

**CHEROKEE COUNTY WATER  
AND SEWERAGE AUTHORITY**

**CHEROKEE COUNTY, GEORGIA**

**FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
AUGUST 31, 2014**

**TOGETHER WITH INDEPENDENT AUDITORS' REPORTS**

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
FINANCIAL STATEMENTS  
AUGUST 31, 2014

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INDEPENDENT AUDITORS' REPORT

Cherokee County Water and Sewerage Authority  
Canton, Georgia

**Report on the Financial Statements**

We have audited the accompanying financial statements of Cherokee County Water and Sewerage Authority as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise Cherokee County Water and Sewerage Authority's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Cherokee County Water and Sewerage Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cherokee County Water and Sewerage Authority as of August 31, 2014, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the postemployment benefit information on pages 3 through 7 and page 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The information listed as Other Supplementary Schedules in the table of contents on pages 31 through 41 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. It has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information listed as Other Supplementary Schedules in the table of contents is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014 on our consideration of the Cherokee County Water and Sewerage Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cherokee County Water and Sewerage Authority's internal control over financial reporting and compliance.

*AGH, LLC*

AGH, LLC

November 21, 2014

# Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2014

Our discussion and analysis of Cherokee County Water and Sewerage Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended August 31, 2014. Please read it in conjunction with the Authority's financial statements that begin on page 8.

## USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses and Changes In Net Position (on pages 8-11) provide information about the activities of the Authority and present a long-term view of the Authority's finances.

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority and about its activities in a way that helps answer this question. These two statements include all assets, deferred outflows of resources and liabilities using the accrual basis of accounting, which is similar to the basis that is used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

## THE AUTHORITY AS A WHOLE

The Authority's Net Position increased in 2014 by approximately \$9.4 million, from the beginning of the year, \$310.8 million to \$ 320.2 million. Approximately \$4.4 million of the increase in 2014 was donated assets attributable to contributions by developers, primarily of water and sewer lines. In addition, the increase in net position can be attributed to sewer tap and water meter connections of approximately \$6.0 million.

As more fully described in the footnotes to the financial statements, the Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective September 1, 2013 in compliance with generally accepted accounting principles. This new accounting principle requires that debt issue costs be expensed in the period incurred and accordingly, a restatement of \$3.6 million to reduce the Authority's Net Position as of August 31, 2013 is reflected in this report.

The following tables focus on the Authority's net position (Table 1) and changes in its net position (Table 2).

# Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2014

**Table 1 - Condensed Statement of Net Position (in 000)**

	8/31/2014	8/31/2013 (restated)	\$ Change	% Change
Other assets	\$ 47,307	\$ 44,005	\$ 3,302	7.5%
Capital assets	439,360	439,547	(187)	0.0%
<b>Total Assets</b>	<b>486,667</b>	<b>483,552</b>	<b>3,115</b>	<b>0.6%</b>
Deferred Outflows of Resources	5,693	6,092	(399)	-6.5%
Current liabilities	14,748	13,524	1,224	9.1%
Long-term liabilities and debt	157,456	165,336	(7,880)	-4.8%
<b>Total Liabilities</b>	<b>172,204</b>	<b>178,860</b>	<b>(6,656)</b>	<b>-3.7%</b>
Net investment in capital assets	281,152	274,768	6,384	2.3%
Restricted net position	4,931	4,869	62	1.3%
Unrestricted net position	34,073	31,147	2,926	9.4%
<b>Total Net Position</b>	<b>\$ 320,156</b>	<b>\$ 310,784</b>	<b>\$ 9,372</b>	<b>3.0%</b>

**Table 2 - Condensed Statement of Revenues, Expenses and Changes in Net Position (in 000)**

	8/31/2014	8/31/2013	\$ Changes	% Change
Operating Revenues:				
Water sales	\$ 24,286	\$ 22,545	\$ 1,741	7.7%
Wastewater treatment sales	14,538	13,529	1,009	7.5%
Connection fees	292	413	(121)	-29.3%
Other	2,266	2,188	78	3.6%
Non-Operating Revenues:				
Interest	229	185	44	23.8%
Other	1,090	755	335	44.4%
<b>Total Revenues</b>	<b>\$ 42,701</b>	<b>\$ 39,615</b>	<b>\$ 3,086</b>	<b>7.8%</b>
Operating Expenses:				
Water	\$ 3,416	\$ 3,395	\$ 21	0.6%
Wastewater	8,124	7,882	242	3.1%
Distribution and administration	12,101	11,502	599	5.2%
Depreciation	10,923	10,675	248	2.3%
Other	1,036	972	64	6.6%
Non-Operating Expenses:				
Interest	7,845	8,063	(218)	-2.7%
Other	399	1,138	(739)	-64.9%
<b>Total Expenses</b>	<b>43,844</b>	<b>43,627</b>	<b>217</b>	<b>0.5%</b>
Deficiency before contributions	(1,143)	(4,012)	2,869	-71.5%
Contributed capital	10,515	10,278	237	2.3%
<b>Increase in Net Position</b>	<b>\$ 9,372</b>	<b>\$ 6,266</b>	<b>\$ 3,106</b>	<b>49.6%</b>

# Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2014

The Authority's revenues increased in 2014 by approximately \$3.1 million or 7.8% (\$ 42.7 million in 2014 compared to \$39.6 million in 2013). Total Expenses remained relatively flat in 2014 in comparison to 2013. The factors driving these results include:

- The number of water customers in 2014 and 2013 grew by 2.1% and 1.6% respectively. Wastewater customers grew by 3.7% in 2014 compared to 3% in 2013. The growth of the wastewater customers can be attributed to the slow return of population growth that is occurring throughout Cherokee County specifically in the areas served by CCWSA's sewer system. The Authority's revenues as displayed in Table 2 above shows total revenues increasing by approximately \$3.1 million in FY 2014. Water sales increased approximately 7.7% as compared with prior year and sewer sales revenue increased approximately 7.5% as compared with the prior year. The Authority experienced an increase in water sales attributable to a more normal weather pattern than in the previous year making environmental factors one of the main driving factors resulting in revenue increases for FY 2014. Additionally, the CCWSA Board of Directors approved a revision to the Water and Sewer Rate Structure effective May 1, 2014.
- Total Expenses of the Authority increased by approximately \$217,000 to \$43.8 million. In regards to departmental expense increases in FY 2014, distribution and administration increased (5.2%). The majority of the increases in the distribution and administration costs were primarily recognized in increased employee costs of approximately \$315,000. Wastewater Treatment Facilities expenses increased (3.1 %). The primary driving factor for the increase in wastewater treatment facilities expenses were recognized in increased employee costs of approximately \$62,000 and power costs increases of approximately \$117,000. Water Treatment Facilities expenses remained relatively flat as compared to prior year operating expenses.
- Non-Operating Expenses attributed to total expenses remaining flat in comparison to FY 2013. The fair market value of the 1993 & 1995 debt service forward delivery agreements improved in the amount of (191,330) in FY 2014 and amortization of bond premiums increased. In addition the amortization of bond issue costs were adjusted to reflect the implementation of GASB 65; therefore, decreasing the expense for comparison purposes to FY 2013.
- The Authority has noted an increase in capital contributions revenues of approximately \$237,000 or 2.3% in 2014. The significant increase was noted in the increase in donated lines from developers, which were approximately \$3.4 million for the year ending August 31, 2013 and \$4.4 million for the year ending August 31, 2014. Management of the Authority attributes the increase of contributions from developers due to an increase in new construction activity in Cherokee County. In addition to donated lines, the Authority noted a slight decrease in sewer tap fees contributions of approximately \$186,000 compared to FY 2013. Sewer tap fees in FY 2013 were \$4,515,196 compared to sewer tap fees contributions in FY 2014 of \$4,328,898. Although, a slight decrease was noted in sewer tap fee contributions it is relatively flat compared to prior year tap fee revenues which is an indication that steady growth is returning to the area. Also, the Authority noted a slight increase of approximately \$300,000 in meter connection fee contributions. The increases in meter connection fee contribution can be attributed to an increase of connections sold by the Authority in FY 2014. In FY 2014 there were approximately 149 more meter connections sold than in the previous fiscal year.
- Management of the Authority attributes the increase in the growth of Net Position in 2014 primarily to capital contributions which include developer contributions valued at \$4.4 million as well as water meter connections and sewer tap fees for approximately \$6 million.

# Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2014

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At August 31, 2014 and 2013, the Authority had \$439.4 million and \$439.5 million, respectively, invested in a range of capital assets including equipment, buildings, land and water and sewer lines (see Table 3). This represents a net decrease after additions, disposals and depreciation of approximately \$200,000 in 2014.

**Table 3 - Capital Assets at Year End  
(Net of Depreciation - in 000)**

	8/31/2014	8/31/2013
Land and easements	\$ 5,989	\$ 5,676
Construction in progress including structures, improvements & equipment not in service	23,896	25,377
Total Nondepreciable	<u>29,885</u>	<u>31,053</u>
Structures and improvements	543,167	532,230
Machinery and equipment	7,344	6,712
Office furniture and equipment	232	136
Total Depreciable	<u>550,743</u>	<u>539,078</u>
Less depreciation	<u>(141,268)</u>	<u>(130,584)</u>
Net Capital Assets	<u>\$ 439,360</u>	<u>\$ 439,547</u>

The staff of the Authority has developed a multi-year capital improvements program and a plan to finance the program which relies on a combination of system revenues and proceeds of debt and investment earnings on such proceeds. The capital improvements program allows the staff of the Authority to plan, on a long-term basis, for future system capital needs. Each year the capital improvements program is updated.

The Authority's fiscal year 2015 capital improvement program calls for it to spend \$35 million for capital projects in 2014-2015, principally for upgrades and improvements to water & wastewater treatment facilities and for utility relocations within the water system. The capital improvements program allows the staff of the Authority to plan, on a long term basis, for future System capital needs. In connection with existing construction projects, the Authority has outstanding agreements with contractors for approximately \$900 thousand in future work at August 31, 2014. Capital disbursements will be financed by a combination of resources on hand, future system revenues and the proceeds from future revenue bonds. More detailed information about the Authority's capital assets is presented in Note E in the financial statements. Each year the capital improvements program is updated and reviewed on an ongoing basis throughout the year.

# Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2014

## Debt Administration

At year-end 2014 and 2013, the Authority had \$163.2 million and \$170.5 million (as restated), net of discounts and premiums, in revenue bonds outstanding, respectively. The net decrease of \$7.3 million is due primarily to the repayment of the Authority's previously issued debt and the increase in amortization bond premiums from the issuance of the Series 2013 revenue refunding bonds. Additional information is presented in Note F of the financial statements.

The Authority's Revenue Bonds have been assigned ratings by Moody's Investors Service, Inc. and Standard and Poor's Rating Services of Aa2 and AA, respectively. Standard & Poor's upgraded the Authority's rating from AA- to AA in May 2011. These very high ratings reflect the rating agencies' consideration of factors such as financial liquidity, debt service coverage and the growth rate of the Authority's customer base.

The Authority's other significant obligations include customer deposits, accounts payable, accrued interest, salaries and other expenses as can be seen on the Statement of Net Position.

## ECONOMIC FACTORS AND NEXT YEARS BUDGET

The 2015 budget and capital improvement program have been prepared taking into account that economic and population growth for the Authority's service area are expected to remain the same with little growth anticipated in the next five years. Other factors affecting next year's and future budgets are listed below.

- The Authority does not anticipate the Board passing rate increases for the water or wastewater rates, and anticipate the customer base to increase by adding approximately 863 new water customers to the system during the year at tap-on fees of \$1,700 for regular residential and sprinkler meters and commercial tap-ons sold at varying rates. The Authority estimates an addition of approximately 728 new wastewater treatment customers to the system during the year at tap-on fees starting at \$4,500.
- The Authority's Capital Improvement Program is funded through issuance of new debt, capital contributions from tap fees and developers, and operating revenue in excess of operating expenses and debt service expenses. The Authority will continue to rely on operating revenues to fund capital improvements on a pay-as-you-go basis.

## CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact the office of the Authority's Finance Department at 140 W. Main Street, Canton, Georgia 30114.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
STATEMENT OF NET POSITION  
AS OF AUGUST 31, 2014

ASSETS

Current Assets

Cash and cash equivalents	\$ 35,050,336
Accounts receivable	5,908,986
Accrued interest receivable	5,786
Prepaid expenses	437,861
Inventories	332,019
Restricted assets in revenue bond sinking fund:	
Cash and cash equivalents	1,207,457
 Total Current Assets	 42,942,445

Noncurrent Assets

Restricted assets in revenue bond debt service reserve:	
Cash and cash equivalents	3,060,520
Investments	1,295,443
Total restricted assets in revenue bond debt service reserve	4,355,963

Unamortized street light costs	8,879
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Capital assets:

Land and easements	5,988,976
Construction-in-progress	23,895,538
Structures and improvements	543,167,646
Machinery and equipment	7,344,297
Office furniture and equipment	231,228

Total capital assets	580,627,685
Less: accumulated depreciation	(141,267,711)

Net capital assets	439,359,974
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Total Noncurrent Assets	443,724,816
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Total Assets	486,667,261
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DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refunding	5,692,918
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CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
STATEMENT OF NET POSITION  
AS OF AUGUST 31, 2014

LIABILITIES

Current Liabilities

Trade accounts payable	\$	1,483,572
Construction accounts and retainage payable		659,107
Accrued salaries and vacations		726,073
Unearned revenues		182,943
Unearned sewer connection fees		32,953
Customer deposits		4,196,365
Payable from restricted assets:		
Current portion of long-term debt		6,835,000
Revenue bond interest payable		632,176
		14,748,189
 Total Current Liabilities		 14,748,189

Noncurrent Liabilities

Deferred interest income		191,896
Revenue bonds payable, less current portion, net		156,407,202
Other long-term liabilities		856,695
		157,455,793
 Total Noncurrent Liabilities		 157,455,793

Total Liabilities		172,203,982
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NET POSITION

<u>Net Investment in Capital Assets</u>		281,151,583
<u>Restricted For:</u>		
Debt service		575,281
Bond retirement		4,355,963
<u>Unrestricted</u>		34,073,370
 Total Net Position	\$	320,156,197

