



Cherokee County, Georgia

Comprehensive Annual Financial Report

For the Fiscal Year Ended August 31, 2016



Comprehensive Annual Financial Report

For the Fiscal Year Ended August 31, 2016

Prepared by:

The Finance Department

Cherokee County Water & Sewerage Authority- Cherokee County, Georgia

Cherokee County Water & Sewerage Authority

Cherokee County, Georgia

Comprehensive Annual Financial Report

August 31, 2016

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Comprehensive Annual Financial Report

I. Introductory Section

Cherokee County Water & Sewerage Authority- Cherokee County, Georgia

Cherokee County Water & Sewerage Authority

February 10, 2017

Board of Directors, CCWSA
Customers of the Cherokee County Water & Sewerage Authority
And the Citizens of Cherokee County, Georgia

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Cherokee County Water and Sewerage Authority for the fiscal year ended August 31, 2016. Cherokee County Water and Sewerage Authority's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

The Cherokee County Water & Sewerage Authority has established internal controls over financial reporting that provide reasonable assurance of proper recording of financial transactions and the preparation of financial statements and the accompanying information. To provide a reasonable basis for making these representations, management of the Authority has established a comprehensive internal control network that is designed to protect its assets from theft, loss or misuse. The cost of a control should not exceed the benefits to be derived as the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements.

The firm AGH, LLC, Certified Public Accountants, conducted an independent audit on the financial statements 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, 2016 and the related notes to the financial statements, which collectively comprise Cherokee County Water and Sewerage Authority's basic financial statements, and as a result have issued a clean opinion on the financial statements of the Authority for the year ending August 31, 2016. The auditors' report is located at the front of the financial section of this report.

In accordance with Generally Accepted Accounting Principles, a narrative introduction, overview, and analysis accompany the basic financials statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the contents of the MD&A thus should be read in conjunction with it. Management's Discussion and Analysis is located immediately following the report of the independent auditors on pages 3-7.

Cherokee County Water & Sewerage Authority

It is anticipated that this Comprehensive Annual Financial Report (CAFR) may be read by a variety of users. The typical user of Authority's financial report may vary greatly in terms of informational needs and expertise in governmental accounting.

Profile of Cherokee County Water & Sewerage Authority

The Cherokee County Water & Sewerage Authority (CCWSA) was established as a subdivision of the government of the State of Georgia by an act of the Georgia Legislature in 1955. This Authority was created for the express purpose of providing public drinking water and sanitary sewer services to the citizens of Cherokee County. CCWSA has performed this mission since establishment, adding infrastructure and treatment systems in response to growing demands for services.

CCWSA is a public not-for-profit governmental entity tasked with the provision of drinking water and sanitary sewer services to Cherokee County. The Authority has no taxing powers, is not a part of Cherokee County government, and does not receive any tax revenue from county or city governments. CCWSA sells the services of high quality drinking water and efficient sewage conveyance and treatment, the charges for which go to pay on-going operations and maintenance costs. New customer connections fees are designed to repay any moneys the Authority borrows for capital improvement projects such as new or expanded water and sewer lines, or new or expanded treatment facilities.

The Authority owns and operates a water supply, treatment, distribution system, sanitary sewer treatment, and collection system. Currently the Authority pumps raw water from three intakes located on the Etowah River to the water treatment plant. Two of the intakes are located at the Water Treatment plant site, while the third raw water intake is located at the Riverbend Environmental Complex. The Riverbend raw water intake is located approximately 2,600 feet downstream from the Etowah River Water Treatment Plant and became operational in June 2016. The Authority currently owns three raw water pump stations located at each intake on the Etowah River with an aggregate raw water pumping capacity of 48.2 million gallons per day ("MGD"). The Authority maintains a raw water storage reservoir, with storage capacity of approximately 15 million gallons. The Authority has a water distribution network of approximately 1,237 miles of pipeline. The water system serves an approximately 300 square mile area containing an estimated population in excess of 180,000 and has approximately 70,893 active water connections.

The sewerage system consists of two active wastewater treatment plants with an aggregate treatment capacity of 11 MGD and a wastewater collection system of 74 wastewater pumping stations and approximately 494 miles of collection sewers. The sewerage system serves an approximately 100 square mile area containing an estimated population in excess of 80,000 and has approximately 32,174 active sewer connections.

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Cherokee County Water & Sewerage Authority

Governance

CCWSA is governed by a seven person board of directors. The directors serve four-year terms and there is a term limit of two consecutive terms (8 years). A director who has served the term limit is eligible for reappointment after being off the Board for at least 4 years. The Board members are representative of the citizens of Cherokee County, and must be a customer of CCWSA. Cherokee County is divided into four districts for representation. A member is appointed from each of the four districts. Those members must be a CCWSA customer and represent one of the four respective districts.

Another member must be a CCWSA customer and is deemed the “at-large” member representing the county as a whole. Another member must be a CCWSA customer in one of the cities within the county that has consolidated its water and wastewater systems with the Authority. These six board members are appointed by the Grand Jury of Cherokee County. Candidates for appointment undergo questioning, qualification review and other scrutiny by the Grand Jury during the appointment process. This appointment process is somewhat unique since water/wastewater systems are most often part of a city or county government where appointees are either elected officials or political appointees. The apolitical appointment process has allowed the CCWSA Board to make decisions about water and sanitary sewer services for the citizens of Cherokee County based on need and economic viability instead of political expediency. The Chairman of the Cherokee County Commissioners is automatically the seventh board member by virtue of his/her elected position.

Accounting and Financial Reporting

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.

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 Authority uses the accrual basis of accounting in its annual operating budget. The Authority’s Board of Directors approves the budget and any changes made thereto.

Cherokee County Water & Sewerage Authority

Current Economic Environment

Local & National Environment

Cherokee County Water & Sewerage Authority supplies water to a geographic area of approximately 300 square miles containing a population in excess of 180,000. In addition, CCWSA provides sewer supplies to a geographic area of approximately 100 square miles containing a population in excess of 80,000. Prior to the national economic downturn, Cherokee County experienced rapid growth. As demonstrated on page 59, within the revenue capacity section, approximately 2,000 new meters were installed annually in year 2007. As the economic downturn became even more evident nationally and in the region there was a significant decrease of growth in the area along with minimal construction activity. In return, the number of new meters set and sold declined in years 2008 thru 2012 significantly from the amount sold prior to the downturn of the economy. However, in 2013 Cherokee County began to experience a slow return of growth and an uptick in the construction activity in the area. As a result, there was a more substantial increase of new connections beginning in 2013 and continuing through 2016. Currently, there is every indication for the near future CCWSA will continue to see an increase in new water and sewer connections as the projections continue to incorporate an increase in growth and construction activity.

Continuous Improvement

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. The capital improvements program is updated on an annual basis. Please refer to the Management's Discussion and Analysis (MD&A) on page 6 for more detailed information.

Long Term Financial Planning & Considerations

When the need arises, the Authority incurs capital financing debt thru the issuance of revenue bonds. 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 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. Effective with the issuance of the Series

Cherokee County Water & Sewerage Authority

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.

The Authority currently will continue to rely on operating revenues and connection fees contributions to fund capital improvements on a pay-as-you-go basis. If the need arises, the Authority's Capital Improvement Program will be funded through issuance of new debt.

Major Initiatives

The Cherokee County Water & Sewerage Authority has experienced growth in its customer base. Current trends indicate that this growth will continue throughout the county, thereby requiring additional wastewater treatment capacity. To satisfy present and future wastewater treatment needs, the Authority is progressing with plans to build the Riverbend Environmental Complex.

The Riverbend Complex includes a 4.5 MGD fresh water withdrawal permit that has been converted from an Industrial permit to a 4.5 MGD potable water withdrawal permit. The Authority completed the raw water intake and pump station in June 2016. The intake is located approximately one mile downstream from the Authority's other two raw water intakes on the Etowah River. The improvements included an upgrade to the pumping station and tied the raw water delivery pipeline into the Authority's existing water treatment plant and will provide an additional 4.5 MGD of raw water capacity. Additionally, the capital improvements program for the Authority includes the construction of a new wastewater treatment plant, to be known as the Riverbend plant. The Authority plans to commence building on the site in the last quarter of 2016. The site was formerly a poultry rendering plant. The owner of the poultry rendering plant held a permit from the State of Georgia Department of Natural Resources, Environmental Protection Division for the discharge of treated wastewater from the poultry rendering operations to the Etowah River. The Authority applied to EPD for a new permit that would replace the discharge permit for the poultry plant and allow the Authority to construct and operate the Riverbend plant. The plant is permitted to have a treatment capacity of 1.0 MGD, which ultimately could be upgraded in phases to 15.6 MGD. The Authority plans to commence construction of the Riverbend plant in the fall of 2016 and will take approximately 24 to 36 months to complete. The Riverbend plant will provide additional current and future wastewater treatment capacity to the northeast quadrant of Cherokee County.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Cherokee

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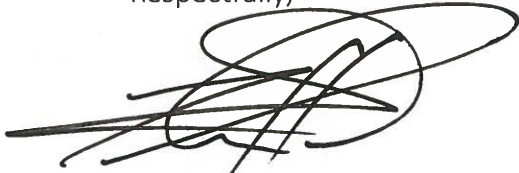
Cherokee County Water & Sewerage Authority

County Water & Sewerage Authority for its comprehensive annual financial report for the fiscal year ended August 31, 2015. In order to be awarded a certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

It is our pleasure to express gratitude to the management of each department of the Authority. Thanks should also be expressed to the staff of the Finance Department for the dedication to the financial integrity of the Authority that makes this report possible. It truly is a commitment from each staff member to assist in compiling the information and assure that each transaction is properly and accurately accounted for. Finally, an enormous amount of thanks is expressed to the Board of the Authority. The Board of Directors' leadership, vision and professionalism is of highest integrity. The support received from the Board is greatly appreciated and is of utmost importance to the financial integrity and operations of the Authority.

Respectfully,



Thomas A. Heard
General Manager



Beth Jones
Accounting Manager

Cherokee County Water & Sewerage Authority

Listing of Principal Officials and Consultants

CCWSA Board Members

Mike Byrd

Chris Wilbanks

Robert Morrison

Gary Winchester

Steven Woodruff

Doug Dabbs

Buzz Ahrens

General Manager

Thomas Heard

Management

Ryan Sarks-Human Resources/Risk/Fleet & Safety
Manager

Mike Venters- Waste Water Facilities Manager

Beth Jones-Accounting Manager

Clint Blackwell-Water Treatment Manager

Wesley Banks-Financial Assurance/Billing/IT
Manager

Mark Cochran-Reservoir Manager

Sharon Clark-Data Systems Analyst

Randy Mitchell-Waste Water Collections/Lift Station
Manager

Dwight Turner-Public Information/Meter
Technician/Customer Service Manager

Rick Dobbs- Special Projects Manager

David Kubala- Environmental Affairs Manager

Jeff Hooper- GPS/GIS Coordinator

Bill Graham- Construction/Distribution Manager

Dan Carson- Construction Planning Coordinator

Dwayne Fowler-Waste Water Planning Coordinator

Consultants and Professional Services

Legal Counsel:

Roach, Caudill & Gunn, LLP, Canton, Georgia

Auditors:

AGH, LLC, Atlanta, GA

CLAY





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Cherokee County Water & Sewerage
Authority, Georgia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2015



Executive Director/CEO

Comprehensive Annual Financial Report

II. Financial Section

Cherokee County Water & Sewerage Authority- Cherokee County, Georgia



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, 2016, 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, 2016, 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.

