CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY

CHEROKEE COUNTY, GEORGIA

FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
AUGUST 31, 2011 AND 2010

TOGETHER WITH INDEPENDENT AUDITORS' REPORTS

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
FINANCIAL STATEMENTS
AUGUST 31, 2011 AND 2010

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INDEPENDENT AUDITORS' REPORT

Cherokee County Water and Sewerage Authority
Canton, Georgia

We have audited the accompanying basic financial statements of Cherokee County Water and Sewerage Authority (the "Authority") as of and for the years ended August 31, 2011 and 2010, 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, 2011 and 2010, and the changes in its financial position and its cash flows 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 18, 2011 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and post employment benefit information 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.

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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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the 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 is fairly stated in all material respects in relation to the financial statements as a whole.

Aarons Grant & Habif, LLC

Aarons Grant & Habif, LLC

November 18, 2011

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, 2011 and 2010. 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 2011 by $9.5 million, from $294.1 million to $303.6 million and in 2010 by $7.9 million, from $286.2 million to $294.1 million. $7.1 million of the increase in 2011 was attributable to contributions by developers, primarily of water and sewer lines (which totaled $5.8 million in 2010). 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)

	2011	2010	2009
Current and other assets	$ 57.8	$ 54.3	$ 49.9
Capital assets	429.6	429.2	431.1
Total Assets	487.4	483.5	481.0
Long-term debt outstanding	(176.8)	(182.4)	(187.6)
Other liabilities	(7.0)	(7.1)	(7.1)
Total Liabilities	(183.8)	(189.5)	(194.7)
Net assets:			
Invested in capital assets, net of debt	252.7	246.1	239.4
Restricted	4.8	4.9	2.9
Unrestricted	46.1	43.1	43.9
Total Net Assets	$ 303.6	$ 294.1	$ 286.2

Table 2 - Changes in Net Assets (in Millions)

	2011	2010	2009
Revenues			
Operating revenues:			
Water sales	$ 25.2	$ 24.1	$ 23.7
Wastewater treatment sales	13.8	13.8	13.6
Connection fees	2.4	2.8	2.7
Other	2.6	2.5	2.3
Non-operating revenues:			
Interest	0.2	0.2	0.5
Other	0.1	0.1	0.1
Total Revenues	44.3	43.5	42.9
Expenses			
Operating expenses:			
Water	3.4	3.2	3.0
Wastewater	7.5	7.5	7.7
Distribution and administration	10.8	10.3	10.0
Depreciation	10.3	10.2	8.8
Other	0.9	0.8	1.0
Non-operating expenses:			
Interest	8.8	9.3	10.0
Other	0.2	0.1	0.2
Total Expenses	41.9	41.4	40.7
Contributed Capital	7.1	5.8	11.0
Increase In Net Assets	$ 9.5	$ 7.9	$ 13.2

The Authority's revenues (see Table 2) increased in 2011 by 1.8% ($44.3 million in 2011 compared to $43.5 million in 2010) and increased in 2010 by 1.4% ($43.5 million in 2010 compared to $42.9 million in 2009). Expenses increased by 1.2% in 2011 and increased by 1.7% in 2010. The factors driving these results include:

- The number of water customers in 2011 and 2010 grew by 0.7% and 0.5% and wastewater customers grew by 2.1% and 1.3%, respectively, reflective of the slow return of 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 13.0%, 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 1.8% and 1.4% in 2011 and 2010, respectively. The annual increase in expenses in 2011 was 1.2% as compared with the increase of 1.7% in 2010, attributable in part to continued conservative spending practices by Authority management. As a result, net assets prior to the value of contributed lines have continued to grow, by $2.4 million in 2011 and $2.1 million in 2010 and total net assets have increased by $9.5 million and $7.9 million in 2011 and 2010, respectively.

- Management of the Authority attributes the increase in the growth of net assets in 2011 primarily to the increase in the value of contributions from developers. In 2011, contributed capital was valued at $7.1 million and in 2010 at $5.8 million, an increase of $1.3 million in 2011 from prior year contributions. Management of the Authority also attributes the increase in net assets, in part, to the continued recovery from the effects of drought conditions in Georgia and the stabilization of revenues along with conservative spending. Connection fees have shown a decrease in 2011 of approximately 14.3% compared to prior year connection fees. The decline in connection fees can be attributed to the ongoing slowdown in new construction activity in Cherokee County.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2011 and 2010, the Authority had $429.6 million and $429.2 million, respectively, invested in a range of capital assets including equipment, buildings, land and water and sewer lines (see Table 3). This represents a net increase after additions and disposals of $0.4 million (0.1%) in 2011 and net decrease after additions and disposals of $1.9 million (0.4%) in 2010.