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED AUGUST 31, 2014

Operating Revenues

Metered water sales	\$	24,286,454
Wastewater treatment sales		14,538,327
Street light fees		1,322,783
Water connection fees		291,639
Transfer fees		205,525
Forfeited discounts and penalties		672,020
Customer repairs and service charges		65,452
 Total Operating Revenues		 41,382,200

Operating Expenses

Water purchases and production		3,415,804
Wastewater treatment		8,123,714
Street lights		1,036,563
Distribution and administration		12,101,019
Depreciation		10,923,088
 Total Operating Expenses		 35,600,188

Income from Operations		5,782,012
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Non-Operating Revenues

Gain on disposition of capital assets, net		17,999
Interest:		
Sinking funds		192,387
Revenue funds		36,357
Change in fair value of derivative		191,330
Amortization of bond premiums, net		737,357
Miscellaneous		143,381
 Total Non-Operating Revenues		 1,318,811

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 FOR THE YEAR ENDED AUGUST 31, 2014

<u>Non-Operating Expenses</u>	
Interest	\$ 7,828,950
Paying agent fees	16,332
Amortization of deferred amount on refunding	398,909
	8,244,191
<u>Capital Contributions</u>	
Sewer tap fees	4,328,898
Water connection fees	1,743,611
Donated assets	4,442,626
	10,515,135
<u>Increase in Net Position</u>	9,371,767
Net Position, beginning of year as restated	310,784,430
Net Position, end of year	\$ 320,156,197

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED AUGUST 31, 2014

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

<u>Cash flows from operating activities:</u>	
Cash received from customers	\$ 40,437,349
Cash paid to suppliers	(15,579,247)
Cash paid to employees	<u>(8,890,644)</u>
Net cash provided by operating activities	<u>15,967,458</u>
<u>Cash flows from investing activities:</u>	
Interest received	<u>112,208</u>
<u>Cash flows from capital and related financing activities:</u>	
Revenue bond principal payments	(6,565,000)
Interest paid on revenue bonds	(7,784,986)
Capital expenses	(6,038,571)
Proceeds from sewer tap and water connection fees	6,072,508
Paying agent and broker fees	(16,332)
Proceeds from disposal of equipment and scrap	<u>30,024</u>
Net cash used in capital and related financing activities	<u>(14,302,357)</u>
Net change in cash and cash equivalents	1,777,309
<u>Cash and cash equivalents:</u>	
Beginning of year	<u>37,541,004</u>
End of year	<u>\$ 39,318,313</u>
Classified as:	
Cash and cash equivalents	\$ 35,050,336
Restricted cash and cash equivalents:	
Current	1,207,457
Noncurrent	<u>3,060,520</u>
	<u>\$ 39,318,313</u>

See Independent Auditors' Report and Accompanying Notes

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED AUGUST 31, 2014

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Reconciliation of Income From Operations to Net Cash Provided By Operating Activities:	
Income from operations	\$ 5,782,012
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	10,923,088
Miscellaneous revenue	143,381
(Increase) decrease in:	
Accounts receivable	(1,208,338)
Prepaid expenses	(316,680)
Inventories	592
Increase in:	
Trade accounts payable	470,779
Accrued salaries and vacations	52,517
Unearned revenues	12,472
Customer deposits	<u>107,635</u>
Net Cash Provided By Operating Activities	<u><u>15,967,458</u></u>
Non-Cash Capital and Related Financing Activities:	
Acquire contributed capital assets	4,400,416
Change in fair value of investment derivatives	<u>(191,330)</u>
	<u><u>\$ 4,209,086</u></u>

See Independent Auditors' Report and Accompanying Notes

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014

**Note A – Organization**

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

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

**Note B – Summary of Significant Accounting Policies**

**Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to governmental entities is determined by measurement focus. The Authority's operations are accounted for entirely as a proprietary governmental fund type with an economic resources measurement focus. The financial statements are prepared in conformity with generally accepted accounting principles on the accrual basis of accounting whereby revenue is recognized when earned, expenses are recorded when incurred and all long-term assets, receivables, debt and other obligations are recognized.

Income from operations reported in the Authority’s financial statements includes revenues and expenses related to its primary continuing operations. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

The Authority’s fund equity (i.e., net position) is divided into three components:

Net investment in capital assets consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets, plus deferred outflows of resources less deferred inflows of resources related to those assets.

Restricted net position consists of assets that are restricted by the Authority’s creditors through debt covenants.

All other net position is reported as unrestricted.

The Authority first utilizes restricted resources to finance qualifying activities.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014

**Note B – Summary of Significant Accounting Policies (continued)**

The Authority applies all relevant pronouncements of the GASB, and all Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989 that do not conflict with or contradict GASB statements, in preparing these financial statements in accordance with generally accepted accounting principles (“GAAP”).

In compliance with GAAP, as of September 1, 2013 the Authority adopted GASB Statement No. 65 (“GASB 65”), *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statement periods beginning after December 15, 2012. For debt refunding resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt was reclassified from liabilities to deferred outflows of resources in the Statement of Net Position. Additionally, the adoption of GASB 65 requires that debt issue costs be expensed in the period incurred, resulting in a restatement of net position (see Change in Accounting Principle, below).

Change in Accounting Principle

The September 1, 2013 beginning net position was restated as follows due to the implementation of GASB Statement No. 65:

Net position, as previously stated	\$314,359,009
Restated due to the recognition of deferred bond issue costs:	
Unamortized bond issue costs	(2,255,303)
Deferred amount on refunding	<u>(1,319,276)</u>
Net position, as restated	<u><u>\$ 310,784,430</u></u>

Use of Estimates

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

Cash Equivalents

The Authority considers all highly liquid investments with an original maturity of three months or less at the time of investment to be cash equivalents.

Accounts Receivable and Revenue Recognition

The Authority bills its customers on a cyclical basis throughout the month based on meter readings taken during the previous month.

The Authority records receivables at the amount it expects to collect on balances due at the end of the year. Advance deposits are obtained from customers, but the Authority does not obtain collateral or other security for any of its trade accounts or other amounts receivable. Accordingly, it is exposed to credit losses in the event of nonperformance. Management closely monitors outstanding balances and writes off uncollectible amounts as of year-end in accordance with approved policies.

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**Note B – Summary of Significant Accounting Policies (continued)**

Billed accounts receivable represent charges for customer water and wastewater treatment usage billed to customers and not paid at August 31. Unbilled accounts receivable represent charges billed to customers after August 31 for services provided by the Authority prior to September 1.

Metered water and wastewater treatment sales and streetlight fees are based on rates established by the Authority Board.

Inventories

Inventories are stated at cost using specific identification.

Investments

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

Capital Assets

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

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

<u>Asset Category</u>	<u>Estimated Useful Lives</u>
Structures, line extensions and improvements	50 Years
Machinery and equipment	5-20 Years
Office furniture and equipment	5 Years

Expenditures for maintenance and repairs not considered to substantially lengthen the property lives are charged to expense as incurred. The cost of incomplete construction and system improvement projects is reported as construction-in-progress and is not depreciated.