Emphasis of Matter

As discussed in Note B of the financial statements, Cherokee County Water and Sewerage Authority adopted the provisions of several Governmental Accounting Standards Board ("GASB") statements: GASB Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*; GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Our opinion is not modified with respect to this matter.

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 pages 33 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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 37 through 47 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 23, 2016 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 23, 2016

Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2016

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, 2016. 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 Statements of Revenues, Expenses and Changes In Net Position (on pages 10-11) 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 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 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 2016 by approximately \$15.9 million, from the beginning of the year, \$332.6 million to \$348.5 million. Approximately \$3.9 million of the increase in 2016 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 \$8.6 million. The following tables focus on the Authority's net position (Table 1) and changes in its net position (Table 2).

In 2015 the Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*—an amendment of GASB Statement No. 27, effective for fiscal years beginning after June 15, 2014. As more fully described in footnotes to the 2016 financial statements, the Authority also adopted GASB Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*; GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. All of these statements are effective for fiscal years beginning after June 15, 2015.

Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2016

Table 1 - Condensed Statement of Net Position (in thousands)

	8/31/2016	8/31/2015	\$ Change	% Change
Other assets	\$ 58,521	\$ 53,640	\$ 4,881	9.1%
Capital assets	444,540	442,739	1,801	0.4%
Total Assets	503,061	496,379	6,682	1.3%
Deferred Outflows of Resources	11,778	6,941	4,837	69.7%
Current liabilities	15,448	15,513	(65)	-0.4%
Long-term liabilities and debt	150,549	154,724	(4,175)	-2.7%
Total Liabilities	165,997	170,237	(4,240)	-2.5%
Deferred Inflows of Resources	358	470	(112)	-23.8%
Net investment in capital assets	301,934	291,425	10,509	3.6%
Restricted net position	1,925	4,949	(3,024)	-61.1%
Unrestricted net position	44,624	36,239	8,385	23.10%
Total Net Position	\$ 348,483	\$ 332,613	\$ 15,870	4.80%

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

	8/31/2016	8/31/2015	\$ Changes	% Change
Operating Revenues:				
Water sales	\$ 27,730	\$ 25,980	\$ 1,750	6.7%
Wastewater treatment sales	16,436	15,608	828	5.3%
Connection fees	467	373	94	25.2%
Other	2,563	2,482	81	3.3%
Non-Operating Revenues:				
Interest	222	147	75	51.0%
Other	1,507	1,007	500	49.70%
Total Revenues	\$ 48,925	\$ 45,597	\$ 3,328	7.30%
Operating Expenses:				
Water	3,473	3,447	26	0.8%
Wastewater	8,594	8,327	267	3.2%
Distribution and administration	13,710	12,898	812	6.3%
Depreciation	11,479	11,220	259	2.3%
Other	1,064	1,051	13	1.2%
Non-Operating Expenses:				
Interest	7,108	7,553	(445)	-5.9%
Other	991	460	531	115.4%
Total Expenses	\$ 46,419	\$ 44,956	\$ 1,463	3.3%
Increase before contributions	2,506	641	1,865	291.0%
Contributed capital	13,365	16,403	(3,038)	-18.5%
Increase in Net Position	\$ 15,871	\$ 17,044	\$ (1,173)	-6.90%

Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2016

The Authority's revenues increased in 2016 by approximately \$3.3 million or 7.3% (\$ 48.9 million in 2016 compared to \$45.6 million in 2015). Total Expenses increased \$1.46 million to approximately \$46.4 million or an approximate 3.3% in 2016. The factors driving these results include:

- The number of water customers in 2016 and 2015 grew by 2.3% and 2.0% respectively. Wastewater customers grew by 3.6% in 2016 compared to 3.4% in 2015. The growth of the water and wastewater customers can be attributed to the return of population growth and new construction activity 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 \$3.3 million or 7.3% in FY 2016. Water sales increased approximately 6.7% as compared with prior year and sewer sales revenue increased approximately 5.3% as compared with the prior year. The Authority experienced an increase in water sales attributable to the further addition of customers to its customer base. Also, weather patterns and environmental factors drive revenue results. For FY 2016 these driving factors were not as extreme, for example, significantly cooler temperatures during the summer were not a factor or exceptionally rainy seasons as in previous years were not a factor. However, less rain and warmer temperatures in effect increased water demand which along with other indicators aided in water sales and in conjunction sewer sales results being on target and slightly higher than the Authority's budget and forecasts. The most recent rate change and revision to the Water and Sewer Rate Structure was effective May 1, 2014.
- Total Expenses of the Authority increased by approximately \$1.5 million to \$46.4 million. In regards to departmental expense increases in FY 2016, distribution and administration increased (6.3%). The majority of the increases in the distribution and administration costs were primarily recognized in increased employee costs of approximately \$345,915. Wastewater Treatment Facilities expenses increased (3.2%). The primary driving factor for the increase in wastewater treatment facilities expenses were recognized in increased employee costs of approximately \$148,912. Water Treatment Facilities expenses increased at a relatively flat rate of approximately (0.8%) in FY 2016.
- Non-Operating expenses include interest on debt service, paying agent fees, loss on disposition of capital assets-net, amortization of deferred amount on refunding and cost of issuance expenses. Specifically, interest on debt service for FY 2016 decreased approximately 5.9% largely due to the refunding of Series 2006 and Series 2007 bond issue which resulted in significant savings for the Authority. However, amortization compared to the prior year of the deferred amounts on refunding increased due to that same refunding of Series 2006 and Series 2007 bond issue as well as issuance costs associated with the refunding of Series 2006 and Series 2007 revenue bonds. Non-Operating Revenues consist of a change in the fair market value of the 1993 & 1995 debt service forward delivery agreements improved in the amount of (\$384,942) in FY 2016.
- The Authority has capital contributions revenues of approximately \$13.4 million for FY 2016. As a result of fewer donated lines accepted by the Authority, capital contributions decreased approximately 18.5% receiving donated assets valued at \$5.2 million in FY 2016. In addition to donated lines, the Authority noted sewer tap fees contributions of approximately \$5.7 million compared to FY 2015 of approximately \$5.8 million. Sewer tap fee contributions in FY 2015 were \$5,847,315 compared to sewer tap fees contributions in FY 2016 of \$5,734,547 resulting in a minimal decrease in sewer tap contributions of \$112,768 or 1.9% decrease. Also, the Authority noted a slight increase of approximately \$143,242 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 2016. In FY 2016 there were approximately 130 more meter connections sold than in the previous fiscal year.
- Management of the Authority attributes the growth of Net Position in 2016 primarily to capital contributions which include developer contributions and easement valuations valued at \$5.2 million as well as water meter connections and sewer tap fees for approximately \$8.2 million.

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Cherokee County Water & Sewerage Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2016 and 2015, the Authority had \$444.5 million and \$442.7 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 approximately \$1.8 million in 2016.

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

	<u>8/31/2016</u>	<u>8/31/2015</u>
Land and easements	\$ 7,288	\$ 6,635
Construction in progress including structures, improvements & equipment not in service	30,909	27,697
Total Nondepreciable	<u>38,197</u>	<u>34,332</u>
Structures and improvements	560,217	552,099
Machinery and equipment	9,237	8,261
Office furniture and equipment	334	326
Total Depreciable	<u>569,788</u>	<u>560,686</u>
Less depreciation	<u>(163,445)</u>	<u>(152,280)</u>
Net Capital Assets	<u>\$ 444,540</u>	<u>\$ 442,738</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 2017 capital improvement program calls for it to spend \$19.7 million for capital projects in 2016-2017, 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 \$1.3 million in future work at August 31, 2016. 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, 2016

Debt Administration

At year-end 2016 and 2015, the Authority had \$150.7 million and \$155.7 million (net of discounts and premiums) in revenue bonds outstanding, respectively. The net decrease of \$5.0 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 2016 and 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 2017 budget and capital improvement program have been prepared taking into account that economic and population growth for the Authority's service area is expected to increase at a more steady pace than in prior years due to new construction activity in the Authority's service area. 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 during FY 2017. However, rates are analyzed on a regular basis and will be adjusted if deemed necessary. The Authority anticipates the customer base to increase by adding approximately 1,700 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 1,265 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. However, management and the Board of Directors will monitor on a regular basis the need to issue new debt to fund capital improvements.

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, 2016

ASSETS

Current Assets

Cash and cash equivalents	\$ 49,139,945
Accounts receivable	6,410,288
Accrued interest receivable	5,786
Prepaid expenses	151,533
Inventories	313,517
Restricted assets in revenue bond sinking fund:	
Cash and cash equivalents	<u>1,195,408</u>
 Total Current Assets	 <u>57,216,477</u>

Noncurrent Assets

Restricted assets in revenue bond debt service reserve:	
Cash and cash equivalents	254
Investments	<u>1,295,443</u>
 Total restricted assets in revenue bond debt service reserve	 <u>1,295,697</u>
 Unamortized street light costs	 <u>8,879</u>
 Capital assets:	
Land and easements	7,288,333
Construction-in-progress	30,909,285
Structures and improvements	560,217,003
Machinery and equipment	9,236,894
Office furniture and equipment	<u>333,881</u>
 Total capital assets	 607,985,396
Less: accumulated depreciation	<u>(163,445,233)</u>
 Net capital assets	 <u>444,540,163</u>
 Total Noncurrent Assets	 <u>445,844,739</u>

Total Assets	<u>503,061,216</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refunding	8,516,642
Deferred pension contribution	1,187,115
Deferred increase in net pension liability	<u>2,074,438</u>
 Total Deferred Outflows of Resources	 <u>11,778,195</u>

See Independent Auditors' Report and Accompanying Notes

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF NET POSITION
AS OF AUGUST 31, 2016
(continued)

LIABILITIES

Current Liabilities

Trade accounts payable	\$ 1,191,013
Construction accounts and retainage payable	449,823
Accrued salaries and vacations	1,107,776
Unearned revenues	243,824
Unearned sewer connection fees	32,953
Customer deposits	4,437,172
Payable from restricted assets:	
Current portion of long-term debt	7,420,000
Revenue bond interest payable	565,884
	<hr/>
Total Current Liabilities	15,448,445
	<hr/>

Noncurrent Liabilities

Unearned interest income	151,140
Revenue bonds payable, less current portion, net	143,252,578
Net pension liability	6,852,625
Other long-term liabilities	293,112
	<hr/>
Total Noncurrent Liabilities	150,549,455
	<hr/>

Total Liabilities	165,997,900
	<hr/>

DEFERRED INFLOWS OF RESOURCES

Deferred decrease in net pension liability	358,012
	<hr/>

NET POSITION

<u>Net Investment in Capital Assets</u>	301,934,404
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Restricted for:

Debt service	629,524
Bond retirement	1,295,697

<u>Unrestricted</u>	44,623,874
	<hr/>

Total Net Position	\$ 348,483,499
	<hr/>

See Independent Auditors' Report and Accompanying Notes

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2016

Operating Revenues

Metered water sales	\$ 27,730,410
Wastewater treatment sales	16,435,678
Street light fees	1,364,046
Water connection fees	467,202
Transfer fees	217,675
Forfeited discounts and penalties	731,352
Customer repairs and service charges	250,061

Total Operating Revenues	<u>47,196,424</u>
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Operating Expenses

Water purchases and production	3,472,663
Wastewater treatment	8,594,347
Street lights	1,063,994
Distribution and administration	13,710,183
Depreciation	11,479,496

Total Operating Expenses	<u>38,320,683</u>
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Income from Operations	<u>8,875,741</u>
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Non-Operating Revenues

