,824
Insurance - other than group	244,201	381,883
Legal and audit	137,195	188,806
Line and meter repairs	541,249	425,405
Miscellaneous	32,441	31,612
Office supplies	28,547	23,064
Operating supplies	67,576	50,664
Postage	9,798	13,195
Power	128,741	133,423
Professional fees	120,430	94,472
Real estate taxes	23,833	23,665
Small tools and equipment	14,129	15,681
Telephone	49,606	50,075
Toilet rebates	29,000	24,200
Uniforms	22,255	23,563
Vehicle	235,737	207,296
Water Tests	10,447	-
Subtotal	10,609,581	10,345,366
Less capitalized salaries	290,734	345,942
Total distribution and administration expenses before depreciation	10,318,847	9,999,424
Depreciation	6,922,705	6,604,314
Total distribution and administration expenses	$ 17,241,552	$ 16,603,738

See Independent Auditors' Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF REVENUE AND EXPENSES – BUDGET COMPARED WITH ACTUAL
FOR THE YEAR ENDED AUGUST 31, 2010

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUE			
Operating Revenue:			
Metered water sales	$ 23,720,000	$ 24,106,505	$ 386,505
Wastewater treatment	14,138,000	13,818,212	(319,788)
Street light fees	1,301,000	1,251,173	(49,827)
Water connection fees	984,900	939,350	(45,550)
Sewer tap fees	1,751,200	1,835,666	84,466
Transfer fees	173,500	172,825	(675)
Forfeited discounts and penalties	701,000	811,376	110,376
Customer repairs and service charges	303,000	284,142	(18,858)
Total Operating Revenue	43,072,600	43,219,249	146,649
Non-Operating Revenue:			
Interest:			
Sinking funds	117,800	101,342	(16,458)
Revenue funds	174,600	100,595	(74,005)
Gain on sale of assets	-	26,931	26,931
Miscellaneous	105,500	111,631	6,131
Total Non-Operating Revenue	397,900	340,499	(57,401)
Capital Contributions	-	5,765,887	5,765,887
TOTAL REVENUE	$ 43,470,500	$ 49,325,635	$ 5,855,135
EXPENSES			
Operating Expenses:			
Water Purchases and Production:			
Purchased water	$ 42,000	$ 45,512	$ (3,512)
Water production:			
Salaries and wages	917,600	929,100	(11,500)
Payroll taxes	70,200	67,435	2,765
Group insurance	129,500	138,741	(9,241)
Retirement	160,600	120,886	39,714
Other postemployment benefits	56,000	56,333	(333)
Billing and accounting	14,300	13,041	1,259
Continuing education	25,400	16,755	8,645
Insurance - other than group	68,300	54,925	13,375
Lab fees and supplies	52,000	38,764	13,236
Stream Monitoring	122,800	147,800	(25,000)
Miscellaneous	1,700	1,118	582
Office supplies	2,000	4,041	(2,041)
Operating supplies	344,000	282,828	61,172
Power	1,140,800	1,041,676	99,124

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF REVENUE AND EXPENSES – BUDGET COMPARED WITH ACTUAL
FOR THE YEAR ENDED AUGUST 31, 2010

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Water production (continued):			
Professional fees	10,000	1,620	8,380
Repairs and maintenance	174,900	206,042	(31,142)
Small tools and equipment	1,300	257	1,043
Telephone	15,400	13,344	2,056
Uniforms	7,000	6,575	425
Vehicle expense	14,900	16,351	(1,451)
Operating expenses before depreciation	3,370,700	3,203,144	167,556
Depreciation	1,160,500	1,238,535	(78,035)
Total Water Purchases and Production	4,531,200	4,441,679	89,521
Wastewater Treatment:			
Purchased wastewater treatment	635,000	667,502	(32,502)
Wastewater treatment:			
Salaries and wages	2,123,300	2,033,034	90,266
Payroll taxes	162,400	146,732	15,668
Group insurance	399,200	365,367	33,833
Retirement	371,600	355,540	16,060
Other postemployment benefits	128,000	128,333	(333)
Billing and accounting	14,300	13,278	1,022
Consumer Reports	20,000	-	20,000
Insurance - other than group	122,900	97,071	25,829
Lab fees and supplies	50,000	45,980	4,020
Regulatory actions	-	4,000	(4,000)
Professional fees	10,000	4,764	5,236
Miscellaneous	3,500	2,544	956
Office supplies	7,200	11,717	(4,517)
Operating supplies	1,100,000	834,561	265,439
Power	1,854,700	1,495,195	359,505
Repairs and maintenance	1,243,200	1,134,277	108,923
Continuing education	30,000	21,985	8,015
Small tools and equipment	5,300	8,688	(3,388)
Telephone	40,600	32,238	8,362
Uniforms	27,100	23,600	3,500
Vehicle expense	71,900	55,876	16,024
Operating expenses before depreciation	8,420,200	7,482,282	937,918
Depreciation	2,012,950	2,027,152	(14,202)
Total Wastewater Treatment	10,433,150	9,509,434	923,716