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

	2011	2010	2009
Land	$ 3.6	$ 3.6	$ 3.6
Structures and improvements:			
Construction-in-progress	7.0	8.4	9.4
Completed	417.3	416.1	416.6
Machinery and equipment	1.6	1.0	1.4
Office furniture and equipment	0.1	0.1	0.1
Totals	$ 429.6	$ 429.2	$ 431.1

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 2012 capital improvement program calls for it to spend approximately $12.0 million for capital projects, principally for upgrades and improvements to water and 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 $821.0 thousand of future work at August 31, 2011. 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 2011 and 2010, the Authority had $176.8 million and $182.4 million (net of deferred amounts on refundings, discounts and premiums) in revenue bonds outstanding, respectively. The net decreases of $5.6 million and $5.2 million in 2011 and 2010, respectively, are due primarily to the repayment of the Authority's previously issued debt and increase to the deferred amount on the series 2011 revenue refunding bonds (see below), net of increases in the related bond premiums.

In 2011, the Authority issued revenue refunding bonds totaling $29.3 million to advance refund portions of the bonds issued in 2001 and 2003 that totaled $30.4 million. 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. As reflected, in Table 1, significant interest expense savings can be attributed to the advance refundings by the Series 2011 and 2010 revenue refunding bonds. 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 ("S&P") of Aa2 and AA, respectively. S&P 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 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,

	2011	2010
ASSETS		
Current Assets		
Cash	$ 4,956,557	$ 5,271,212
Investments	38,333,000	34,774,124
Accounts receivable	5,674,715	5,360,658
Accrued interest receivable	5,786	5,593
Prepaid expenses	411,789	387,335
Inventories	223,384	200,576
Restricted investments:		
Revenue bond sinking fund investments	1,205,223	1,217,318
Total Current Assets	50,810,454	47,216,816
Noncurrent Assets		
Restricted investments:		
Revenue bond debt service reserve investments	4,318,459	4,353,339
Deferred charges:		
Unamortized bond issue costs	2,044,938	2,172,920
Unamortized street light costs	8,879	8,879
Unamortized watershed study	607,704	607,704
Total deferred charges	2,661,521	2,789,503
Capital assets:		
Land	3,556,929	3,556,929
Construction-in-progress	6,959,759	8,350,764
Structures and improvements	523,427,762	512,496,944
Machinery and equipment	7,322,350	6,373,030
Office furniture and equipment	554,460	550,410
Total capital assets	541,821,260	531,328,077
Less: accumulated depreciation	(112,209,961)	(102,147,081)
Net capital assets	429,611,299	429,180,996
Total Noncurrent Assets	436,591,279	436,323,838
Total Assets	$ 487,401,733	$ 483,540,654

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

	2011	2010
LIABILITIES AND NET ASSETS		
Current Liabilities		
Trade accounts payable	$ 1,285,030	$ 859,422
Construction accounts and retainage payable	91,611	615,865
Accrued salaries and vacations	685,303	586,159
Unearned sewer connection fees	66,953	100,953
Customer deposits	3,847,465	3,755,125
Payable from restricted assets:		
Current portion of long-term debt, net	5,957,790	5,617,288
Revenue bond interest payable	691,014	722,017
Total Current Liabilities	12,625,166	12,256,829
Noncurrent Liabilities		
Deferred interest income	360,301	386,236
Revenue bonds payable, less current portion, net	170,838,915	176,820,268
Total Noncurrent Liabilities	171,199,216	177,206,504
Total Liabilities	183,824,382	189,463,333
Net Assets		
Invested in capital assets, net of related debt	252,722,983	246,127,575
Restricted for debt service	514,209	495,301
Restricted for bond retirement	4,318,459	4,353,339
Unrestricted	46,021,700	43,101,106
Total Net Assets	303,577,351	294,077,321
Total Liabilities and Net Assets	$ 487,401,733	$ 483,540,654

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

	2011	2010
Operating Revenues		
Metered water sales	$ 25,177,691	$ 24,106,505
Wastewater treatment sales	13,787,286	13,818,212
Street light fees	1,617,410	1,251,173
Water connection fees	773,900	939,350
Sewer tap fees	1,666,600	1,835,666
Transfer fees	169,900	172,825
Forfeited discounts and penalties	708,027	811,376
Customer repairs and service charges	112,805	284,142
Total Operating Revenues	44,013,619	43,219,249
Operating Expenses		
Water purchases and production	3,398,081	3,203,144
Wastewater treatment	7,488,990	7,482,282
Street lights	903,511	877,458
Distribution and administration	10,842,235	10,318,847
Depreciation	10,351,841	10,188,392
Total Operating Expenses	32,984,658	32,070,123
Income from Operations	11,028,961	11,149,126
Other Revenues		
Interest		
Sinking funds	103,179	101,342
Revenue funds	71,462	100,595
Gain on equipment disposal	28,798	26,931
Miscellaneous	119,520	111,631
Total Other Revenues	322,959	340,499