Interest:	
Sinking funds	107,188
Revenue funds	115,314
Change in fair value of derivative	384,942
Amortization of bond premiums, net	919,930
Miscellaneous	202,175

Total Non-Operating Revenues	<u>1,729,549</u>
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CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED AUGUST 31, 2016
 (continued)

Non-Operating Expenses

Interest	\$ 7,090,067
Paying agent fees	18,094
Loss on disposition of capital assets, net	83,118
Bond issue costs	413,838
Amortization of deferred amount on refunding	494,213

Total Non-Operating Expenses	<u>8,099,330</u>
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Capital Contributions

Sewer tap fees	5,734,547
Water connection fees	2,367,398
Donated assets	5,262,904

Total Capital Contributions	<u>13,364,849</u>
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<u>Increase in Net Position</u>	15,870,809
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Net Position, beginning of year	<u>332,612,690</u>
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Net Position, end of year	<u><u>\$ 348,483,499</u></u>
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CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2016

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash Flows from Operating Activities:

Cash received from customers	\$ 46,989,256
Cash paid to suppliers	(17,078,089)
Cash paid to employees	(9,529,668)
	<hr/>
Net cash provided by operating activities	20,381,499
	<hr/>

Cash Flows from Investing Activities:

Interest received	201,739
	<hr/>

Cash Flows from Capital and Related Financing Activities:

Revenue bond principal payments	(7,130,000)
Interest paid on revenue bonds	(7,106,582)
Proceeds from revenue bond refunding	205,064
Revenue bond issue costs	(199,938)
Deferred amount on refunding	(1,125,796)
Capital expenses	(8,695,276)
Proceeds from sewer tap and water connection fees	8,101,945
Paying agent and broker fees	(18,094)
Proceeds from disposal of equipment and scrap	34,299
	<hr/>
Net cash used in capital and related financing activities	(15,934,378)
	<hr/>

<u>Net Change in Cash and Cash Equivalents</u>	4,648,860
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Cash and Cash Equivalents, beginning of year	45,686,747
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Cash and Cash Equivalents, end of year	\$ 50,335,607
	<hr/> <hr/>

Classified on the Statement of Net Position as:

Cash and cash equivalents	\$ 49,139,945
Restricted cash and cash equivalents:	
Current	1,195,408
Noncurrent	254
	<hr/>
	\$ 50,335,607
	<hr/> <hr/>

See Independent Auditors' Report and Accompanying Notes

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2016
(continued)

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Reconciliation of Income From Operations to Net Cash

Provided By Operating Activities:

Income from operations	\$ 8,875,741
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	11,479,496
Miscellaneous revenue	202,175
Changes in assets and liabilities:	
Accounts receivable	(568,903)
Prepaid expenses	290,097
Inventories	47,799
Trade accounts payable	(228,573)
Accrued salaries and vacations	290,298
Unearned revenues	34,870
Customer deposits	124,692
Net pension liability	1,559,965
Deferred pension outflows	(1,614,519)
Deferred pension inflows	(111,639)
Net Cash Provided By Operating Activities	<u>\$ 20,381,499</u>

Non-Cash Capital and Related Financing Activities:

Acquire contributed capital assets	\$ 5,262,904
Revenue bond refunding	40,564,951
Increase (decrease) in fair value of investment derivatives	(384,942)

See Independent Auditors' Report and Accompanying Notes

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

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.

See Independent Auditors’ Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note B – Summary of Significant Accounting Policies (continued)

Implementation of New Accounting Principles

In compliance with GAAP, as of September 1, 2015 the Authority adopted the following new standards issued by the Governmental Accounting Standards Board ("GASB") which had no impact on reported net position and are effective for financial statement periods beginning after June 15, 2015:

Statement No. 72 *Fair Value Measurement and Application*. GASB Statement No. 72 defines fair value and provides guidance for determining a fair value measurement for financial reporting purposes. It is intended to enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques.

Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans* and Statement 68 for pension plans and pensions that are within their respective scopes. The objective of this Statement is to improve the usefulness of information about pensions included in the general-purpose external financial reports of state and local governments for making decisions and assessing accountability.

Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 76 identifies the hierarchy of generally accepted accounting principles for governmental financial reporting and establishes the framework for selecting those principles.

Statement No. 79 *Certain External Investment Pools and Pool Participants*. GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value. This is intended to enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement.

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.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note B – Summary of Significant Accounting Policies (continued)

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.

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 Official Code of Georgia ("OCGA"). Unrealized gains and losses are included in the statement of changes in net position. 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 Life</u>
Structures, line extensions and improvements	20 - 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.

See Independent Auditors' Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note B – Summary of Significant Accounting Policies (continued)

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.

Defined Benefit Pension

For purposes of measuring the net pension liability, deferred outflows and inflows of resources and pension expense related to the Cherokee County Water and Sewerage Authority Retirement Plan (the "Plan"), information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Georgia Municipal Employee Benefit System. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. The Plan's terms do not allow for employee contributions and benefit payments do not include them. Investments are reported at fair value.

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.

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 revenue bond refundings, deferred outflows due to changes to demographic factors related to the pension valuation and deferred outflows of certain defined benefit pension contributions paid during the current year as deferred outflows 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. The Authority has reported deferred amounts related to changes in actuarial assumptions and changes in expected returns on defined benefit pension investments as deferred inflows.

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. An expense and liability are recognized for accrued vacation leave as it is earned. 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.

See Independent Auditors' Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note B – Summary of Significant Accounting Policies (concluded)

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, 2016 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 balance disclosures have been reclassified in order to conform to current year presentation. These reclassifications had no effect on reported net position.

Note C – Cash, Cash Equivalents and Investments

Cash

All of the Authority's cash as of August 31, 2016 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, 2016, cash held in banks totaled \$7,395,034 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 \$7,170,478.

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's investments are reported at fair value. Various inputs are used in determining the fair value of investments. These inputs to valuation techniques are categorized into a fair value hierarchy consisting of three broad levels for financial statement purposes as follows:

Level 1 - unadjusted price quotations in active markets/exchanges for identical assets or liabilities, that each Fund has the ability to access.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

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

Level 2 - other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks and default rates) or other market-corroborated inputs).

Level 3 - unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including each Fund's own assumptions used in determining the fair value of investments)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The following table sets forth by level within the fair value hierarchy, the Authority's investments at fair value at August 31, 2016:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ -	\$ 254	\$ -	\$ 254
Georgia Fund 1 local government investment pool	43,164,875			43,164,875
Repurchase agreement	-	1,295,443	-	1,295,443
Total Investments at Fair Value	<u>\$ 43,164,875</u>	<u>\$ 1,295,697</u>	<u>\$ -</u>	<u>\$ 44,460,572</u>

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, 2016, the Authority's investments in Georgia Fund 1 were rated AA+ by Standard & Poor's Ratings Group; the money market fund and repurchase agreement are not rated.

Georgia Fund 1 was created by OCGA 36-83-8, is a stable net asset value investment pool which is rated by Standard and Poor's as AA+. 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 38 days and net asset value is calculated weekly to ensure stability. The pool reports to participants on an amortized cost basis. It distributes earnings (net of management fees) on a monthly basis and determines participant's shares sold and redeemed based on \$1.00 per share. Georgia Fund 1 reports that the fair value factor for the pool is 1.0000; thus, the fair value of the position in the pool is the same as the value of the pool shares. The Georgia Fund 1 investments are reported as cash equivalents.

At August 31, 2016, the repurchase agreement is secured by U.S. government obligations (debt securities) that are classified as held-to-maturity.

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

See Independent Auditors' Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

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, 2016, is August 1, 2025.

Note D – Accounts Receivable

Accounts receivable consist of the following at August 31, 2016:

Billed	\$ 2,802,073
Unbilled	3,608,215
	<u>\$ 6,410,288</u>

Note E – Capital Assets

A summary of changes in capital assets for the year ended August 31, 2016 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not Depreciated:				
Land and easements	\$ 6,752,629	\$ 535,704	\$ -	\$ 7,288,333
Construction-in-progress	27,696,926	6,523,996	(3,311,637)	30,909,285
Other Capital Assets:				
Structures and improvements	551,981,436	8,495,231	(259,664)	560,217,003
Machinery and equipment	8,260,638	1,158,385	(182,129)	9,236,894
Office furniture and equipment	326,069	7,812	-	333,881
Accumulated Depreciation:				
Structures and improvements	(146,411,295)	(10,603,480)	131,863	(156,882,912)
Machinery and equipment	(5,719,058)	(828,141)	182,129	(6,365,070)
Office furniture and equipment	(149,376)	(47,875)	-	(197,251)
Capital Assets, Net	<u>\$ 442,737,969</u>	<u>\$ 5,241,632</u>	<u>\$ (3,439,438)</u>	<u>\$ 444,540,163</u>

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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Note F – Revenue Bonds Payable

A summary of changes in long-term debt for the year ended August 31, 2016 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$150,300,000	\$32,980,000	(44,890,000)	\$138,390,000	\$ 7,420,000
Less unamortized discount	(100,597)	-	13,201	(87,396)	-
Plus unamortized premium	5,513,091	7,790,015	(933,132)	12,369,974	-
	<u>\$155,712,494</u>	<u>\$40,770,015</u>	<u>\$(45,809,931)</u>	<u>\$150,672,578</u>	<u>\$ 7,420,000</u>

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%. In 2016, \$18,880,000 of the outstanding bonds was refunded by the Series 2016 Revenue Refunding Bonds.

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 2016, \$18,880,000 of the outstanding bonds was refunded by the Series 2016 Revenue Refunding Bonds.

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CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note F – Revenue Bonds Payable (continued)

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.

In February 2016, the Authority issued \$32,980,000 in Water and Sewerage Revenue Refunding Bonds, series 2016, maturing in 2035 at 5.00% interest. The bonds were issued by the Authority for the purpose of advance refunding a portion of each of the Authority's Series 2006 and 2007 revenue bonds in the aggregate principal amount of \$37,760,000. The cash flows required to service the Series 2016 bonds are approximately \$6.5 million less than those for the refunded bonds providing an economic gain from the refunding of approximately \$5.4 million. The Authority paid \$413,838 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. As of August 31, 2016, outstanding principal balances remain as follows:

<u>Series</u>	
1995	\$ 2,500,000
1997	120,000
1998	4,160,000
2006	18,880,000
2007	<u>18,880,000</u>
	<u>\$ 44,540,000</u>

See Independent Auditors' Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note F – Revenue Bonds Payable (continued)

The defeasance, advance refundings and remarketing of the bonds described above resulted in differences between the reacquisition prices and the net carrying amounts of the old debt including \$3.7 million in 2016 related to the issuance of the Series 2016 bonds. 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, 2016 is \$8,516,642.

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.).

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>
2017	7,420,000	6,790,603	14,210,603
2018	7,755,000	6,456,353	14,211,353
2019	7,900,000	6,097,278	13,997,278
2020	8,305,000	5,694,678	13,999,678
2021	8,725,000	5,271,103	13,996,103
2022-2026	49,545,000	19,303,703	68,848,703
2027-2031	34,970,000	7,406,975	42,376,975
2032-2035	13,770,000	1,549,350	15,319,350
Total	<u>\$ 138,390,000</u>	<u>\$ 58,570,043</u>	<u>\$ 196,960,043</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 2.03 for the year ended August 31, 2016.

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, 2016, this ratio was 1.43.

The Authority is also required to maintain, using a combination of funds in the debt service reserve account and surety bonds, an amount not less than 125% of the average annual debt service under the bonds of \$12,656,293. As of August 31, 2016, the balances in the debt service reserve account and the surety bonds exceed the minimum requirement.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note F – Revenue Bonds Payable (concluded)

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.