Capitalized Interest

Interest costs on the revenue bond debt, net of interest earned, are capitalized into the related cost of the system improvements if material to the Authority's financial statements and are otherwise expensed as incurred.

Capitalization of Salaries

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

Deferred Outflows and Inflows of Resources

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

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**Note B – Summary of Significant Accounting Policies (concluded)**

In addition to assets, the statement of net position will sometimes report deferred outflows of resources. This financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an expense until then. The Authority has reported the deferred amount on refunding as a deferred outflow of resources on the statement of net position.

In addition to liabilities, the Authority may also report deferred inflows of resources. This separate section on the statement of net position represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until that time.

Amortization

Amortization of bond premiums and discounts is computed using the effective interest method over the life of the bond issue for which the charges have been deferred. Amortization of the deferred amount on refunding is computed using the straight line method over the shorter of the remaining life of the defeased debt had it not been refunded, or the life of the new debt.

Compensated Absences

Full-time employees are granted vacation benefits in varying amounts depending on tenure with the Authority. 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.

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, 2014 is included in the supplementary information to the accompanying financial statements. This budget is based upon certain assumptions and estimates of the staff of the Authority regarding future events, transactions and circumstances. Realization of the results projected in this budget will depend upon implementation by management of the Authority of policies and procedures consistent with the assumptions. There can be no assurance that actual events will correspond with such assumptions, that uncontrollable factors will not affect such assumptions or that the projected results will be achieved. Accordingly the actual results achieved could materially vary from those projected in the budget.

Reclassifications

Certain prior year amounts in the footnote disclosures have been reclassified to conform to the current year financial statement presentation. The reclassifications have no effect on previously reported net position.

**Note C – Cash, Cash Equivalents and Investments**

Cash

All of the Authority's cash as of August 31, 2014 is held in banks located in the State of Georgia. These demand deposits are required by Georgia state law and the Authority's revenue bond resolutions (see Note F) to be federally insured or collateralized by the institution. The collateral must meet certain requirements and be held by a third party for the benefit of the Authority. As of August 31, 2014, cash

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

held in banks totaled \$6,221,823 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 \$6,145,281.

Cash Equivalents and Investments

The Authority's cash equivalents and other investments are all held for non-trading purposes. Permitted investments and the Authority's policies are defined by the Authority's revenue bond resolutions which specify the types of securities in which the Authority is allowed to invest. Permitted investments include obligations of the U.S. government, or certain of its subsidiary corporations and agencies which are rated in the highest rating category by Moody's Investors Service and Standard & Poor's Ratings Group; the local government investment pool created by OCGA 36-83-8; bonds or obligations of the state of Georgia or its other counties, municipal corporations and political subdivisions; money market funds; and other investments as authorized by Georgia law. Each type of investment must meet certain criteria based on the nature of the investment.

The Authority has the following investments at August 31, 2014:

Investment	Maturities	Fair Value
Georgia Fund I - cash equivalent	57 days avg.	\$ 30,112,512
U.S. Bank Money Market - cash equivalent	N/A	3,060,520
MBIA repurchase agreement, 5.36%	August 1, 2025	1,295,443
Total		\$ 34,468,475

All investment securities are either an external local government investment pool, or are insured, registered or held by the Authority or its agent in the Authority's name. As of August 31, 2014, the Authority's investments in Georgia Fund I were rated AAAs by Standard & Poor's Ratings Group; the money market fund and repurchase agreement are not rated.

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 AAAs. 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 the State Treasurer. The pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal (\$1/share value). The weighted average maturity of its holdings is 57 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 Georgia Fund I investments are reported as cash equivalents.

At August 31, 2014, the repurchase agreement is secured by U.S. government obligations that are classified as held-to-maturity. U.S. government obligations are debt securities.

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

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

The Authority places no limit on the amount that may be invested in any one issuer and does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The scheduled maturity of \$1,295,443 of investment in a repurchase agreement, the only investment considered as a debt security classified as held-to-maturity at August 31, 2014, is greater than ten years.

**Note D – Accounts Receivable**

Accounts receivable consist of the following at August 31, 2014:

Billed	\$	2,876,871
Unbilled		3,032,115
	\$	5,908,986

**Note E – Capital Assets**

A summary of changes in capital assets for the year ended August 31, 2014 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not Depreciated:				
Land and easements	\$ 5,676,103	\$ 312,873	\$ -	\$ 5,988,976
Construction-in-progress	25,377,122	4,441,104	(5,922,688)	23,895,538
Other Capital Assets:				
Structures and improvements	532,229,806	10,975,686	(37,846)	543,167,646
Machinery and equipment	6,711,867	835,575	(203,145)	7,344,297
Office furniture and equipment	136,514	105,192	(10,478)	231,228
Accumulated Depreciation:				
Structures and improvements	(125,952,853)	(10,150,309)	30,820	(136,072,342)
Machinery and equipment	(4,527,735)	(747,634)	203,143	(5,072,226)
Office furniture and equipment	(103,478)	(25,145)	5,480	(123,143)
Capital Assets, Net	\$ 439,547,346	\$ 5,747,342	\$ (5,934,714)	\$ 439,359,974

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**Note F – Revenue Bonds Payable**

A summary of changes in long-term debt for the year ended August 31, 2014 is as follows:

	Beginning Balance as Restated	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 163,700,000	\$ -	(6,565,000)	\$ 157,135,000	\$ 6,835,000
Less unamortized discount	(127,761)	-	13,704	(114,057)	-
Plus unamortized premium	6,972,321	-	(751,062)	6,221,259	-
	<u>\$ 170,544,560</u>	<u>\$ -</u>	<u>\$ (7,302,358)</u>	<u>\$ 163,242,202</u>	<u>\$ 6,835,000</u>

The beginning balance in the table above is restated due to the implementation of GASB 65. The restatement reclassifies the unamortized deferred amount on refunding from liabilities to deferred outflows of resources on the statement of net position.

In June 1991, the Authority issued \$21,685,000 of Refunding Series 1991 revenue bonds maturing in 2018 with interest rates from 6.30% to 7.50%, to advance refund all of the Series 1987 and 1988 revenue bonds in the aggregate principal amount of \$20,000,000. A portion of this series was refunded by the Series 2001 revenue bonds (see below) in May, 2001 and was redeemed at 102% of face value in August 2001.

In December 1993, the Authority issued \$28,460,000 in Water and Sewerage Revenue Bonds, Refunding and Improvements Series 1993 maturing in 2023 with interest rates from 5.30% to 5.50%, to advance refund all of the Series 1991 revenue bonds in the principal amount of \$10,000,000 and to provide funds to make certain additions and improvements to the water and sewerage systems.

In December 1995, the Authority issued \$22,460,000 in Water and Sewerage Revenue Bonds Series 1995, maturing in 2025 with an interest rate of 5.20%, to provide funds to make certain additions and improvements to the water and sewerage systems. A portion of this series was refunded by the Series 2001 revenue bonds.