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

	2011	2010
Other Expense		
Interest	8,771,060	9,273,588
Paying agent and broker dealer fees	18,539	21,344
Amortization of bond issue costs	115,464	112,094
Loss on abandoned lines	63,895	14,043
Total Other Expense	8,968,958	9,421,069
Capital Contributions	7,117,068	5,765,887
Increase in Net Assets	9,500,030	7,834,443
Net Assets, beginning of year	294,077,321	286,242,878
Net Assets, end of year	$ 303,577,351	$ 294,077,321

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

INCREASE (DECREASE) IN CASH

	2011	2010
Cash flows from operating activities:		
Cash received from customers	$ 43,877,423	$ 43,238,173
Cash paid to suppliers	(13,932,725)	(14,341,893)
Cash paid to employees	(8,222,603)	(7,811,786)
Net cash provided by operating activities	21,722,095	21,084,494
Cash flows from investing activities:		
Purchases of investments	(18,067,131)	(21,364,534)
Proceeds from investment maturities	14,555,231	16,586,407
Interest received	148,513	175,810
Net cash used in investing activities	(3,363,387)	(4,602,317)
Cash flows from capital financing activities:		
Proceeds from revenue bond refunding	264,527	265,708
Revenue bond refunding issue costs	(243,847)	(262,439)
Revenue bond principal payments	(5,890,000)	(5,545,000)
Interest paid on revenue bonds	(8,561,075)	(9,040,931)
Capital expenses	(4,265,352)	(2,304,908)
Contributions for capital expenses	12,125	50,035
Paying agent and broker fees	(18,539)	(21,344)
Proceeds from disposal of land, equipment and scrap	28,798	26,931
Net cash used in capital financing activities	(18,673,363)	(16,831,948)
Net change in cash	(314,655)	(349,771)
Cash, beginning of year	5,271,212	5,620,983
Cash, end of year	$ 4,956,557	$ 5,271,212

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

INCREASE (DECREASE) IN CASH

	2011	2010
Reconciliation of Income From Operations to Net Cash Provided By Operating Activities:		
Income from operations	$ 11,028,961	$ 11,149,126
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	10,351,841	10,188,392
Miscellaneous revenue	119,520	111,631
(Increase) decrease in:		
Accounts receivable	(314,057)	(40,267)
Prepaid expenses	(24,454)	851
Inventories	(22,808)	8,229
Increase (decrease) in:		
Trade accounts payable	425,608	(387,811)
Accrued salaries and vacations	99,144	106,783
Unearned sewer connection fees	(34,000)	(184,080)
Customer deposits	92,340	131,640
Net Cash Provided By Operating Activities	21,722,095	21,084,494
Non-Cash Capital Financing Activities:		
Issue refunding bonds at a premium to refund $30,355,000 and $39,645,000 in 2011 and 2010, respectively, of prior bonds resulting in non-cash decreases to discounts and issue costs and a deferral of refunding costs	$ 32,307,649	$ 41,194,755
Non-Cash Investing Activities:		
Acquisition of capital assets contributed by developers	$ 7,104,943	$ 5,715,852

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. 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 statements and interpretations that do not conflict with or contradict GASB pronouncements.

Note B – Summary of Significant Accounting Policies (continued)

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 any of its trade accounts or other amounts receivable. Accordingly, it is exposed to credit losses in the event of nonperformance. Management closely monitors outstanding balances and writes off uncollectible amounts as of year-end in accordance with approved policies.

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

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

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 (concluded)

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

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.

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, 2011 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% of its water needs during the years ended August 31, 2011 and 2010, purchasing most of the remaining water needed from the City of Woodstock and Pickens County. The Authority purchased 9.1% and 8.6% of the sewage treatment needed in each of the years ended August 31, 2011 and 2010, 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, 2011 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, 2011, cash held in banks totaled $5,503,848 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 $4,956,557.

Investments
The Authority's 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.

All investment securities are either an external local government investment pool, or are insured, registered or held by the Authority or its agent in the Authority's name. Consistent with the Authority's policy, investments in U.S. government obligations either carry the explicit guarantee of the U.S. government or are rated in the highest category by Moody's Investor Service and by Standard & Poor's Ratings Group. Investments in money market funds are also rated in the highest category by these services.