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 unearned revenue is \$151,140 at August 31, 2016 and is being recognized on the straight-line basis 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, 2016 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, 2016</u>		
<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
Change in fair value of derivative	\$ 384,942	Other long-term liability	\$ (293,112)	\$50,658,011

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CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

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).

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, 2016, the Authority has outstanding agreements with contractors for future work on existing construction projects in the approximate amount of \$1.3 million.

Note K – Operations

The Authority produced approximately 99.5% of its customers' water needs during the year ended August 31, 2016, purchasing most of the remaining amount from the City of Woodstock and Pickens County. The Authority provided 92.8% of sewage treatment required in the year ended August 31, 2016, purchasing the remainder primarily from the City of Canton and from Cobb County, Georgia.

Note L – Retirement Plans

Governmental Deferred Compensation Plan

The Authority provides a governmental deferred compensation "Section 457" plan (the "457 Plan") authorized by the Authority Board which covers all employees. The 457 Plan is administered by The Variable Annuity Life Insurance Company. It does not allow for employer contributions and so these defined contribution retirement benefits are dependent on employee contributions and investment earnings on those contributions. Participants self-direct the investment of their contributions. Any expenses incurred in conjunction with their investments are paid by the participants. Amounts employees defer under the 457 Plan are immediately vested and subject to statutory limits. Employee deferrals totaled \$290,267 during the year ended August 31, 2016.

Defined Benefit Plan

General Information About The Defined Benefit Pension Plan

The Authority has established the Cherokee County Water and Sewerage Authority Retirement Plan (the "Plan") and participates in the Georgia Municipal Employees Benefit System ("GMEBS") to provide certain retirement and death benefits to Plan members and beneficiaries. Only the Authority may amend the benefit provisions of the Plan. GMEBS is an agent multiple-employer, statewide public employee pension plan established by the Georgia legislature and administered by a board of trustees. GMEBS issues a publicly available financial report that may be obtained by contacting the administrator, Georgia Municipal Association ("GMA"), The Burgess Building, 201 Pryor Street, SW, Atlanta, Georgia 30303.

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CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note L – Retirement Plans (continued)

Benefits Provided.

Normal retirement age	Minimum of 65 with 5 Years of Credited Service, or combined credited service and age equal to at least 80 if still employed (the "Rule of 80")
Early retirement age	55 with 10 Years of Credited Service
Benefit formula	
- at normal retirement age	2.0% x Years of Credited Service (30 maximum) x Final Average Earnings
- at early retirement age	Reduced percentage of normal retirement benefit ranging from 93.3% to 50.0%
Final average earnings	Annual average of 5 consecutive years preceding the most recent termination in which participant's earnings were the highest.
Vesting	100% after 5 Years of Credited Service
Employee contributions	Nonparticipatory

Employees Covered By Benefit Terms. At the January 1, 2016 valuation date the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	27
Inactive employees entitled to but not yet receiving benefits	21
Active employees	174

Contributions. The Authority is required to contribute amounts at least equal to the actuarially determined rate established by the GMEBS board of trustees. The Plan is also subject to the minimum funding standards of the OCGA which will be met by the amount developed under the GMEBS actuarial funding policy. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Plan is non-contributory with respect to the participants. The Authority's contributions were 13.84% of Covered-Employee Payroll for the most recent measurement year ended September 30, 2015.

Net Pension Liability. The Authority's net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of January 1, 2016.

Actuarial Assumptions. The total pension liability in the January 1, 2016 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment expense, including inflation

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CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note L – Retirement Plans (continued)

Mortality rates used were based on the 1994 Group Annuity Reserving Unisex Table on a plan termination basis and RP-2000 Combined Healthy Mortality Table with sex-distinct rates, set forward two years for males and one year for females for healthy employees. For disabled retirees, the RP-2000 Disabled Retiree Mortality Table with sex-distinct rates was used. The RP-2000 mortality tables were determined to contain sufficient provision appropriate to reasonably reflect future mortality improvement, based on a four-year review of mortality experience for the period January 1, 2010 to June 30, 2014. Mortality experience will be reviewed by GMEBS periodically and updated if necessary.

The long-term expected rate of return on Plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of September 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Long-Term Nominal Real Rate of Return</u>
Domestic equity	50%	5.95%	9.20%
International equity	15%	6.45%	9.70%
Fixed income	25%	1.55%	4.80%
Real estate	10%	3.75%	7.00%
Cash	0%		
Total	100%		

Discount Rate. The discount rate used to measure the total pension liability is 7.75%. The projection of cash flows used to determine the discount rate assumes that the Authority's contributions will be made at the actuarially determined rates. Based on this assumption, the Plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note L – Retirement Plans (continued)

Changes in Net Pension Liability

Changes in the net pension liability are as follows for the year ended September 30, 2015 measurement period:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Changes for the year:			
Service cost	\$ 384,036	\$ -	\$ 384,036
Interest	1,505,560	-	1,505,560
Changes of benefit terms	-	-	-
Difference between expected and actual experience	1,068,153	-	1,068,153
Changes of assumptions	-	-	-
Contributions-employer	-	1,283,819	(1,283,819)
Contributions-employee *	-	-	-
Net investment income	-	135,060	(135,060)
Benefit payments *	(557,037)	(557,037)	-
Administrative expense	-	(21,095)	21,095
Other	-	-	-
Net Change	2,400,712	840,747	1,559,965
Balance October 1, 2014	19,705,104	14,412,444	5,292,660
Balance September 30, 2015	<u>\$ 22,105,816</u>	<u>\$ 15,253,191</u>	<u>\$ 6,852,625</u>

* Plan is non-participatory with respect to employee contributions

Sensitivity Of The Net Pension Liability To Changes In The Discount Rate. The following presents the net pension liability of the Authority at August 31, 2016, calculated using the discount rate of 7.75% as well as the amount that would result from using a discount rate that is 1.0% lower (6.75%) or 1.0% higher (8.75% than the current rate:

	1% Rate Decrease 6.75%	Current Discount Rate 7.75%	1% Rate Increase 8.75%
Range of discount rates			
Net pension liability ("NPL") August 31, 2016	\$ 6,852,625	\$ 6,852,625	\$ 6,852,625
Increase (decrease) in NPL	2,828,607	-	(2,363,580)
Calculated NPL August 31, 2016	<u>\$ 9,681,232</u>	<u>\$ 6,852,625</u>	<u>\$ 4,489,045</u>

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CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note L – Retirement Plans (concluded)

Pension Expense And Deferred Outflows And Inflows Of Resources Related To Pensions

For the year ended August 31, 2016 the Authority recognized pension expense of \$1,128,843. The Authority reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in demographics	\$ 1,267,038	\$ -
Difference in projected vs. actual investment earnings	807,400	(265,620)
Changes in assumptions	-	(92,392)
Contributions subsequent to measurement date	1,187,115	-
Total	<u>\$ 3,261,553</u>	<u>\$ (358,012)</u>

Deferred outflows resulting from contributions during the year ended August 31, 2016 subsequent to the measurement date of September 30, 2015 total \$1,187,115 and will be recognized as a reduction in the net pension liability for the year ending August 31, 2017. Other deferred outflows and inflows of resources related to the defined benefit pension will be recognized as follows in pension expense for the years ending August 31:

2016	\$ 362,465
2017	362,465
2018	362,465
2019	451,005
2020	178,026
	<u>\$ 1,716,426</u>

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.

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 meet the Rule of 80 as defined in Note L 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

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note M – Other Postemployment Benefits (continued)

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, 2016, membership consists of:

Retirees and beneficiaries	12
Active employees	<u>178</u>
Total participants	<u><u>190</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, 2015 calculating the postemployment healthcare cost for the year ended August 31, 2016. The actuarial valuation estimated the ARC and annual OPEB costs for the year ended August 31, 2016 of \$889,000. 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 2016 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 8.0% 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, 2016, 2015, 2014, 2012, 2011, 2010 and 2009 (the initial year) were \$889,000, \$478,000, \$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, 2015, the plan was 39.5% funded. The AAL for benefits was \$12.1 million and the actuarial value of assets was \$4.7 million resulting in a UAAL of \$7.3 million. The Covered Payroll was \$9.0 million and the ratio of the UAAL to the covered payroll was 81.1%. 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.

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.

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CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note M – 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.

**POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION**

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
 POSTEMPLOYMENT BENEFITS REQUIRED SUPPLEMENTARY INFORMATION
 AUGUST 31, 2016

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS
 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
7/1/2015	\$ 4,785,000	\$12,118,000	\$ 7,333,000	39.5%	\$ 9,047,000	81.1%
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%

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CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
POSTEMPLOYMENT BENEFITS REQUIRED SUPPLEMENTARY INFORMATION
AUGUST 31, 2016

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Last 10 Years *

Measurement Period	<u>FYE 9/30/2015</u>	<u>FYE 9/30/2014</u>
Total Pension Liability		
Service cost	\$ 384,036	\$ 416,262
Interest	1,505,560	1,374,131
Changes of benefit terms	-	-
Difference between expected and actual experience	1,068,153	565,359
Changes of assumptions	-	-
Benefit payments **	(557,037)	(485,554)
Administrative expense	-	-
Other	-	(138,589)
Net Change in Total Pension Liability	2,400,712	1,731,609
Total Pension Liability, beginning of year	19,705,104	17,973,495
Total Pension Liability, end of year (a)	22,105,816	19,705,104
Plan Fiduciary Net Position		
Contributions-employer	1,283,819	1,232,688
Contributions-employee **	N/A	N/A
Net investment income	135,060	1,421,199
Benefit payments **	(557,037)	(485,554)
Administrative expense	(21,095)	(16,290)
Net Change in Plan Fiduciary Net Position	840,747	2,152,043
Plan Fiduciary Net Position, beginning of year	14,412,444	12,260,401
Plan Fiduciary Net Position, end of year (b)	15,253,191	14,412,444
Net Pension Liability ("NPL"), end of year (a) - (b)	\$ 6,852,625	\$ 5,292,660
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	69.00%	73.14%
Covered Employee Payroll	\$ 9,276,547	\$ 8,586,584
NPL as a percentage of Covered Employee Payroll	73.87%	61.64%

Notes to Schedule

Benefit Changes:

The Plan was amended to provide for immediate participation for employees effective January 1, 2015 and had no impact on service credited under the Plan or benefits.

Changes of Assumptions:

For the fiscal year ending in 2016, the eligibility assumption has been changed from one year to immediate. The administrative expense assumption also increased by 0.01% of assets. The increase in the NPL is minimal and is included in the differences between expected and actuarial experience.

* Historical information prior to implementation of GASB 68 is not required

** Plan is non-participatory with respect to employee contributions

See Independent Auditors' Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
POSTEMPLOYMENT BENEFITS REQUIRED SUPPLEMENTARY INFORMATION
AUGUST 31, 2016

SCHEDULE OF DEFINED BENEFIT PLAN CONTRIBUTIONS
Last 10 Years*

Measurement Period	FYE 9/30/2015	FYE 9/30/2014
Actuarially Determined Contribution	\$ 1,295,035	\$ 1,282,799
Contributions in relation to the Actuarially Determined Contribution	1,283,819	1,232,688
Contribution deficiency (excess)	11,216	50,111
Covered-Employee Payroll	\$ 9,276,547	\$ 8,586,584
Contributions as a percentage of Covered-Employee Payroll	13.84%	14.36%

Notes to Schedule

Valuation Date:

The actuarial methods and assumptions used to set the actuarially determined contributions for the 2015 measurement period are from the January 1, 2015 valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method

Projected unit credit

Amortization method

Closed level dollar for remaining unfunded liability

Remaining amortization period

Remaining period varies for the bases, with a net effective period of 10 years

Asset valuation method

Sum of actuarial value at beginning of year and cash flow during the year plus assumed investment return, adjusted by 10% of the amount that the value is greater or less than the market value at end of year. The actuarial value is adjusted, if necessary, to be within 26% of market value.