In May 2001, the Authority issued \$70,505,000 in Refunding and Improvement Revenue Bonds Series 2001, maturing in 2030 with interest rates ranging from 3.25% to 5.125%, to advance refund portions of the Series 1991, 1995, 1997 and 1998 revenue bonds in the principal amount of \$38,765,000, to pay a surety bond premium to fund the bond Debt Service Reserve and to provide funds to make certain additions, extensions and improvements to the water and sewerage systems. Portions of this series were refunded by the Series 2010 and Series 2011 revenue refunding bonds, and were called and redeemed in 2011.

In May 2006, the Authority issued \$25,000,000 in Revenue Bonds Series 2006 as auction rate securities maturing in 2035. The bonds were issued to provide funds to make certain additions, extensions and improvements to the water and sewerage systems. These bonds were remarketed in April 2008 in order to convert their interest rates to long-term fixed rates that range from 3.00% to 5.00%.

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**Note F – Revenue Bonds Payable (continued)**

In June 2007, the Authority issued \$25,000,000 in Revenue Bonds Series 2007 as auction rate securities maturing in 2035. The bonds were issued to provide funds to make certain additions, extensions and improvements to the water and sewerage systems. These bonds were remarketed in April 2008 in order to convert their interest rates to long-term fixed rates that range from 3.00% to 5.00%.

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

In January 2010, the Authority issued \$39,710,000 in Water and Sewerage Revenue Refunding Bonds, Series 2010, maturing in 2028 with interest rates ranging from 3.00% to 5.00%. The bonds were issued by the Authority for the purpose of advance refunding the Authority's remaining Series 1997 and 1998 revenue bonds and a portion of the Series 2001 revenue bonds in the aggregate principal amount of \$39,645,000.

In June 2011, the Authority issued \$29,310,000 in Water and Sewerage Revenue Refunding Bonds, Series 2011, maturing in 2030 with interest rates ranging from 3.00% to 5.00%. The bonds were issued by the Authority for the purpose of advance refunding a portion of the Authority's Series 2001 revenue bonds and a portion of the Series 2003 revenue bonds in the aggregate principal amount of \$30,355,000.

In May 2013, the Authority issued \$16,260,000 in Water and Sewerage Revenue Refunding Bonds, series 2013, maturing in 2033 with interest rates ranging from 3.25% to 5.00%. The bonds were issued by the Authority for the purpose of advance refunding a portion of the Authority's Series 2003 revenue bonds in the aggregate principal amount of \$18,970,000.

The U.S. government securities purchased in connection with the defeased and advance refunded bonds are deposited in irrevocable trusts with escrow agents to provide for all future debt service payments of the affected bonds. As a result, the bonds are considered to be defeased and the liabilities for them have been removed from long-term debt. As of August 31, 2014, outstanding principal balances remain for the Series 1995, Series 1997 and Series 1998 bonds in the amounts of \$3,210,000 and \$335,000 and \$5,115,000, respectively.

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. The deferred amount on refunding, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations using the straight-line method of amortization. The amount remaining at August 31, 2014 is \$5,692,918.

The revenue bonds are secured by a pledge of the revenues derived by the Authority from the ownership and operation of the water and sewerage systems remaining after payment of the reasonable and necessary expenses of operating, maintaining and repairing the systems. Payment of the principal of and interest on the revenue bonds when due is guaranteed by municipal bond insurance policies issued by Financial Guaranty Insurance Company and Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance, Inc.).

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**Note F – Revenue Bonds Payable (concluded)**

The Authority makes sinking fund deposits monthly for all issues. Annual totals are at least equal to the principal installments of and interest payable on the bonds in the current sinking fund year. The debt service requirements to be paid into the revenue bond sinking fund are as follows:

<u>Year ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	6,835,000	7,586,102	14,421,102
2016	7,130,000	7,283,553	14,413,553
2017	7,420,000	6,988,802	14,408,802
2018	7,755,000	6,654,553	14,409,553
2019	8,120,000	6,295,477	14,415,477
2020-2024	46,380,000	25,018,778	71,398,778
2025-2029	49,745,000	12,465,930	62,210,930
2030-2034	20,570,000	3,703,400	24,273,400
2035	3,180,000	159,000	3,339,000
Total	<u>\$ 157,135,000</u>	<u>\$ 76,155,595</u>	<u>\$ 233,290,595</u>

The various resolutions providing for the revenue bonds require that the Authority establish and maintain a schedule of rates, fees and charges for services furnished by the systems to produce in each sinking fund year “net system revenues” in an amount at least equal to 1.20 times the highest annual amount of principal and interest payable on the bonds during any future sinking fund year. The revenue bond coverage was 1.61 for the year ended August 31, 2014.

Effective with the issuance of the Series 2001 bonds, the Authority’s annual net system revenues exclusive of water connection and sewer tap fees must be no less than this highest annual amount of debt service payable during any future sinking fund year. For the year ended August 31, 2014, this ratio was 1.16.

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 \$14,421,103. As of August 31, 2014, the balance in the debt service reserve account and the surety bonds exceed the minimum requirement.

Cash and investments associated with any bond construction projects, sinking funds and reserves are restricted to such use and are classified as restricted assets on the statement of net position.

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**Note G – Investment Derivative Financial Instruments**

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

In exchange for these agreements, Lehman paid the Authority \$958,600 which represented the present value of the expected interest earnings in the sinking fund over the life of the related revenue bonds. The remaining balance of this deferred revenue is \$191,896 at August 31, 2014 and is being amortized over the life of each respective agreement.

The forward delivery agreements relate to the following bond series:

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

As the investments purchased by the Authority are U.S. Treasury securities and are held in the Authority’s revenue bond sinking fund, there is no significant credit risk. Interest rate risk is limited to the effect of a change in rate on the value of the investments from the time of purchase through the next scheduled debt service payment date which can be no more than one year.

The Authority entered into these agreements to obtain a higher long-term than short-term yield and not for the purpose of hedging any financial risk. Accordingly, these forward delivery arrangements are investment derivative financial instruments and classified as other long-term liabilities in the statement of net position; the gains or losses are reported as other revenues or expenses respectively on the statement of revenues, expenses and changes in net position.

The fair value balance and notional amount of debt service forward delivery agreements outstanding at August 31, 2014 and the corresponding changes in fair value of such derivative instruments for the year then ended were as follows:

<u>Change in Fair Value</u>		<u>Fair Value as of August 31, 2014</u>		
<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
Change in fair value of derivative	\$ 191,330	Other long-term liability	\$ (856,695)	\$ 55,522,788

**Note H – Restricted Net Position**

Net position restricted for debt service includes the excess of assets restricted for the debt service on revenue bonds over related liabilities. Net position restricted for bond retirement represents assets set aside for that purpose as required by the revenue bond resolution (see Note F).

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**Note I – Risk Management**

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

**Note J – Commitments and Contingencies**

At August 31, 2014, the Authority has outstanding agreements with contractors for future work on existing construction projects in the approximate amount of \$900,000.

**Note K – Operations**

The Authority produced approximately 99.6% of its customers' water needs during the year ended August 31, 2014, purchasing most of the remaining amount from the City of Woodstock and Pickens County. The Authority provided 92.6% of sewage treatment required in the year ended August 31, 2014, purchasing the remainder primarily from the City of Canton and from Cobb County, Georgia.