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF REVENUE AND EXPENSES – BUDGET COMPARED WITH ACTUAL
FOR THE YEAR ENDED AUGUST 31, 2010

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Distribution and Administration:			
Salaries and wages	4,812,200	4,956,434	(144,234)
Payroll taxes	368,100	350,413	17,687
Group insurance	914,900	920,631	(5,731)
Retirement	842,100	753,712	88,388
Other postemployment benefits	290,000	290,333	(333)
Bad debts	120,000	107,979	12,021
Billing and accounting	435,300	417,982	17,318
Consumer reports	9,500	7,425	2,075
Continuing education	30,340	25,375	4,965
Contract meter readers	625,200	586,105	39,095
Directors' fees and expenses	60,200	53,511	6,689
Equipment repairs and maintenance	613,100	444,496	168,604
Insurance - other than group	318,800	244,201	74,599
Legal and audit	220,000	137,195	82,805
Line and meter repairs	446,300	541,249	(94,949)
Miscellaneous	35,300	32,441	2,859
Office supplies	24,900	28,547	(3,647)
Operating supplies	56,200	67,576	(11,376)
Postage	14,500	9,798	4,702
Power	159,300	128,741	30,559
Professional fees	100,000	120,430	(20,430)
Real estate taxes	26,000	23,833	2,167
Small tools and equipment	15,700	14,129	1,571
Telephone	57,700	49,606	8,094
Toilet rebates	20,000	29,000	(9,000)
Uniforms	26,500	22,255	4,245
Vehicle expense	242,700	235,737	6,963
Water Tests	-	10,447	(10,447)
Total distribution and administration expense before depreciation	10,884,840	10,609,581	275,259
Depreciation	6,829,300	6,922,705	(93,405)
Total distribution and administration	17,714,140	17,532,286	181,854
Less capitalized salaries	(314,800)	(290,734)	(24,066)
Total Distribution and Administration Costs	17,399,340	17,241,552	157,788

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF REVENUE AND EXPENSES – BUDGET COMPARED WITH ACTUAL
FOR THE YEAR ENDED AUGUST 31, 2010

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Streetlights	882,000	877,458	4,542
Total Operating Expenses	33,245,690	32,070,123	1,175,567
Non-Operating Expenses:			
Interest	9,817,800	9,273,588	544,212
Paying agent, broker fees	20,000	21,344	(1,344)
Amortization of bond issue costs	107,700	112,094	(4,394)
Loss on abandoned lines	-	14,043	(14,043)
Total Non-Operating Expenses	9,945,500	9,421,069	524,431
TOTAL EXPENSES	43,191,190	41,491,192	1,699,998
NET INCOME	$ 279,310	$ 7,834,443	$ 7,555,133

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

	2010	2009	2008	2007	2006
Metered Water Sales	$ 24,106,505	$ 23,671,252	$ 21,545,310	$ 24,203,994	$ 23,048,171
Number of Customers Served	64,221	63,928	63,477	62,412	60,406
Wastewater Treatment Sales	$ 13,818,212	$ 13,559,105	$ 12,474,370	$ 13,018,909	$ 12,035,505
Number of Customers Served	27,014	26,655	26,413	25,721	24,015

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF REVENUE BOND COVERAGE – LAST FIVE YEARS
(IN THOUSANDS)