Salary increases

3.50% plus age and service based merit increases

Investment rate of return

7.75% including inflation

Retirement age

65 with 5 years of service or Rule of 80

Mortality

The RP-2000 mortality tables are used based on an experience study by GMEBS for the period from January 1, 2010 to June 30, 2014.

* Historical information prior to implementation of GASB 68 is not required

See Independent Auditors' Report

OTHER SUPPLEMENTARY SCHEDULES

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF COSTS OF WATER PURCHASES AND PRODUCTION
FOR THE YEAR ENDED AUGUST 31, 2016

Purchased water	<u>\$ 67,638</u>
Water production:	
Salaries and wages	1,012,647
Payroll taxes	73,391
Group insurance	226,098
Retirement	92,142
Other postemployment benefits	73,675
Billing and accounting	20,166
Continuing education	33,337
Insurance - other than group	36,862
Lab fees and supplies	55,923
Stream monitoring	57,000
Miscellaneous	1,031
Office supplies	3,649
Operating supplies	265,673
Power	1,184,672
Professional fees	1,886
Repair and maintenance	224,882
Small tools and equipment	2,086
Telephone	24,278
Uniforms	6,184
Computer equipment and maintenance	332
Vehicle	<u>9,111</u>
Total water production	<u>3,405,025</u>
Total water purchases and production before depreciation	3,472,663
Depreciation	<u>1,411,216</u>
Total water purchases and production cost	<u><u>\$ 4,883,879</u></u>

See Independent Auditors' Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF COSTS OF WASTEWATER TREATMENT
FOR THE YEAR ENDED AUGUST 31, 2016

Purchased wastewater treatment	<u>\$ 794,414</u>
Wastewater treatment:	
Salaries and wages	2,566,605
Payroll taxes	181,561
Group insurance	591,374
Retirement	285,499
Other postemployment benefits	230,845
Billing and accounting	20,166
Insurance - other than group	116,150
Lab fees and supplies	51,297
Regulatory actions	15,125
Professional fees	9,859
Miscellaneous	3,089
Office supplies	8,206
Operating supplies	789,115
Power	1,412,850
Repair and maintenance	1,367,528
Continuing education	46,863
Small tools and equipment	8,924
Telephone	33,337
Uniforms	14,260
Computer equipment and maintenance	3,541
Vehicle	<u>43,739</u>
Total wastewater treatment	<u>7,799,933</u>
Total purchased treatment and wastewater treatment before depreciation	8,594,347
Depreciation	<u>2,285,991</u>
Total wastewater treatment cost	<u><u>\$ 10,880,338</u></u>

See Independent Auditors' Report

CHEROKEE COUNTY WATER AND SEWERAGE AUTHORITY
SCHEDULE OF DISTRIBUTION AND ADMINISTRATION EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2016

Salaries and wages	\$ 6,552,039
Payroll taxes	470,762
Group insurance	1,748,443
Retirement	728,446
Other postemployment benefits	584,480
Bad debts	63,686
Billing and accounting	394,250
Continuing education	67,479
Contract meter readers	632,749
Director fees and expenses	56,179
Equipment repairs and maintenance	846,052
Insurance - other than group	293,541
Lab fees and supplies	7,697
Legal and audit	64,003
Line and meter repairs	346,013
Miscellaneous	19,536
Office supplies	29,685
Operating supplies	73,519
Postage	8,496
Power	153,604
Professional fees	150,678
Real estate taxes	15,371
Service charges	313,188
Small tools and equipment	27,966
Telephone	91,559
Toilet rebates	32,000
Uniforms	29,141
Computer equipment and maintenance	10,921
Vehicle	210,025
Water tests	-
	<hr/>
Subtotal	14,021,508
Less capitalized salaries	(311,325)
	<hr/>
Total distribution and administration expenses before depreciation	13,710,183
Depreciation	7,782,289
	<hr/>
Total distribution and administration expenses	<u><u>\$ 21,492,472</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, 2016

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES			
Operating Revenues:			
Metered water sales	\$ 25,900,000	\$ 27,730,410	\$ 1,830,410
Wastewater treatment sales	15,500,000	16,435,678	935,678
Street light fees	1,370,000	1,364,046	(5,954)
Water connection fees	2,720,000	467,202	(2,252,798)
Transfer fees	200,000	217,675	17,675
Forfeited discounts and penalties	690,000	731,352	41,352
Customer repairs and service charges	240,000	250,061	10,061
	<u>46,620,000</u>	<u>47,196,424</u>	<u>576,424</u>
Total Operating Revenues			
Non-Operating Revenues:			
Interest:			
Sinking funds	77,000	107,188	30,188
Revenue funds	45,000	115,314	70,314
Change in fair value of derivative	-	384,942	384,942
Amortization of bond premiums, net		919,930	919,930
Miscellaneous	133,000	202,175	69,175
	<u>255,000</u>	<u>1,729,549</u>	<u>1,474,549</u>
Total Non-Operating Revenues			
TOTAL REVENUES	<u>46,875,000</u>	<u>48,925,973</u>	<u>2,050,973</u>
EXPENSES			
Operating Expenses:			
Water Purchases and Production:			
Purchased water	58,000	67,638	(9,638)
Water production:			
Salaries and wages	1,033,400	1,012,647	20,753
Payroll taxes	79,100	73,391	5,709
Group insurance	238,000	226,098	11,902
Retirement	105,500	92,142	13,358
Other postemployment benefits	73,675	73,675	-
Billing and accounting	18,000	20,166	(2,166)
Continuing education	39,000	33,337	5,663
Insurance - other than group	38,900	36,862	2,038
Lab fees and supplies	56,500	55,923	577
Stream monitoring	54,800	57,000	(2,200)
Miscellaneous	2,500	1,031	1,469
Office supplies	4,000	3,649	351
Operating supplies	265,000	265,673	(673)
Power	1,264,000	1,184,672	79,328

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, 2016

	BUDGET	ACTUAL	VARIANCE
Water production (continued):			
Professional fees	\$ 10,000	\$ 1,886	\$ 8,114
Repairs and maintenance	330,000	224,882	105,118
Small tools and equipment	3,000	2,086	914
Telephone	21,000	24,278	(3,278)
Uniforms	6,000	6,184	(184)
Computer equipment and maintenance	7,000	332	6,668
Vehicle expense	15,000	9,111	5,889
Operating expenses before depreciation	3,722,375	3,472,663	249,712
Depreciation	1,401,500	1,411,216	(9,716)
Total Water Purchases and Production	5,123,875	4,883,879	239,996
Wastewater Treatment:			
Purchased wastewater treatment	791,000	794,414	(3,414)
Wastewater treatment:			
Salaries and wages	2,536,100	2,566,605	(30,505)
Payroll taxes	194,000	181,561	12,439
Group insurance	651,000	591,374	59,626
Retirement	330,400	285,499	44,901
Other postemployment benefits	230,845	230,845	-
Billing and accounting	19,000	20,166	(1,166)
Insurance - other than group	122,000	116,150	5,850
Lab fees and supplies	60,000	51,297	8,703
Regulatory actions	20,000	15,125	4,875
Professional fees	10,000	9,859	141
Miscellaneous	3,500	3,089	411
Office supplies	13,200	8,206	4,994
Operating supplies	987,300	789,115	198,185
Power	1,460,000	1,412,850	47,150
Repairs and maintenance	1,436,700	1,367,528	69,172
Continuing education	47,000	46,863	137
Small tools and equipment	11,800	8,924	2,876
Telephone	32,500	33,337	(837)
Uniforms	15,000	14,260	740
Computer equipment and maintenance	7,500	3,541	3,959
Vehicle expense	65,000	43,739	21,261
Operating expenses before depreciation	9,043,845	8,594,347	449,498
Depreciation	2,198,800	2,285,991	(87,191)
Total Wastewater Treatment	11,242,645	10,880,338	362,307

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, 2016

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Distribution and Administration:			
Salaries and wages	\$ 6,505,400	\$ 6,552,039	\$ (46,639)
Payroll taxes	497,700	470,762	26,938
Group insurance	1,803,000	1,748,443	54,557
Retirement	836,500	728,446	108,054
Other postemployment benefits	584,480	584,480	-
Bad debts	100,000	63,686	36,314
Billing and accounting	421,000	394,250	26,750
Continuing education	85,500	67,479	18,021
Contract meter readers	636,000	632,749	3,251
Directors' fees and expenses	60,200	56,179	4,021
Equipment repairs and maintenance	874,000	846,052	27,948
Insurance - other than group	308,500	293,541	14,959
Lab fees and supplies	8,500	7,697	803
Legal and audit	95,000	64,003	30,997
Line and meter repairs	500,000	346,013	153,987
Miscellaneous	35,000	19,536	15,464
Office supplies	34,700	29,685	5,015
Operating supplies	83,000	73,519	9,481
Postage	11,300	8,496	2,804
Power	160,500	153,604	6,896
Professional fees	193,000	150,678	42,322
Real estate taxes	20,000	15,371	4,629
Small tools and equipment	29,000	27,966	1,034
Service Charges	265,000	313,188	(48,188)
Telephone	96,000	91,559	4,441
Toilet rebates	30,000	32,000	(2,000)
Uniforms	30,000	29,141	859
Computer equipment and maintenance	17,500	10,921	6,579
Vehicle expense	292,000	210,025	81,975
Total distribution and administration expense before depreciation	14,612,780	14,021,508	591,272
Depreciation	<u>7,752,000</u>	<u>7,782,289</u>	<u>(30,289)</u>
Subtotal	22,364,780	21,803,797	560,983
Less capitalized salaries	<u>(395,376)</u>	<u>(311,325)</u>	<u>(84,051)</u>
Total Distribution and Administration	<u>21,969,404</u>	<u>21,492,472</u>	<u>476,932</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, 2016

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Streetlights	\$ 1,067,000	\$ 1,063,994	\$ 3,006
Total Operating Expenses	<u>39,402,924</u>	<u>38,320,683</u>	<u>1,082,241</u>
Non-Operating Expenses:			
Interest	7,258,990	7,090,067	168,923
Paying agent fees	20,000	18,094	1,906
Loss on disposition of capital assets, net	-	83,118	(83,118)
Bond issue costs	-	413,838	(413,838)
Amortization of deferred amount on refunding	<u>241,230</u>	<u>494,213</u>	<u>(252,983)</u>
Total Non-Operating Expenses	<u>7,520,220</u>	<u>8,099,330</u>	<u>(579,110)</u>
TOTAL EXPENSES	<u>46,923,144</u>	<u>46,420,013</u>	<u>503,131</u>
CAPITAL CONTRIBUTIONS	<u>4,996,000</u>	<u>13,364,849</u>	<u>8,368,849</u>
CHANGE IN NET POSITION	<u>\$ 4,947,856</u>	<u>\$ 15,870,809</u>	<u>\$ 10,922,953</u>