**Note L – Retirement Plans**

**Governmental Deferred Compensation Plan**

The Authority has a governmental deferred compensation "Section 457" plan (the "Plan") authorized by the Authority Board which covers all employees. The Plan is administered by an independent third party administrator. The plan does not allow for employer contributions. Amounts employees may defer under the Plan are subject to statutory limits. Employee deferrals totaled \$211,071 during the year ended August 31, 2014.

**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 commingled 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"), The Burgess Building, 201 Pryor Street, SW, Atlanta, Georgia 30303-0472.

The Authority's recommended contributions including administration fees were equal to its annual pension costs for years ended August 31, 2014, 2013, 2012, 2011, 2010, and 2009, and totaled \$1,228,133, \$1,116,536, \$1,105,481, \$1,193,080, \$1,246,671 and \$1,095,370 respectively. 100% of the annual pension cost 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).

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**Note L – Retirement Plans (concluded)**

The Authority’s annual pension cost for the pension plan and related assumptions for the plan year ended August 31, 2014 are based upon the actuarial valuation as of January 1, 2013 as follows:

Annual return on invested plan assets	7.75%
Projected annual salary increases	3.5%
Expected annual inflation	3.5%
Actuarial value of assets	10 year smoothed
Actuarial funding method	Projected Unit Credit
Amortization method	Level Dollar (closed)
Remaining amortization period	10

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 26% of market value for 2014); the amortization method used is level dollar; and the amortization periods are closed, as follows:

30 Years	-	Initial 2001 unfunded actuarial liability
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, 2014, the plan was 73.7% funded. The actuarial accrued liability (“AAL”) for benefits was \$16.2 million and the actuarial value of assets was \$11.9 million resulting in an unfunded actuarial accrued liability (“UAAL”) of \$4.3 million. The annual payroll of active employees covered by the plan (“Covered Payroll”) was \$8.5 million and the ratio of the UAAL to the Covered Payroll was 50.3%. 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 that the projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations, if any.

**Note M – Other Postemployment Benefits**

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

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**Note M – Other Postemployment Benefits (continued)**

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, meet the “Rule of 80” regarding their combined age and years of service and have a minimum of 15 continuous years of service with the Authority. Employees must also meet other eligibility criteria as specified by the terms of the plan. The retiree’s spouse and dependent(s) may also receive coverage under certain circumstances. Retirees will pay 20% of the cost of their own coverage and 60% of spouse and dependent coverage. For retirees who qualify, the benefits are coordinated with Medicare.

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

At August 31, 2014, membership consists of:

Retirees and beneficiaries	10
Active employees	<u>169</u>
Total participants	<u><u>179</u></u>

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

In accordance with GASB 45, an actuarial study was prepared as of July 1, 2013 calculating the postemployment healthcare cost for the year ended August 31, 2014. The actuarial valuation estimated the ARC and annual OPEB costs for the year ended August 31, 2014 of \$546,000. The amortization period is open, the amortization method is level-dollar and the postemployment healthcare cost was determined under the projected unit credit actuarial cost method. The calculations for 2014 are based on an investment rate of return of 7.75% that includes a 3.25% inflation assumption and an initial annual healthcare cost trend rate of 7.0% graded to arrive at an ultimate rate of 5.0%. This represents a level of funding that if paid on an ongoing basis, is projected to cover the normal cost each year and the amortization of the UAAL over 20 years.

The Authority’s annual OPEB costs for years ended August 31, 2014, 2013, 2012, 2010 and 2009 (the initial year) were \$546,000, \$459,000, \$505,000, \$852,000, \$475,000 and \$481,000 respectively, 100% of which was contributed with no net OPEB obligation at year-end.

The actuarial value of assets is reported at fair value and the valuation methods are based on publicly traded prices or appraisals depending upon the nature of the investment. As of the most recent actuarial valuation date on July 1, 2013, the plan was 43.7% funded. The AAL for benefits was \$7.8 million and the actuarial value of assets was \$3.4 million resulting in a UAAL of \$4.4 million. The Covered Payroll was \$8.4 million and the ratio of the UAAL to the covered payroll was 52.3%. The schedule of funding progress, included as RSI following the notes to these financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014

**Note M – Other Postemployment Benefits (concluded)**

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.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

POSTEMPLOYMENT BENEFITS  
REQUIRED SUPPLEMENTARY INFORMATION

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
 POSTEMPLOYMENT BENEFITS (REQUIRED SUPPLEMENTARY INFORMATION)  
 AUGUST 31, 2014

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
1/1/2014	\$11,970,470	\$16,243,810	\$4,273,340	73.7%	\$8,502,271	50.3%
1/1/2013	\$10,423,422	\$14,695,892	\$4,272,470	70.9%	\$8,090,798	52.8%
1/1/2012	\$9,065,814	\$13,033,345	\$3,967,531	69.6%	\$7,757,992	51.1%
1/1/2011	\$7,764,946	\$11,887,944	\$4,122,998	65.3%	\$7,209,463	57.2%
1/1/2010	\$6,297,180	\$10,620,778	\$4,323,598	59.3%	\$7,114,270	60.8%
7/1/2009	\$5,119,742	\$11,165,572	\$6,045,830	45.9%	\$7,114,270	85.0%

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
7/1/2013	\$ 3,408,000	\$ 7,802,000	\$ 4,394,000	43.7%	\$ 8,396,000	52.3%
9/1/2011	\$ 1,559,000	\$ 5,483,000	\$ 3,924,000	28.4%	\$ 8,173,000	48.0%
9/1/2010	\$ 976,000	\$ 5,292,000	\$ 4,316,000	18.4%	\$ 7,677,000	56.2%
9/1/2008	\$ -	\$ 2,591,000	\$ 2,591,000	0.0%	\$ 7,381,000	35.1%

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

OTHER SUPPLEMENTARY SCHEDULES

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
 SCHEDULE OF COSTS OF WATER PURCHASES AND PRODUCTION  
 FOR THE YEAR ENDED AUGUST 31, 2014

Purchased water		\$	54,182
Water production:			
Salaries and wages			1,049,255
Payroll taxes			76,404
Group insurance			210,543
Retirement			118,023
Other postemployment benefits			53,345
Billing and accounting			16,181
Continuing education			30,441
Insurance - other than group			44,434
Lab fees and supplies			57,872
Stream monitoring			54,800
Miscellaneous			1,919
Office supplies			4,901
Operating supplies			234,339
Power			1,119,653
Professional fees			1,967
Repair and maintenance			244,294
Small tools and equipment			1,363
Telephone			17,359
Uniforms			4,906
Computer equipment and maintenance			108
Vehicle			19,515
Total water production			3,361,622
Total water purchases and production before depreciation			3,415,804
Depreciation			1,386,741
Total water purchases and production cost		\$	4,802,545

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
 SCHEDULE OF COSTS OF WASTEWATER TREATMENT  
 FOR THE YEAR ENDED AUGUST 31, 2014