The local government investment pool "Georgia Fund 1", created by OCGA 36-83-8, is a stable net asset value investment pool which is rated by Standard and Poor's as AAAm. Georgia Fund 1 operates in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940 and is considered to be a 2a-7-like pool. The pool is not registered with the SEC as an investment company. Financial oversight of the pool is provided by The (Georgia) Office of Treasury and Fiscal Services. The pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal ($1/share value). The weighted average maturity of its holdings is 53 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.

Note D – Cash and Investments (concluded)

The fair values of investments are found in Note P. The carrying amounts as of August 31, 2011 are as follows:

	Money Market Funds		
Repurchase Agreement	Georgia Fund 1	Other	Total
$1,295,442	$39,538,223	$3,023,017	$43,856,682

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

At August 31, 2011, 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, 2011, is greater than ten years.

Note E – Accounts Receivable

Accounts receivable consist of the following at August 31:

	2011	2010
Billed	$ 2,326,403	$ 3,341,007
Unbilled	3,348,312	2,019,651
	$ 5,674,715	$ 5,360,658

Note F – Restricted Investments

Certain assets are restricted for bond sinking funds and reserves, to be used for payment of debt service on long-term debt. The balances of the restricted investments for the years ended August 31, 2011 and 2010 are as follows:

	2011	2010
Sinking fund investments	$ 1,205,223	$ 1,217,318
Debt service reserve investments	$ 4,318,459	$ 4,353,339

Note G – Capital Assets

A summary of changes in capital assets for the years ended August 31, 2011 and 2010 is as follows:

2011	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not Depreciated:				
Land	$ 3,556,929	$ -	$ -	$ 3,556,929
Construction-in-progress	8,350,764	1,980,432	(3,371,437)	6,959,759
Other Capital Assets:				
Structures and improvements	512,496,944	11,099,438	(168,620)	523,427,762
Machinery and equipment	6,373,030	1,133,555	(184,235)	7,322,350
Office furniture and equipment	550,410	4,050	-	554,460
Accumulated Depreciation:				
Structures and improvements	(96,382,564)	(9,775,662)	104,726	(106,053,500)
Machinery and equipment	(5,254,119)	(564,718)	184,235	(5,634,602)
Office furniture and equipment	(510,398)	(11,461)	-	(521,859)
Capital Assets, Net	$ 429,180,996	$ 3,865,634	$ (3,435,331)	$ 429,611,299

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 and equipment	544,709	5,701	-	550,410
Accumulated Depreciation:				
Structures and improvements	(86,826,443)	(9,597,023)	40,902	(96,382,564)
Machinery and equipment	(4,944,690)	(575,027)	265,598	(5,254,119)
Office furniture and equipment	(494,056)	(16,342)	-	(510,398)
Capital Assets, Net	$ 431,074,542	$ 1,011,876	$ (2,905,422)	$ 429,180,996

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.

During the years ended August 31, 2011 and 2010, revenue of $34,000 and $184,080, respectively was recognized in association 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.

Deferred interest income the years ended August 31, 2011 and 2010 was as follows:

	2011	2010
Balance, beginning of year	$ 386,236	$ 412,170
Recognition of interest income	(25,935)	(25,934)
Balance, end of year	$ 360,301	$ 386,236

Note J – Revenue Bonds Payable

Revenue bonds payable consist of the following at August 31,

	2011	2010
Series 1991 refunding 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
Series 1993 revenue refunding and improvement 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	27,345,000	27,395,000

Note J – Revenue Bonds Payable (continued)

	2011	2010
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 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 June 23, 2011	5,000	25,915,000
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, partially advanced refunded June 23, 2011	20,675,000	29,710,000
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	23,380,000	23,935,000
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	23,380,000	23,935,000
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	39,570,000	39,710,000

Note J – Revenue Bonds Payable (continued)

	2011	2010
Series 2011 revenue refunding bonds dated June 23, 2011, bearing interest from 3.00% to 5.00%, first principal payment due August 1, 2012 and final maturity of August 1, 2030	29,310,000	-
Total revenue bonds payable	178,910,000	185,845,000
Less:		
Unamortized bond discount	(567,974)	(878,693)
Deferred amount on refunding	(7,047,326)	(4,921,697)
Plus unamortized premium	5,502,005	2,392,946
	176,796,705	182,437,556
Less current portion, net	(5,957,790)	(5,617,288)
	$ 170,838,915	$ 176,820,268

A summary of changes in long-term debt for the years ended August 31, 2011 and 2010 is as follows:

2011	Beginning Balance	Additions	Reductions	Ending Balance
Revenue bonds	$ 185,845,000	$ 29,310,000	$ (36,245,000)	$ 178,910,000
Less:				
Unamortized discount	(878,693)	-	310,719	(567,974)
Deferred amount on refunding	(4,921,697)	(2,466,733)	341,104	(7,047,326)
Plus unamortized premium	2,392,946	3,262,176	(153,117)	5,502,005
	$ 182,437,556	$ 30,105,443	$ (35,746,294)	$ 176,796,705

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

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. Portions of this series were refunded by the Series 2010 and Series 2011 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. A portion of this series was refunded by the Series 2011 revenue refunding bonds.