See Independent Auditors' Report

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Metered Water Sales	<u>\$ 27,730,410</u>	<u>\$ 25,980,155</u>	<u>\$ 24,286,454</u>	<u>\$ 22,544,847</u>	<u>\$ 24,472,779</u>
Number of Customers Served	<u>70,893</u>	<u>69,302</u>	<u>67,965</u>	<u>66,573</u>	<u>65,519</u>
Sales Per Customer	<u>\$ 391.16</u>	<u>\$ 374.88</u>	<u>\$ 357.34</u>	<u>\$ 338.65</u>	<u>\$ 373.52</u>
Wastewater Treatment Sales	<u>\$ 16,435,678</u>	<u>\$ 15,607,818</u>	<u>\$ 14,538,327</u>	<u>\$ 13,529,139</u>	<u>\$ 14,011,430</u>
Number of Customers Served	<u>32,174</u>	<u>31,044</u>	<u>30,012</u>	<u>28,944</u>	<u>28,053</u>
Sales Per Customer	<u>\$ 510.84</u>	<u>\$ 502.76</u>	<u>\$ 484.42</u>	<u>\$ 467.42</u>	<u>\$ 499.46</u>

See Independent Auditors' Report

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

	2016		2015		2014		2013		2012	
	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)	\$28,882	\$20,313	\$27,068	\$18,623	\$23,150	\$16,786	\$21,199	\$14,828	\$21,869	\$17,739
Highest annual debt service requirements	\$14,237	\$14,237	\$14,421	\$14,421	\$14,421	\$14,421	\$14,421	\$14,421	\$14,452	\$14,452

Revenue Bond Coverage:

Actual	2.03	1.43	1.88	1.29	1.61	1.16	1.47	1.03	1.51	1.23
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, 2016

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, 2016

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	\$239,334,543 blanket coverage for buildings \$4,830,700 blanket coverage for business property
Inland Marine	\$2,836,415 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

See Independent Auditors' Report

Comprehensive Annual Financial Report

III. Statistical Section

Cherokee County Water & Sewerage Authority- Cherokee County, Georgia

Statistical Section

The contents of the statistical section of the comprehensive annual financial report presents information regarding financial trends, revenue capacity, debt service and debt capacity, demographic and economic information and operating information.

Contents

Financial Trends	50-55
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These schedules should help the reader understand how the Authority's financial performance and well-being have changed over time.

Revenue Capacity.....	57-63
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These schedules contain information in order for the reader to assess the Authority's most significant revenue sources.

Debt Capacity	65-67
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These schedules contain information in order for the reader to assess the affordability of the Authority's current levels of outstanding debt and the ability for the Authority to issue additional debt in the future.

Demographic and Economic Information	69-70
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These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place.

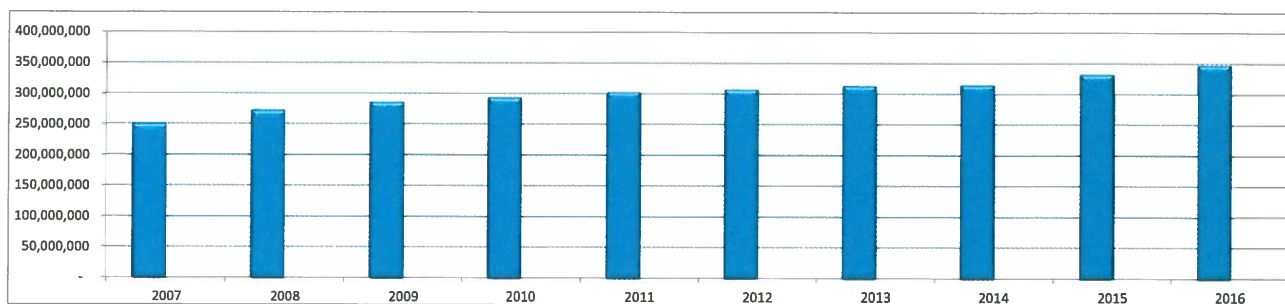
Operating Information	72-74
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These schedules contain service and infrastructure data to help the reader understand how the information in the Authority's financial report relates to the services the Authority provides and the activities it performs.

Cherokee County Water & Sewerage Authority

Net Position by Component Last Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net investment in capital assets	206,959,000	230,425,517	239,421,805	246,127,575	252,722,983	254,997,871	276,087,369	281,151,583	291,424,715	301,934,404
Restricted for:										
Debt Service	2,444,091	2,935,181	2,904,509	4,848,640	4,832,668	5,529,572	4,868,422	4,931,244	4,949,250	1,925,221
Capital Projects							828,731			
Unrestricted	41,651,747	39,637,088	43,916,564	43,101,106	46,021,700	46,736,656	33,403,218	29,486,065	36,238,725	44,623,874
Total Net Position	251,054,838	272,997,786	286,242,878	294,077,321	303,577,351	308,092,830	314,359,009	315,568,892	332,612,690	348,483,499

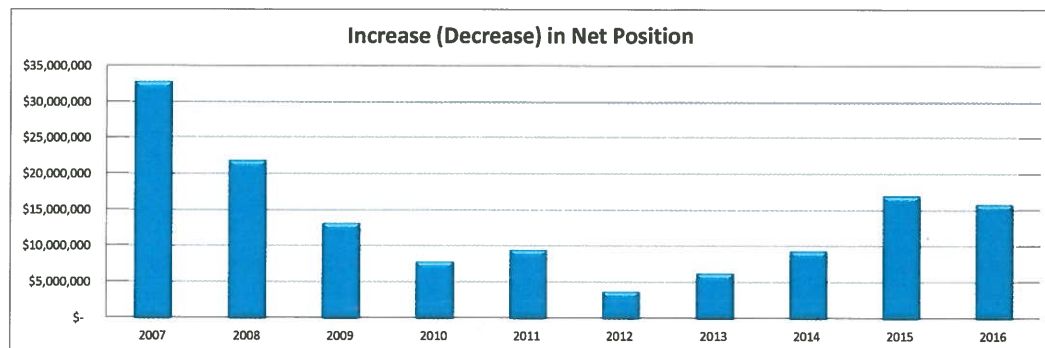


Source: Cherokee County Water & Sewerage Authority Historical Financial Records

Cherokee County Water & Sewerage Authority

Changes in Net Position Last Ten Fiscal Years

Fiscal Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating Revenues	\$ 42,286,813	\$ 38,006,740	\$ 40,519,186	\$ 41,383,583	\$ 42,347,019	\$ 41,032,207	\$ 38,674,973	\$ 41,382,200	\$ 44,442,890	\$ 47,196,424
Operating Expenses	28,579,107	31,029,958	30,357,010	32,070,123	32,984,658	33,987,476	34,426,663	35,600,188	36,947,246	38,320,683
Income from Operations	13,707,706	6,976,782	10,162,176	9,313,460	9,362,361	7,044,731	4,248,310	5,782,012	7,495,644	8,875,741
Non-Operating Revenues (Expenses)	(7,026,201)	(8,102,537)	(9,605,497)	(9,080,570)	(8,645,999)	(8,015,283)	(8,260,211)	(6,925,380)	(6,854,441)	(6,369,781)
Gain (Loss) Before Capital Contributions	6,681,505	(1,125,755)	556,679	232,890	716,362	(970,552)	(4,011,901)	(1,143,368)	641,203	2,505,960
Capital Contributions	26,159,513	23,068,703	12,688,413	7,601,553	8,783,668	4,741,959	10,278,080	10,515,135	16,402,595	13,364,849
Increase (decrease) in Net Position	<u>\$ 32,841,018</u>	<u>\$ 21,942,948</u>	<u>\$ 13,245,092</u>	<u>\$ 7,834,443</u>	<u>\$ 9,500,030</u>	<u>\$ 3,771,407</u>	<u>\$ 6,266,179</u>	<u>\$ 9,371,767</u>	<u>\$ 17,043,798</u>	<u>\$ 15,870,809</u>



Note:
See Operating Revenues statistical schedule for a detailed breakdown by revenue source.
See the Non-Operating Revenue (Expenses) statistical schedule for a breakdown by non-operating revenue(expense) items.

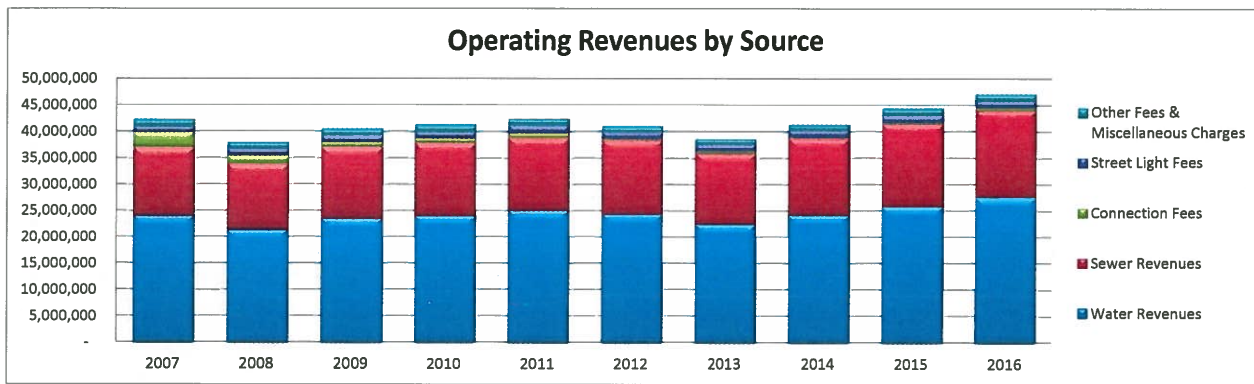
Beginning in fiscal year 2012, the Authority reclassified certain revenue and capital contribution items so certain of the revenue and capital contribution categories shown for fiscal year 2007 through 2011 have been reclassified to facilitate comparison to fiscal year 2012-2016. Portions of water meter connections included under Capital Contributions were not reclassified for fiscal years 2007-2011 to facilitate comparison to 2012-2016 because the data and information was not sorted in such a way that it was obtainable to make this reclassification for comparison purposes.