	2010		2009		2008		2007		2006	
	With Tap Fees	Without Tap Fees	With Tap Fees	Without Tap Fees	With Tap Fees	Without Tap Fees	With Tap Fees	Without Tap Fees	With Tap Fees	Without Tap Fees
Net revenue available for debt service (see Note below)	$21,678	$18,903	$21,262	$18,570	$21,939	$16,517	$31,305	$21,920	$33,264	$20,515
Highest annual debt service requirements	$14,564	$14,564	$14,724	$14,724	$14,724	$14,724	$13,312	$13,312	$12,345	$12,345
Revenue Bond Coverage:										
Actual	1.49	1.30	1.44	1.26	1.49	1.12	2.35	1.65	2.69	1.66
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 ("Tap Fees"), equals income from operations plus depreciation and other income less interest earned on construction funds and the value of contributed capital. Required revenue bond coverage is measured both including and excluding water connection and sewer tap fees.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF INVESTMENTS
AS OF AUGUST 31, 2010

	Face Value	Maturity Date	Interest Rate	Amortized Cost	Market Value
Revenue Fund					
Local government investment pool - Georgia Fund I	$ 34,774,124	N/A	Various	$ 34,774,124	$ 34,774,124
Revenue Bond Sinking Fund and Debt Service Reserve					
Repurchase Agreement	$ 1,295,442	08/01/2025	5.360%	$ 1,295,442	$ 1,295,442
Local government investment pool - Georgia Fund I	1,217,307	N/A	Various	1,217,307	1,217,307
Other money market funds	3,057,908	N/A	Various	3,057,908	3,057,908
	$ 5,570,657			$ 5,570,657	$ 5,570,657

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

	2010			2009		
CONSUMPTION (GALLONS)	WATER NET	SEWER NET	IRRIGATION NET	WATER NET	SEWER NET	IRRIGATION NET
0	$ 8.00	$ 11.60	$ 11.00	$ 8.00	$ 11.60	$ 11.00
1,000	9.10	11.60	12.10	9.10	11.60	12.10
2,000	10.20	11.60	13.20	10.20	11.60	13.20
3,000	15.20	18.20	18.20	15.20	18.20	18.20
4,000	20.20	24.80	23.20	20.20	24.80	23.20
5,000	25.20	31.40	28.20	25.20	31.40	28.20
6,000	30.20	38.00	33.20	30.20	38.00	33.20
7,000	35.20	44.60	38.20	35.20	44.60	38.20
8,000	40.20	51.20	43.20	40.20	51.20	43.20
9,000	45.20	57.80	48.20	45.20	57.80	48.20
10,000	50.20	64.40	53.20	50.20	64.40	53.20
11,000	56.20	71.00	59.20	56.20	71.00	59.20
12,000	62.20	77.60	65.20	62.20	77.60	65.20
13,000	68.20	84.20	71.20	68.20	84.20	71.20
14,000	74.20	90.80	77.20	74.20	90.80	77.20
15,000	80.20	97.40	83.20	80.20	97.40	83.20
16,000	86.20	104.00	89.20	86.20	104.00	89.20
17,000	92.20	110.60	95.20	92.20	110.60	95.20
18,000	98.20	117.20	101.20	98.20	117.20	101.20
19,000	104.20	123.80	107.20	104.20	123.80	107.20
20,000	110.20	130.40	113.20	110.20	130.40	113.20
Over 20,000	Additional $6.00 per 1,000	Additional $6.60 per 1,000	Additional $6.00 per 1,000	Additional $6.00 per 1,000	Additional $6.60 per 1,000	Additional $6.00 per 1,000

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

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

Rates effective May 1, 2009 and remained in effect through August 31, 2010.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATISTICAL TABLE – INSURANCE IN FORCE
AS OF AUGUST 31, 2010
(UNAUDITED)

TYPE OF COVERAGE	LIMITS OF LIABILITY
Public Officials and Employment Practices Legal Liability	$1,000,000 for each loss and $3,000,000 aggregate for each policy year
Commercial Automobile	$1,000,000 each for liability and uninsured motorist covering owned and non-owned vehicles
Commercial Crime	$500,000 employee dishonesty $100,000 forgery, theft disappearance $25,000 destruction $500,000 computer fraud
Commercial Property: Fire and Extended Coverage including boiler and machinery	$235,553,634 blanket coverage all equipment
Inland Marine	$2,018,812 computers, software and contractors equipment – owned and rented $1,000,000 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

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, 2010, and have issued our report thereon dated November 24, 2010. 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 audits, 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

3500 Piedmont Road, Suite 600, Atlanta, Georgia 30305, Phone 404-233-5486, Fax 404-237-8325
E-mail cpa@aghllc.com Web Page www.aghllc.com

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, others within the entity and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

Aarons Grant & Habif, LLC

Aarons Grant & Habif, LLC

November 24, 2010