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 Series 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.

Note J – Revenue Bonds Payable (continued)

In June 2011, the Authority issued $29,310,000 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 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. The cash flows required to service the Series 2011 revenue bonds are approximately $2.7 million less than those for the refunded debt providing an economic gain from the refunding of approximately $1.8 million. The Authority paid $390,397 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.

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 $12,681,205, including $2,466,733 in 2011 related to the issuance of the Series 2011 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, 2011 is $7,047,326.

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
2012	$ 6,160,000	$ 8,292,163
2013	6,340,000	8,106,952
2014	6,565,000	7,881,828
2015	6,835,000	7,616,902
2016	7,130,000	7,314,353
2017 – 2021	40,750,000	31,465,913
2022 – 2026	51,815,000	20,379,059
2027 – 2031	37,590,000	8,139,975
2032 – 2035	15,725,000	1,775,524
Total	$ 178,910,000	$ 100,972,669

Note J – Revenue Bonds Payable (concluded)

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 1.50 and 1.49 for the years ended August 31, 2011 and 2010, 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, 2011 and 2010, this ratio was 1.33 and 1.30, 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 $14,452,163. As of August 31, 2011, the Debt Service Reserve Account and the surety bonds exceed the minimum requirement.

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 – 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 L – 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 M – Commitments and Contingencies

At August 31, 2011 and 2010, the Authority has outstanding agreements with contractors for future work on existing construction projects in the approximate amount of $821,000 and $2,511,000, respectively.

In August 2011 the Authority and the City of Canton ("Canton") approved a non-binding memorandum of understanding among the Cobb-Marietta Water System, Canton and the Authority in which the parties agree to future discussions about Canton's water and wastewater plants and the ownership of the Hickory Log Creek Reservoir project. At the date of these financial statements, management advises that there has been no additional agreement executed related to this matter.

Note N – Retirement Plans

Governmental Plan

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 $183,339 and $173,742 during the years ended August 31, 2011 and 2010, respectively.

Defined Benefit Plan

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

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

The Authority’s required contributions including administration fees for years ended August 31, 2011, 2010, 2009 and 2008 were $1,193,080, $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, 2011 and 2010 are based on actuarial valuations of the plan on January 1, 2010 and July 1, 2009. The actuarial cost method used to prepare both plan valuations is projected unit credit. For the valuation as of January 1, 2010, a 3.5% salary increase and a 7.75% investment rate of return is assumed. The valuation as of July 1, 2009 assumes a 5.5% salary increase and an 8.00% investment rate of return. The assumptions for both the salary increase and the investment rate of return for the actuarial valuation of the plan on January 1, 2010 include an inflation component of 3.5%. The assumptions for both the salary increase and the investment rate of return for the actuarial valuation of the plan on July 1, 2009 include an inflation component of 5.0%.

Note N – Retirement Plans (concluded)

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 38% and 44% of market value for 2011 and 2010, respectively); 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, 2011, the plan was 65.3% funded. The actuarial accrued liability ("AAL") for benefits was $11.9 million and the actuarial value of assets was $7.8 million resulting in an unfunded actuarial accrued liability ("UAAL") of $4.1 million. The covered payroll (annual payroll of active employees covered by the plan) was $7.2 million and the ratio of the UAAL to the covered payroll was 57.2%. 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 O – Other Postemployment Benefits

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 a minimum of six months prior to retirement. The retiree's spouse and dependent(s) may also receive coverage under certain circumstances. Retirees will pay from 50% to 20% of the cost of their own coverage and 75% to 60% of spouse and dependent coverage depending upon the employee's age 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.

Note O – Other Postemployment Benefits (continued)

At August 31, 2011, membership consists of:

Retirees and beneficiaries	5
Active employees	175
Total participants	180

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, actuarial studies were prepared as of September 1, 2010 and 2008 calculating the postemployment healthcare cost for the years ended August 31, 2011 and 2010, respectively. The actuarial valuations estimated the ARC and annual OPEB costs for the years ended August 31, 2011 and 2010 of $852,000 and $475,000, respectively. For both years, the amortization period is open and the postemployment healthcare cost was determined under the projected unit credit actuarial cost method. The calculations for 2011 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 10.0% graded to arrive at an ultimate rate of 6.0%. The calculations for 2010 are based on an investment rate of return of 8.0% that includes a 3.5% inflation assumption and an initial annual healthcare cost trend rate of 12.0% 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 current ARC of $852,000 is 11.1% of annual covered payroll.