Source: Cherokee County Water & Sewerage Authority Historical Financial Records

Cherokee County Water & Sewerage Authority

Operating Revenues by Source
Last Ten Fiscal Years

Fiscal Year	Water Revenue	Sewer Revenues	Connection Fees	Street Light Fees	Other Fees & Miscellaneous Charges	Total
2007	24,203,994	13,018,909	2,733,580	1,197,733	1,132,597	42,286,813
2008	21,545,310	12,474,370	1,690,188	1,241,086	1,055,786	38,006,740
2009	23,671,252	13,559,105	981,908	1,244,934	1,061,987	40,519,186
2010	24,106,505	13,818,212	939,350	1,251,173	1,268,343	41,383,583
2011	25,177,691	13,787,286	773,900	1,617,410	990,732	42,347,019
2012	24,472,779	14,011,430	307,445	1,263,493	977,060	41,032,207
2013	22,544,851	13,529,139	412,715	1,288,766	899,502	38,674,973
2014	24,286,454	14,538,327	291,639	1,322,783	942,997	41,382,200
2015	25,980,155	15,607,818	373,344	1,342,068	1,139,505	44,442,890
2016	27,730,410	16,435,678	467,202	1,364,046	1,199,088	47,196,424



Note:

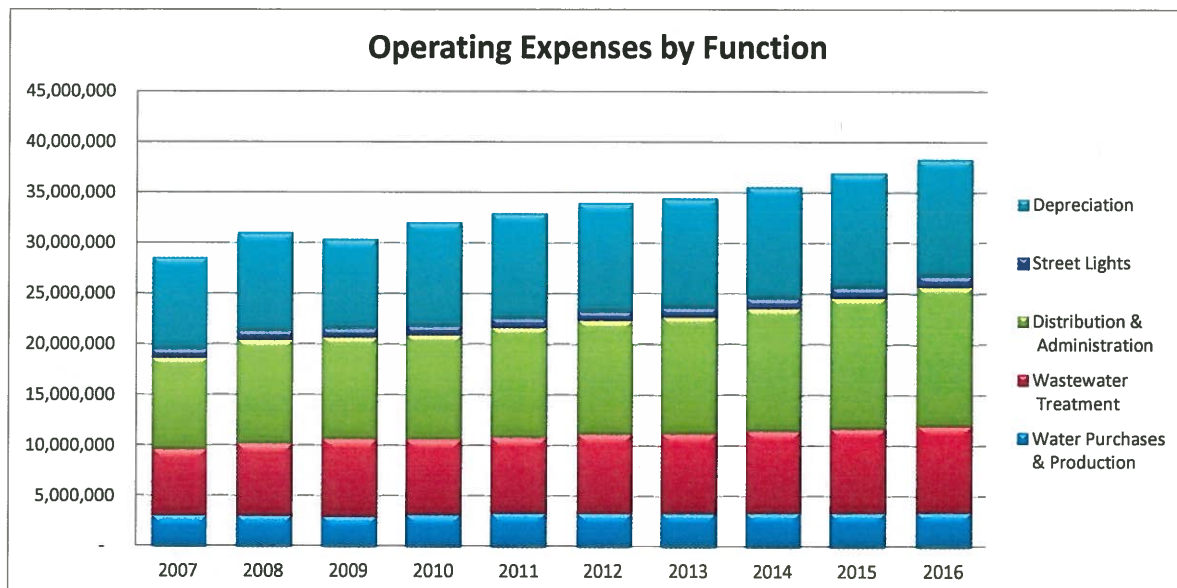
Beginning in fiscal year 2012, the Authority reclassified certain revenue and capital contribution items so certain of the revenue and capital contribution categories shown for fiscal year 2007 through 2012 have been reclassified to facilitate comparison to fiscal year 2012-2015. Portions of water meter connections included under Capital Contributions were not reclassified for fiscal years 2007-2011 to facilitate comparison to 2012-2016 because the data and information was not sorted in such a way that it was obtainable to make this reclassification for comparison purposes.

Source: Cherokee County Water & Sewerage Authority Historical Financial Records

Cherokee County Water & Sewerage Authority

Operating Expenses by Function
Last Ten Fiscal Years

Fiscal Year	Water Purchases & Production	Wastewater Treatment	Distribution & Administration	Street Lights	Depreciation	Total Operating Expenses
2007	3,093,866	6,609,408	9,033,430	812,183	9,030,220	28,579,107
2008	3,118,064	7,139,435	10,226,174	852,990	9,693,294	31,029,957
2009	3,029,734	7,697,153	9,999,424	876,136	8,754,563	30,357,010
2010	3,203,144	7,482,282	10,318,847	877,458	10,188,392	32,070,123
2011	3,398,081	7,488,990	10,842,235	903,511	10,351,841	32,984,658
2012	3,371,731	7,831,106	11,243,067	915,727	10,625,845	33,987,476
2013	3,395,278	7,881,795	11,502,139	971,867	10,675,584	34,426,663
2014	3,415,804	8,123,714	12,101,019	1,036,563	10,923,088	35,600,188
2015	3,446,719	8,327,094	12,902,290	1,051,386	11,219,757	36,947,246
2016	3,472,663	8,594,347	13,710,183	1,063,994	11,479,496	38,320,683



Source: Cherokee County Water & Sewerage Authority Historical Financial Records

Cherokee County Water & Sewerage Authority

Non-Operating Revenues (Expenses)
Last Ten Fiscal Years

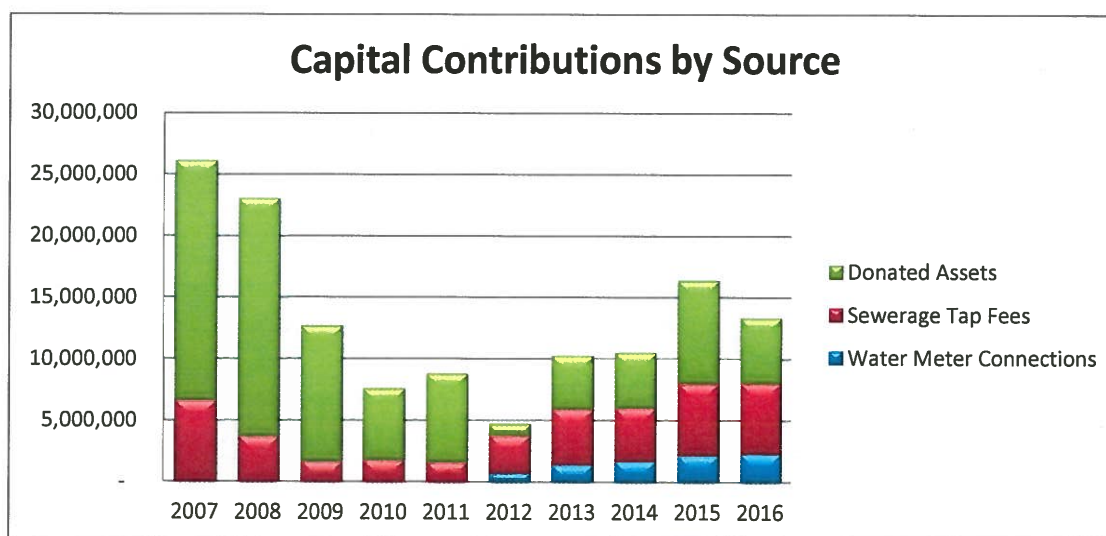
Fiscal Year	Interest Income	Change in Fair Value of Derivatives	Gain (Loss) on Disposal of Assets	Miscellaneous	Interest Expense & Other Fiscal Charges	Other	Total
2007	2,077,966	-	(59,341)	205,912	(9,145,239)	(105,499)	(7,026,201)
2008	1,640,733	-	(73,790)	186,039	(9,732,681)	(122,838)	(8,102,537)
2009	\$484,858	-	(102,502)	150,611	(10,030,796)	(107,668)	(9,605,497)
2010	\$201,937	-	12,888	111,631	(9,294,932)	(112,094)	(9,080,570)
2011	\$174,641	-	(35,097)	119,520	(8,789,599)	(115,464)	(8,645,999)
2012	\$164,191	98,613	(19,595)	113,382	(8,295,890)	(75,984)	(8,015,283)
2013	\$185,022	(360,374)	(54,257)	131,406	(8,063,069)	(98,939)	(8,260,211)
2014	\$228,744	191,330	17,999	143,381	(7,845,282)	338,448	(6,925,380)
2015	\$146,925	178,641	(56,913)	133,766	(7,552,660)	295,800	(6,854,441)
2016	\$222,502	384,942	(83,118)	202,175	(7,521,999)	425,717	(6,369,781)

Source: Cherokee County Water & Sewerage Authority Historical Financial Records

Cherokee County Water & Sewerage Authority

Capital Contributions by Source Last Ten Fiscal Years

Fiscal Year	Water Meter Connections	Sewerage Tap Fees	Donated Assets	Total Capital Contributions
2007	-	6,651,573	19,507,940	26,159,513
2008	-	3,731,284	19,337,419	23,068,703
2009	-	1,710,209	10,978,204	12,688,413
2010	-	1,835,666	5,765,887	7,601,553
2011	-	1,666,600	7,117,068	8,783,668
2012	765,059	3,057,288	919,612	4,741,959
2013	1,442,985	4,515,196	4,319,899	10,278,080
2014	1,743,611	4,328,898	4,442,626	10,515,135
2015	2,224,156	5,847,315	8,331,124	16,402,595
2016	2,367,398	5,734,547	5,262,904	13,364,849



Note:

Beginning in fiscal year 2012, the Authority reclassified certain revenue and capital contribution items so certain of the revenue and capital contribution categories shows for fiscal year 2007 through 2011 have been reclassified to facilitate comparison to fiscal year 2012-2016

Source: Cherokee County Water & Sewerage Authority Historical Financial Records

Revenue Capacity

Cherokee County Water & Sewerage Authority

Water Capacity Compared with Annual Average Daily Flow and Maximum Flow
Last Ten Fiscal Years

(All Numbers Presented in Million Gallons Per Day)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Maximum Rated Capacity for the Plant <u>Treatment Plant</u>										
Etowah River Water Treatment Plant	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00
Average Daily Flow	16.69	14.88	14.70	14.45	14.79	14.92	14.00	14.61	14.91	16.14
Maximum Daily Flow	27.69	24.61	21.76	21.48	22.49	24.56	19.68	20.74	22.40	27.17

Source: Cherokee County Water & Sewerage Authority Historical Data Records

Cherokee County Water & Sewerage Authority

Sewerage Treatment Capacity Compared with Annual Monthly Average Flow and Peak Day Flows
Last Ten Fiscal Years

(All Numbers Presented in Million Gallons Per Day)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Permit Limit on Flows Treatment Plants										
Rose Creek	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Fitzgerald Creek	2.0 ⁽¹⁾ 5.0 ⁽²⁾	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Riverbend ⁽⁵⁾										1.0 ⁽⁵⁾
Total	11.0⁽⁴⁾	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	12.0
<u>Rose Creek GA0046451</u>										
Monthly Average	3.57	3.13	2.24	2.88	2.90	2.63	2.82	2.47	2.39	2.31
Peak Day Flow	5.89	5.25	6.11	5.26	4.27	3.46	4.78	3.72	4.97	4.51
<u>Fitzgerald Creek GA0038555</u>										
Monthly Average	1.74	2.36	4.18	3.32	3.07	3.22	3.67	3.70	3.70	4.05
Peak Day Flow	3.38	6.13	9.81	8.41	6.56	7.21	8.42	5.88	5.13	6.32
<u>Riverbend GA0000728⁽⁵⁾</u>										
Monthly Average							0.0081 ⁽³⁾	0.00	0.00	0.02
Peak Day Flow							0.1400 ⁽³⁾	0.00	0.00	0.21

Source: Cherokee County Water & Sewerage Authority Historical Data Records

(1) 2.0 mgd on November 2007

(2) 5.0 mgd on December 2007

(3) 2013 for Riverbend is from August through December.

(4) Fiscal Year End

(5) The Authority assumed the Industrial Permit for Riverbend in 2013 after the facility was purchased from a rendering plant.

There were no process flows other than rain water infiltration. The domestic permit has an initial permitted treatment capacity of 1.0 MGD. The Authority has not yet commenced construction of the Riverbend plant. The commencement date will occur in the last quarter of 2016.