Purchased wastewater treatment	\$	743,600
<hr/>		
Wastewater treatment:		
Salaries and wages		2,225,282
Payroll taxes		161,546
Group insurance		469,786
Retirement		319,355
Other postemployment benefits		144,345
Billing and accounting		16,181
Insurance - other than group		116,717
Lab fees and supplies		67,510
Regulatory actions		3,500
Professional fees		11,782
Miscellaneous		(102)
Office supplies		11,291
Operating supplies		1,062,847
Power		1,391,441
Repair and maintenance		1,212,899
Continuing education		38,537
Small tools and equipment		5,508
Telephone		27,168
Uniforms		12,226
Computer equipment and maintenance		2,903
Vehicle		79,392
		<hr/>
Total wastewater treatment		7,380,114
		<hr/>
Total purchased treatment and wastewater treatment before depreciation		8,123,714
		<hr/>
Depreciation		2,163,731
		<hr/>
Total wastewater treatment cost	\$	<u>10,287,445</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULE OF DISTRIBUTION AND ADMINISTRATION EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2014

Salaries and wages	\$	6,064,000
Payroll taxes		436,781
Group insurance		1,355,643
Retirement		770,618
Other postemployment benefits		348,310
Bad debts		60,717
Billing and accounting		394,647
Continuing education		42,073
Contract meter readers		608,836
Director fees and expenses		56,372
Equipment repairs and maintenance		685,080
Insurance - other than group		291,453
Lab fees and supplies		6,952
Legal and audit		58,088
Line and meter repairs		394,178
Miscellaneous		31,495
Office supplies		37,716
Operating supplies		77,963
Postage		9,925
Power		108,515
Professional fees		135,337
Real estate taxes		15,897
Small tools and equipment		21,758
Telephone		71,814
Toilet rebates		22,200
Uniforms		26,032
Computer equipment and maintenance		6,040
Vehicle		347,055
Water tests		10,900
		<hr/>
Subtotal		12,496,395
Less capitalized salaries		(395,376)
		<hr/>
Total distribution and administration expenses before depreciation		12,101,019
Depreciation		7,372,616
		<hr/>
Total distribution and administration expenses	\$	<u><u>19,473,635</u></u>

See Independent Auditors' Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED WITH ACTUAL  
FOR THE YEAR ENDED AUGUST 31, 2014

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<b>REVENUES</b>			
Operating Revenues:			
Metered water sales	\$ 24,900,000	\$ 24,286,454	\$ (613,546)
Wastewater treatment sales	14,138,100	14,538,327	400,227
Street light fees	1,304,000	1,322,783	18,783
Water connection fees	1,037,000	291,639	(745,361)
Transfer fees	185,000	205,525	20,525
Forfeited discounts and penalties	675,000	672,020	(2,980)
Customer repairs and service charges	96,000	65,452	(30,548)
<b>Total Operating Revenues</b>	<b>42,335,100</b>	<b>41,382,200</b>	<b>(952,900)</b>
Non-Operating Revenues:			
Gain on disposition of capital assets, net		17,999	17,999
Interest:			
Sinking funds	77,000	192,387	115,387
Revenue funds	38,000	36,357	(1,643)
Change in fair value of derivative	-	191,330	191,330
Amortization of bond premiums, net		737,357	737,357
Miscellaneous	127,000	143,381	16,381
<b>Total Non-Operating Revenues</b>	<b>242,000</b>	<b>1,318,811</b>	<b>1,076,811</b>
<b>TOTAL REVENUES</b>	<b>42,577,100</b>	<b>42,701,011</b>	<b>123,911</b>
<b>EXPENSES</b>			
Operating Expenses:			
Water Purchases and Production:			
Purchased water	54,000	54,182	(182)
Water production:			
Salaries and wages	1,082,000	1,049,255	32,745
Payroll taxes	82,800	76,404	6,396
Group insurance	226,000	210,543	15,457
Retirement	118,100	118,023	77
Other postemployment benefits	53,345	53,345	-
Billing and accounting	16,000	16,181	(181)
Continuing education	33,000	30,441	2,559
Insurance - other than group	44,000	44,434	(434)
Lab fees and supplies	53,000	57,872	(4,872)
Stream monitoring	54,800	54,800	-
Miscellaneous	1,500	1,919	(419)
Office supplies	5,500	4,901	599
Operating supplies	247,500	234,339	13,161
Power	1,170,000	1,119,653	50,347

See Independent Auditors' Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED WITH ACTUAL  
FOR THE YEAR ENDED AUGUST 31, 2014

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Water production (continued):			
Professional fees	\$ 10,000	\$ 1,967	\$ 8,033
Repairs and maintenance	266,400	244,294	22,106
Small tools and equipment	3,000	1,363	1,637
Telephone	18,000	17,359	641
Uniforms	6,500	4,906	1,594
Computer equipment and maintenance	4,000	108	3,892
Vehicle expense	22,000	19,515	2,485
Operating expenses before depreciation	3,571,445	3,415,804	155,641
Depreciation	1,384,600	1,386,741	(2,141)
Total Water Purchases and Production	4,956,045	4,802,545	153,500
Wastewater Treatment:			
Purchased wastewater treatment	776,000	743,600	32,400
Wastewater treatment:			
Salaries and wages	2,385,400	2,225,282	160,118
Payroll taxes	182,500	161,546	20,954
Group insurance	530,000	469,786	60,214
Retirement	319,400	319,355	45
Other postemployment benefits	144,345	144,345	-
Billing and accounting	16,000	16,181	(181)
Insurance - other than group	119,000	116,717	2,283
Lab fees and supplies	77,500	67,510	9,990
Regulatory actions	20,000	3,500	16,500
Professional fees	10,000	11,782	(1,782)
Miscellaneous	3,500	(102)	3,602
Office supplies	13,500	11,291	2,209
Operating supplies	1,216,000	1,062,847	153,153
Power	1,400,000	1,391,441	8,559
Repairs and maintenance	1,370,500	1,212,899	157,601
Continuing education	38,200	38,537	(337)
Small tools and equipment	9,800	5,508	4,292
Telephone	36,600	27,168	9,432
Uniforms	17,000	12,226	4,774
Computer equipment and maintenance	7,500	2,903	4,597
Vehicle expense	85,000	79,392	5,608
Operating expenses before depreciation	8,777,745	8,123,714	654,031
Depreciation	2,135,000	2,163,731	(28,731)
Total Wastewater Treatment	10,912,745	10,287,445	625,300

See Independent Auditors' Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED WITH ACTUAL  
FOR THE YEAR ENDED AUGUST 31, 2014