The Authority's annual OPEB costs for years ended August 31, 2011, 2010 and 2009 (the initial year) were $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 September 1, 2010, the plan was 18.4% funded. The actuarial accrued liability ("AAL") for benefits was $5.3 million and the actuarial value of assets was $976 thousand 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 $7.7 million and the ratio of the UAAL to the covered payroll was 56.2%. 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.

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.

Note O – Other Postemployment Benefits (concluded)

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

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, 2011 and 2010 is as follows:

	August 31, 2011		August 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	$ 4,956,557	$ 4,956,557	$ 5,271,212	$ 5,271,212
Repurchase agreements	$ 1,295,442	$ 1,295,442	$ 1,295,442	$ 1,295,442
Money market funds	$ 42,561,240	$ 42,561,240	$ 39,049,339	$ 39,049,339
Revenue bonds payable	$ 176,796,705	$ 198,460,594	$ 182,437,556	$ 203,565,967

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
POSTEMPLOYMENT BENEFITS (REQUIRED SUPPLEMENTARY INFORMATION)
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

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
1/1/2011	$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%
7/1/2008	$4,728,106	$9,797,532	$5,069,426	48.3%	$6,681,445	75.9%

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
9/1/2010	$ 976,000	$ 5,292,000	$ 4,316,000	18.4%	$ 7,677,000	56.2%
9/1/2009	$ 481,000	$ 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,

	2011	2010
Purchased water	$ 47,193	$ 45,512
Water production:		
Salaries and wages	973,210	929,100
Payroll taxes	70,820	67,435
Group insurance	156,480	138,741
Retirement	118,302	120,886
Other postemployment benefits	101,050	56,333
Billing and accounting	13,879	13,041
Continuing education	19,253	16,755
Insurance - other than group	55,332	54,925
Lab fees and supplies	44,824	38,764
Stream monitoring	122,800	147,800
Miscellaneous	2,017	1,118
Office supplies	2,853	4,041
Operating supplies	272,257	282,828
Power	1,091,818	1,041,676
Professional fees	1,714	1,620
Repair and maintenance	261,178	206,042
Small tools and equipment	1,813	257
Telephone	14,574	13,344
Uniforms	5,570	6,575
Vehicle	21,144	16,351
Total water production	3,350,888	3,157,632
Total water purchases and production before depreciation	3,398,081	3,203,144
Depreciation	1,291,718	1,238,535
Total water purchases and production cost	$ 4,689,799	$ 4,441,679

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

	2011	2010
Purchased wastewater treatment	$ 729,277	$ 667,502
Wastewater treatment:		
Salaries and wages	2,081,076	2,033,034
Payroll taxes	149,978	146,732
Group insurance	382,902	365,367
Retirement	306,164	355,540
Other postemployment benefits	230,210	128,333
Billing and accounting	13,879	13,278
Insurance - other than group	96,326	97,071
Lab fees and supplies	48,227	45,980
Regulatory actions	10,625	4,000
Legal fees	4,435	4,764
Miscellaneous	2,358	2,544
Office supplies	8,680	11,717
Operating supplies	854,953	834,561
Power	1,315,402	1,495,195
Repair and maintenance	1,107,896	1,134,277
Continuing education	22,899	21,985
Small tools and equipment	2,885	8,688
Telephone	29,796	32,238
Uniforms	17,517	23,600
Vehicle	73,505	55,876
Total wastewater treatment	6,759,713	6,814,780
Total purchased treatment and wastewater treatment before depreciation	7,488,990	7,482,282
Depreciation	2,029,527	2,027,152
Total wastewater treatment cost	$ 9,518,517	$ 9,509,434

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

	2011	2010
Salaries and wages	$ 5,267,461	$ 4,956,434
Payroll taxes	373,831	350,413
Group insurance	1,046,742	920,631
Retirement	751,565	753,712
Other postemployment benefits	520,740	290,333
Bad debts	84,296	107,979
Billing and accounting	368,970	417,982
Consumer reports	6,225	7,425
Continuing education	29,927	25,375
Contract meter readers	590,213	586,105
Directors' fees and expenses	57,282	53,511
Equipment repairs and maintenance	476,039	444,496
Insurance - other than group	243,728	244,201
Lab fees and supplies	9,064	-
Legal and audit	145,526	137,195
Line and meter repairs	370,733	541,249
Miscellaneous	23,883	32,441
Office supplies	25,353	28,547
Operating supplies	59,600	67,576
Postage	9,176	9,798
Power	129,816	128,741
Professional fees	59,704	120,430
Real estate taxes	23,852	23,833
Small tools and equipment	14,761	14,129
Telephone	52,431	49,606
Toilet rebates	28,950	29,000
Uniforms	20,796	22,255
Vehicle	313,492	235,737
Water Tests	6,300	10,447
Subtotal	11,110,456	10,609,581
Less capitalized salaries	(268,221)	(290,734)
Total distribution and administration expenses before depreciation	10,842,235	10,318,847
Depreciation	7,030,596	6,922,705
Total distribution and administration expenses	$ 17,872,831	$ 17,241,552