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Distribution and Administration:			
Salaries and wages	\$ 6,161,000	\$ 6,064,000	\$ 97,000
Payroll taxes	471,400	436,781	34,619
Group insurance	1,531,000	1,355,643	175,357
Retirement	770,700	770,618	82
Other postemployment benefits	348,310	348,310	-
Bad debts	110,000	60,717	49,283
Billing and accounting	380,000	394,647	(14,647)
Continuing education	52,500	42,073	10,427
Contract meter readers	613,000	608,836	4,164
Directors' fees and expenses	60,200	56,372	3,828
Equipment repairs and maintenance	709,500	685,080	24,420
Insurance - other than group	297,000	291,453	5,547
Lab fees and supplies	8,500	6,952	1,548
Legal and audit	91,000	58,088	32,912
Line and meter repairs	380,300	394,178	(13,878)
Miscellaneous	35,000	31,495	3,505
Office supplies	37,100	37,716	(616)
Operating supplies	69,500	77,963	(8,463)
Postage	11,300	9,925	1,375
Power	162,100	108,515	53,585
Professional fees	180,500	135,337	45,163
Real estate taxes	26,000	15,897	10,103
Small tools and equipment	27,000	21,758	5,242
Telephone	73,300	71,814	1,486
Toilet rebates	30,000	22,200	7,800
Uniforms	23,500	26,032	(2,532)
Computer equipment and maintenance	10,500	6,040	4,460
Vehicle expense	346,500	347,055	(555)
Water Tests	10,500	10,900	(400)
	<u>13,027,210</u>	<u>12,496,395</u>	<u>530,815</u>
Total distribution and administration expense before depreciation			
Depreciation	<u>7,280,200</u>	<u>7,372,616</u>	<u>(92,416)</u>
Subtotal	20,307,410	19,869,011	438,399
Less capitalized salaries	<u>(432,009)</u>	<u>(395,376)</u>	<u>(36,633)</u>
Total Distribution and Administration Costs	<u>19,875,401</u>	<u>19,473,635</u>	<u>401,766</u>

See Independent Auditors' Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED WITH ACTUAL  
FOR THE YEAR ENDED AUGUST 31, 2014

	<u>BUDGET</u>	<u>ACTUAL</u>	VARIANCE FAVORABLE (UNFAVORABLE)
Streetlights	\$ 1,008,700	\$ 1,036,563	\$ (27,863)
Total Operating Expenses	<u>36,752,891</u>	<u>35,600,188</u>	<u>1,152,703</u>
Non-Operating Expenses:			
Interest	7,575,226	7,828,950	(253,724)
Paying agent fees	20,000	16,332	3,668
Amortization of deferred amount on refunding	<u>232,700</u>	<u>398,909</u>	<u>(166,209)</u>
Total Non-Operating Expenses	<u>7,827,926</u>	<u>8,244,191</u>	<u>(416,265)</u>
TOTAL EXPENSES	<u>44,580,817</u>	<u>43,844,379</u>	<u>736,438</u>
CAPITAL CONTRIBUTIONS	<u>2,223,000</u>	<u>10,515,135</u>	<u>8,292,135</u>
CHANGE IN NET POSITION	<u>\$ 219,283</u>	<u>\$ 9,371,767</u>	<u>\$ 9,152,484</u>

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Metered Water Sales	<u>\$ 24,286,454</u>	<u>\$ 22,544,847</u>	<u>\$ 24,472,779</u>	<u>\$ 25,177,691</u>	<u>\$ 24,106,505</u>
Number of Customers Served	<u>67,965</u>	<u>66,573</u>	<u>65,519</u>	<u>64,659</u>	<u>64,221</u>
Sales Per Customer	<u>\$ 357.34</u>	<u>\$ 338.65</u>	<u>\$ 373.52</u>	<u>\$ 389.39</u>	<u>\$ 375.37</u>
Wastewater Treatment Sales	<u>\$ 14,538,327</u>	<u>\$ 13,529,139</u>	<u>\$ 14,011,430</u>	<u>\$ 13,787,286</u>	<u>\$ 13,818,212</u>
Number of Customers Served	<u>30,012</u>	<u>28,944</u>	<u>28,053</u>	<u>27,579</u>	<u>27,014</u>
Sales Per Customer	<u>\$ 484.42</u>	<u>\$ 467.42</u>	<u>\$ 499.46</u>	<u>\$ 499.92</u>	<u>\$ 511.52</u>

See Independent Auditors' Report

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

	2014		2013		2012		2011		2010	
	With Tap Fees	Without Tap Fees								
Net revenue available for debt service (see Note below)	\$23,150	\$16,786	\$21,199	\$14,828	\$21,869	\$17,739	\$21,704	\$19,263	\$21,678	\$18,903
Highest annual debt service requirements	\$14,421	\$14,421	\$14,421	\$14,421	\$14,452	\$14,452	\$14,452	\$14,452	\$14,564	\$14,564
<u>Revenue Bond Coverage:</u>										
Actual	1.61	1.16	1.47	1.03	1.51	1.23	1.50	1.33	1.49	1.30
Required	1.20	1.00	1.20	1.00	1.20	1.00	1.20	1.00	1.20	1.00

Note: Net revenue available for debt service equals income from operations plus depreciation and other income less interest earned on construction funds and the value of contributed capital. Required revenue bond coverage is measured both including and excluding water connection and sewer tap fees.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
 SCHEDULE OF WATER, SEWER AND IRRIGATION RATES  
 AS OF AUGUST 31, 2014

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

There is a 10% penalty added when paid after due date. These rates apply only to 3/4" meters serving a single family dwelling. A larger minimum bill will apply to larger meters. Rates effective May 1, 2014.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY  
 STATISTICAL TABLE OF INSURANCE IN FORCE  
 AS OF AUGUST 31, 2014

TYPE OF COVERAGE	LIMITS OF LIABILITY
Public Officials and Employment Practices Legal Liability	\$1,000,000 for each loss and \$3,000,000 aggregate for each policy year
Commercial Automobile	\$1,000,000 for liability per accident \$75,000 for Uninsured/Underinsured per accident Actual cash value for collision
Commercial Crime	\$500,000 employee theft \$100,000 ERISA employee theft per occurrence \$100,000 forgery & alteration \$500,000 computer fraud
Commercial Property: Fire and Extended Coverage including boiler and machinery	\$235,203,634 blanket coverage for buildings and business property
Inland Marine	\$2,888,613 computers, software and contractors equipment – owned and rented \$25,000 data breach limit (any one occurrence and annual aggregate)
Workers Compensation	\$500,000 for bodily injury each accident, \$500,000 aggregate limit, and \$500,000 disease limit
Commercial Umbrella	\$10,000,000 for each occurrence \$10,000,000 aggregate limit \$4,000,000 for failure to supply and sexual abuse (each claim aggregate)
Commercial General Liability	\$3,000,000 for general aggregate \$3,000,000 for products and completed operations aggregate \$1,000,000 for personal and advertising injury \$1,000,000 for bodily injury and property damage \$1,000,000 for damage to premises rented to you - each occurrence premises medical payments \$1,000,000 for employee benefits liability - each claim \$3,000,000 for employee benefits liability - aggregate \$1,000,000 for sexual abuse - each occurrence \$1,000,000 for failure to supply - each occurrence \$1,000,000 for health care & social services - each wrongful act



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

INDEPENDENT AUDITORS' REPORT

Cherokee County Water and Sewerage Authority  
Canton, Georgia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cherokee County Water and Sewerage Authority as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise Cherokee County Water and Sewerage Authority's basic financial statements, and have issued our report thereon dated November 21, 2014.

***Internal Control over Financial Reporting***

In planning and performing our audit of the basic financial statements, we considered Cherokee County Water and Sewerage Authority's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cherokee County Water and Sewerage Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee County Water and Sewerage Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*AGH, LLC*

AGH, LLC

November 21, 2014