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED WITH ACTUAL
FOR THE YEAR ENDED AUGUST 31, 2011

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUE			
Operating Revenue:			
Metered water sales	$ 23,720,000	$ 25,177,691	$ 1,457,691
Wastewater treatment	14,138,100	13,787,286	(350,814)
Street light fees	1,256,000	1,617,410	361,410
Water connection fees	982,100	773,900	(208,200)
Sewer tap fees	1,740,000	1,666,600	(73,400)
Transfer fees	186,700	169,900	(16,800)
Forfeited discounts and penalties	721,000	708,027	(12,973)
Customer repairs and service charges	298,000	112,805	(185,195)
Total Operating Revenue	43,041,900	44,013,619	971,719
Non-Operating Revenue:			
Interest:			
Sinking funds	80,700	103,179	22,479
Revenue funds	94,300	71,462	(22,838)
Gain on sale of assets	-	28,798	28,798
Miscellaneous	122,100	119,520	(2,580)
Total Non-Operating Revenue	297,100	322,959	25,859
Capital Contributions	-	7,117,068	7,117,068
TOTAL REVENUE	$ 43,339,000	$ 51,453,646	$ 8,114,646
EXPENSES			
Operating Expenses:			
Water Purchases and Production:			
Purchased water	$ 46,000	$ 47,193	$ (1,193)
Water production:			
Salaries and wages	959,800	973,210	(13,410)
Payroll taxes	73,400	70,820	2,580
Group insurance	153,200	156,480	(3,280)
Retirement	157,300	118,302	38,998
Other postemployment benefits	101,050	101,050	-
Billing and accounting	14,400	13,879	521
Continuing education	20,000	19,253	747
Insurance - other than group	60,600	55,332	5,268
Lab fees and supplies	51,500	44,824	6,676
Stream Monitoring	123,000	122,800	200
Miscellaneous	1,500	2,017	(517)
Office supplies	2,000	2,853	(853)
Operating supplies	330,000	272,257	57,743
Power	1,200,000	1,091,818	108,182

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED WITH ACTUAL
FOR THE YEAR ENDED AUGUST 31, 2011

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Water production (continued):			
Professional fees	10,000	1,714	8,286
Repairs and maintenance	308,400	261,178	47,222
Small tools and equipment	2,000	1,813	187
Telephone	15,000	14,574	426
Uniforms	7,000	5,570	1,430
Vehicle expense	17,200	21,144	(3,944)
Operating expenses before depreciation	3,653,350	3,398,081	255,269
Depreciation	1,278,400	1,291,718	(13,318)
Total Water Purchases and Production	4,931,750	4,689,799	241,951
Wastewater Treatment:			
Purchased wastewater treatment	662,000	729,277	(67,277)
Wastewater treatment:			
Salaries and wages	2,182,600	2,081,076	101,524
Payroll taxes	167,000	149,978	17,022
Group insurance	455,500	382,902	72,598
Retirement	357,700	306,164	51,536
Other postemployment benefits	230,210	230,210	-
Billing and accounting	14,500	13,879	621
Consumer Reports	20,000	-	20,000
Insurance - other than group	107,100	96,326	10,774
Lab fees and supplies	46,600	48,227	(1,627)
Regulatory actions	-	10,625	(10,625)
Professional fees	10,000	4,435	5,565
Miscellaneous	3,500	2,358	1,142
Office supplies	10,400	8,680	1,720
Operating supplies	1,041,500	854,953	186,547
Power	1,620,000	1,315,402	304,598
Repairs and maintenance	1,123,600	1,107,896	15,704
Continuing education	32,000	22,899	9,101
Small tools and equipment	8,000	2,885	5,115
Telephone	34,300	29,796	4,504
Uniforms	27,100	17,517	9,583
Vehicle expense	52,200	73,505	(21,305)
Operating expenses before depreciation	8,205,810	7,488,990	716,820
Depreciation	1,999,200	2,029,527	(30,327)
Total Wastewater Treatment	10,205,010	9,518,517	686,493

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED WITH ACTUAL
FOR THE YEAR ENDED AUGUST 31, 2011

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Distribution and Administration:			
Salaries and wages	4,870,200	5,267,461	(397,261)
Payroll taxes	399,000	373,831	25,169
Group insurance	1,059,200	1,046,742	12,458
Retirement	855,000	751,565	103,435
Other postemployment benefits	520,740	520,740	-
Bad debts	120,000	84,296	35,704
Billing and accounting	415,500	368,970	46,530
Consumer reports	7,500	6,225	1,275
Continuing education	44,900	29,927	14,973
Contract meter readers	626,300	590,213	36,087
Directors' fees and expenses	60,200	57,282	2,918
Equipment repairs and maintenance	558,100	476,039	82,061
Insurance - other than group	274,300	243,728	30,572
Lab fees and supplies	10,000	9,064	936
Legal and audit	193,500	145,526	47,974
Line and meter repairs	454,800	370,733	84,067
Miscellaneous	25,000	23,883	1,117
Office supplies	39,100	25,353	13,747
Operating supplies	57,600	59,600	(2,000)
Postage	13,400	9,176	4,224
Power	136,200	129,816	6,384
Professional fees	85,000	59,704	25,296
Real estate taxes	26,000	23,852	2,148
Small tools and equipment	17,500	14,761	2,739
Telephone	54,800	52,431	2,369
Toilet rebates	30,000	28,950	1,050
Uniforms	26,500	20,796	5,704
Vehicle expense	257,800	313,492	(55,692)
Water Tests	-	6,300	(6,300)
Total distribution and administration expense before depreciation	11,238,140	11,110,456	127,684
Depreciation	6,967,100	7,030,596	(63,496)
Total distribution and administration	18,205,240	18,141,052	64,188
Less capitalized salaries	-	(268,221)	268,221
Total Distribution and Administration Costs	18,205,240	17,872,831	332,409

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED WITH ACTUAL
FOR THE YEAR ENDED AUGUST 31, 2011

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Streetlights	881,000	903,511	(22,511)
Total Operating Expenses	34,223,000	32,984,658	1,238,342
Non-Operating Expenses:			
Interest	8,933,400	8,771,060	162,340
Paying agent, broker fees	20,000	18,539	1,461
Amortization of bond issue costs	112,700	115,464	(2,764)
Loss on abandoned lines	-	63,895	(63,895)
Total Non-Operating Expenses	9,066,100	8,968,958	97,142
TOTAL EXPENSES	43,289,100	41,953,616	1,335,484
NET INCOME	$ 49,900	$ 9,500,030	$ 9,450,130

See Independent Auditors' Report

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

	2011	2010	2009	2008	2007
Metered Water Sales	$ 25,177,691	$ 24,106,505	$ 23,671,252	$ 21,545,310	$ 24,203,994
Number of Customers Served	64,659	64,221	63,928	63,477	62,412
Wastewater Treatment Sales	$ 13,787,286	$ 13,818,212	$ 13,559,105	$ 12,474,370	$ 13,018,909
Number of Customers Served	27,579	27,014	26,655	26,413	25,721

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF REVENUE BOND COVERAGE
(IN THOUSANDS)

	2011		2010		2009		2008		2007	
	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)	$21,704	$19,263	$21,678	$18,903	$21,262	$18,570	$21,939	$16,517	$31,305	$21,920
Highest annual debt service requirements	$14,452	$14,452	$14,564	$14,564	$14,724	$14,724	$14,724	$14,724	$13,312	$13,312
Revenue Bond Coverage:										
Actual	1.50	1.33	1.49	1.30	1.44	1.26	1.49	1.12	2.35	1.65
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, 2011

	Face Value	Maturity Date	Interest Rate	Amortized Cost	Market Value
Revenue Fund					
Local government investment pool - Georgia Fund I	$ 38,333,000	N/A	Various	$ 38,333,000	$ 38,333,000
Revenue Bond Sinking Fund and Debt Service Reserve					
Repurchase Agreement	$ 1,295,442	8/1/2025	5.360%	$ 1,295,442	$ 1,295,442
Local government investment pool - Georgia Fund I	1,205,223	N/A	Various	1,205,223	1,205,223
Other money market funds	3,023,017	N/A	Various	3,023,017	3,023,017
	$ 5,523,682			$ 5,523,682	$ 5,523,682

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

	2011			2010		
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, 2011.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATISTICAL TABLE OF INSURANCE IN FORCE
AS OF AUGUST 31, 2011

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 theft $100,000 ERISA employee theft $100,000 forgery & alteration $500,000 computer fraud
Commercial Property: Fire and Extended Coverage including boiler and machinery	$234,103,634 blanket coverage all equipment
Inland Marine	$2,471,103 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 basic financial statements of Cherokee County Water and Sewerage Authority (the "Authority") as of and for the year ended August 31, 2011, and have issued our report thereon dated November 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *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.

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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 management, the Authority Board, 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 18, 2011