Cherokee County Water & Sewerage Authority
New Connections Added to the System

New Water Meters Sold

Last Ten Fiscal Years

METER SIZE	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	TOTAL
3/4 INCH											
Residential	1,930	990	390	390	335	511	929	1,081	1,352	1,492	9,540
Commercial	44	20	13	8	12	9	6	6	11	11	
1 INCH											
Residential	18	8	2	2	1	2	1		6	6	136
Commercial	22	12	9	4	5	7	11	5	9	6	
1.5 INCH											
Residential	3	3		1	1	1		1			54
Commercial	4	12	5	4	3	1	4	3	4	4	
2 INCH											
Residential	2	2						2			74
Commercial	15	15	4	7	2	1	9	5	8	2	
3 INCH											
Residential	1									1	13
Commercial		1	1	2	2	3			2		
4 INCH											
Residential											2
Commercial			1							1	
6 INCH											
Residential											-
Commercial											
8 INCH											
Residential											1
Commercial										1	
TOTAL	2,039	1,063	425	418	361	535	960	1,103	1,392	1,524	9,820

New Sewer Taps Sold

Last Ten Fiscal Years

TYPE	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	TOTAL
Residential	1,532	804	307	326	247	424	810	905	1,037	1,149	7,541
Commercial	36	30	16	14	16	10	15	12	16	18	183
TOTAL	1,568	834	323	340	263	434	825	917	1,053	1,167	7,724

Cherokee County Water & Sewerage Authority

Number of Customers
Last Ten Fiscal Years

Number of Water Connections

<u>Customer Class</u>	<u>As of August 31</u>									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Residential	62,412	57,840	57,976	58,172	58,702	59,277	60,323	61,658	62,978	64,687
Commercial & Industrial	n/a	5,637	5,952	6,049	5,957	6,242	6,250	6,307	6,324	6,206
Total	62,412	63,477	63,928	64,221	64,659	65,519	66,573	67,965	69,302	70,893

Number of Sewer Connections

<u>Customer Class</u>	<u>As of August 31</u>									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Residential	25,721	25,911	26,140	26,482	27,043	27,494	28,401	29,449	30,467	31,489
Commercial & Industrial	n/a	502	515	532	536	559	543	563	577	685
Total	25,721	26,413	26,655	27,014	27,579	28,053	28,944	30,012	31,044	32,174

Note: Commercial and Industrial water/sewer connections are included in residential numbers for 2007

Source: Cherokee County Water & Sewerage Authority Historical Financial Records

Cherokee County Water & Sewerage Authority
Residential Water & Sewer Rates
Last Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water										
Base Rate	8.70	7.00	8.00	8.00	8.00	8.00	8.00	9.00	9.00	9.00
3/4"										
1,000	base	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
2,000	base	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
3,000-10,000	4.35/1000	5.00/1000	5.00/1000	5.00/1000	5.00/1000	5.00/1000	5.00/1000	5.25/1000	5.25/1000	5.25/1000
>10,000	5.35/1000	6.00/1000	6.00/1000	6.00/1000	6.00/1000	6.00/1000	6.00/1000	6.30/1000	6.30/1000	6.30/1000
Minimum Charge:										
1"	43.50	49.20	50.20	50.20	50.20	50.20	50.20	53.20	53.20	53.20
1.5"	87.00	99.20	100.20	100.20	100.20	100.20	100.20	105.70	105.70	105.70
2"	147.90	169.20	170.20	170.20	170.20	170.20	170.20	179.20	179.20	179.20
3"	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
4"	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
6"	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
8"	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Charge per 1,000 Gallons:										
Above Minimum	5.35	6.00	6.00	6.00	6.00	6.00	6.00	6.30	6.30	6.30
Sewerage										
Minimum Charge:	11.60	11.60	11.60	11.60	11.60	11.60	11.60	12.60	12.60	12.60
1"	58.00	64.40	64.40	64.40	64.40	64.40	64.40	68.20	68.20	68.20
1.5"	116.00	130.40	130.40	130.40	130.40	130.40	130.40	137.70	137.70	137.70
2"	197.20	222.80	222.80	222.80	222.80	222.80	222.80	235.00	235.00	235.00
3"	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
4"	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
6"	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
8"	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Charge per 1,000 Gallons:										
Above Minimum	5.80	6.60	6.60	6.60	6.60	6.60	6.60	6.95	6.95	6.95

Note: Rates are presented as of August 31 of each Fiscal Year, respectively

Source: Cherokee County Water & Sewerage Authority Historical Data

Cherokee County Water & Sewerage Authority
Commercial Water, Sewer and Irrigation Rates
Last Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water										
Base Rate	8.70	7.00	8.00	8.00	8.00	8.00	8.00	9.00	9.00	9.00
3/4"										
1,000	base	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
2,000	base	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
3,000-10,000	4.35/1000	5.00/1000	5.00/1000	5.00/1000	5.00/1000	5.00/1000	5.00/1000	5.25/1000	5.25/1000	5.25/1000
>10,000	4.35/1000	5.00/1000	5.00/1000	5.00/1000	5.00/1000	5.00/1000	5.00/1000	5.25/1000	5.25/1000	5.25/1000
Minimum Charge:										
1"	43.50	49.20	50.20	50.20	50.20	50.20	50.20	53.20	53.20	53.20
1.5"	87.00	99.20	100.20	100.20	100.20	100.20	100.20	105.70	105.70	105.70
2"	147.90	169.20	170.20	170.20	170.20	170.20	170.20	179.20	179.20	179.20
3"	200.10	229.20	230.20	230.20	230.20	230.20	230.20	242.20	242.20	242.20
4"	256.65	294.20	295.20	295.20	295.20	295.20	295.20	310.45	310.45	310.45
6"	365.40	419.20	420.20	420.20	420.20	420.20	420.20	441.70	441.70	441.70
8"	435.00	499.20	500.20	500.20	500.20	500.20	500.20	525.70	525.70	525.70
Charge per 1,000 Gallons:										
Above Minimum	4.35	5.00	5.00	5.00	5.00	5.00	5.00	5.25	5.25	5.25
Sewerage										
Minimum Charge:	11.60	11.60	11.60	11.60	11.60	11.60	11.60	12.60	12.60	12.60
1"	58.00	64.40	64.40	64.40	64.40	64.40	64.40	68.20	68.20	68.20
1.5"	116.00	130.40	130.40	130.40	130.40	130.40	130.40	137.70	137.70	137.70
2"	197.20	222.80	222.80	222.80	222.80	222.80	222.80	235.00	235.00	235.00
3"	266.80	302.00	302.00	302.00	302.00	302.00	302.00	318.40	318.40	318.40
4"	342.20	387.80	387.80	387.80	387.80	387.80	387.80	408.75	408.75	408.75
6"	487.20	552.80	552.80	552.80	552.80	552.80	552.80	582.50	582.50	582.50
8"	580.00	658.40	658.40	658.40	658.40	658.40	658.40	693.70	693.70	693.70
Charge per 1,000 Gallons:										
Above Minimum	5.80	6.60	6.60	6.60	6.60	6.60	6.60	6.95	6.95	6.95
Irrigation										
Base Rate:	8.70	7.00	11.00	11.00	11.00	11.00	11.00	12.00	12.00	12.00
Minimum Charge:										
3/4"										
1,000 Gallons	base	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
2,000 Gallons	base	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
3,000-10,000 Gallons	4.35/1000	5.00/1000	5.00/1000	5.00/1000	5.00/1000	5.00/1000	5.00/1000	5.25/1000	5.25/1000	5.25/1000
> 10,000 Gallons	4.35/1000	5.00/1000	6.00/1000	6.00/1000	6.00/1000	6.00/1000	6.00/1000	6.30/1000	6.30/1000	6.30/1000
1"	43.50	49.20	53.20	53.20	53.20	53.20	53.20	56.20	56.20	56.20
1.5"	87.00	99.20	103.20	103.20	103.20	103.20	103.20	108.70	108.70	108.70
2"	147.90	169.20	173.20	173.20	173.20	173.20	173.20	182.20	182.20	182.20
3"	200.10	229.20	233.20	233.20	233.20	233.20	233.20	245.20	245.20	245.20
4"	256.65	294.20	298.20	298.20	298.20	298.20	298.20	313.45	313.45	313.45
6"	365.40	419.20	423.20	423.20	423.20	423.20	423.20	444.70	444.70	444.70
8"	435.00	499.20	503.20	503.20	503.20	503.20	503.20	528.70	528.70	528.70
Charge per 1,000 Gallons:										
Above Minimum	4.35	5.00	6.00	6.00	6.00	6.00	6.00	6.30	6.30	6.30

Note: Rates are presented as of August 31 of each Fiscal Year, respectively

Source: Cherokee County Water & Sewerage Authority Historical Data

Cherokee County Water & Sewerage Authority

Top Ten Customers by Type Current Year and Nine Years Ago

Fiscal Year	2016			2007			
Water Customers	Gallons Metered	Water Revenue	% of Water Revenue	Water Customers	Gallons Metered	Water Revenue	% of Water Revenue
Pilgrim's Pride Corporation	257,276,000	\$514,552	1.86%	Pilgrim Pride	253,380,000	\$506,760	2.06%
Cherokee County Board of Education	60,174,000	\$352,725	1.27%	City of Woodstock	224,256,000	\$421,179	1.71%
Yes Investors (Shadowood MHP)	117,267,000	\$278,953	1.01%	City of Canton	125,352,000	\$255,832	1.04%
City of Woodstock	32,112,000	\$173,174	0.62%	Shadowood MHP	47,381,000	\$211,130	0.86%
City of Waleska	70,983,000	\$167,259	0.60%	Pickens County Government	97,925,000	\$192,912	0.78%
City of Canton	63,607,000	\$151,401	0.55%	Cherokee Co. Board of Education	43,845,000	\$190,175	0.77%
Towne Lake Apartments	26,245,000	\$142,018	0.51%	City of Waleska	87,970,000	\$173,741	0.70%
Colony Homes (River Park)	25,167,000	\$140,457	0.51%	Bartow County Water Department	83,270,000	\$164,358	0.67%
Bartow County Water Department	48,339,000	\$114,172	0.41%	Towne Lake Apartments	30,215,000	\$131,279	0.53%
Cherokee Co. Sheriff's Office (Jail)	45,693,000	\$108,130	0.39%	Cherokee County Jail	21,352,000	\$92,143	0.37%
Total	746,863,000	\$ 2,142,842	7.73%		1,014,946,000	\$2,339,508	9.49%

Fiscal Year	2016			2007			
Sewer Customers	Gallons Metered	Sewer Revenue	% of Sewer Revenue	Sewer Customers	Gallons Metered	Sewer Revenue	% of Sewer Revenue
Pilgrim's Pride Corporation	254,516,000	\$509,032	3.10%	Pilgrim Pride	245,623,000	\$574,758	4.24%
Cherokee County Board of Education	42,990,000	\$320,667	1.95%	Shadowood MHP	43,845,000	\$252,772	1.86%
Yes Investors (Shadowood MHP)	32,112,000	\$214,661	1.31%	Cherokee Co. Board of Education	24,427,000	\$145,726	1.07%
Towne Lake Apartments	25,013,000	\$169,722	1.03%	Towne Lake Apartments	21,352,000	\$122,882	0.91%
Colony Homes (River Park)	21,057,000	\$140,512	0.85%	Cherokee County Jail	14,486,000	\$83,406	0.61%
Cherokee Co. Sheriff's Office (Jail)	17,790,000	\$123,625	0.75%	Gray Property	14,480,000	\$83,386	0.61%
Pointe Development Group (HOA)	14,126,000	\$98,160	0.60%	Colony Homes (River Edge HOA)	13,031,000	\$75,356	0.56%
The Peaks at Bells Ferry (Apts.)	12,267,000	\$80,326	0.49%	Alta Ridgewalk	12,607,000	\$72,531	0.53%
Gray Property (Brook Mill Apts.)	12,020,000	\$79,249	0.48%	Gold Mill LLC	11,682,000	\$67,317	0.50%
Lindon Corp.	12,003,000	\$77,165	0.47%	Paces at Towne Lake	9,830,000	\$58,068	0.43%
Total	443,894,000	\$1,813,119	11.03%		411,363,000	\$1,536,201	13.28%

Source: Cherokee County Water & Sewerage Authority Historical Financial Records

Debt Capacity

Cherokee County Water & Sewerage Authority

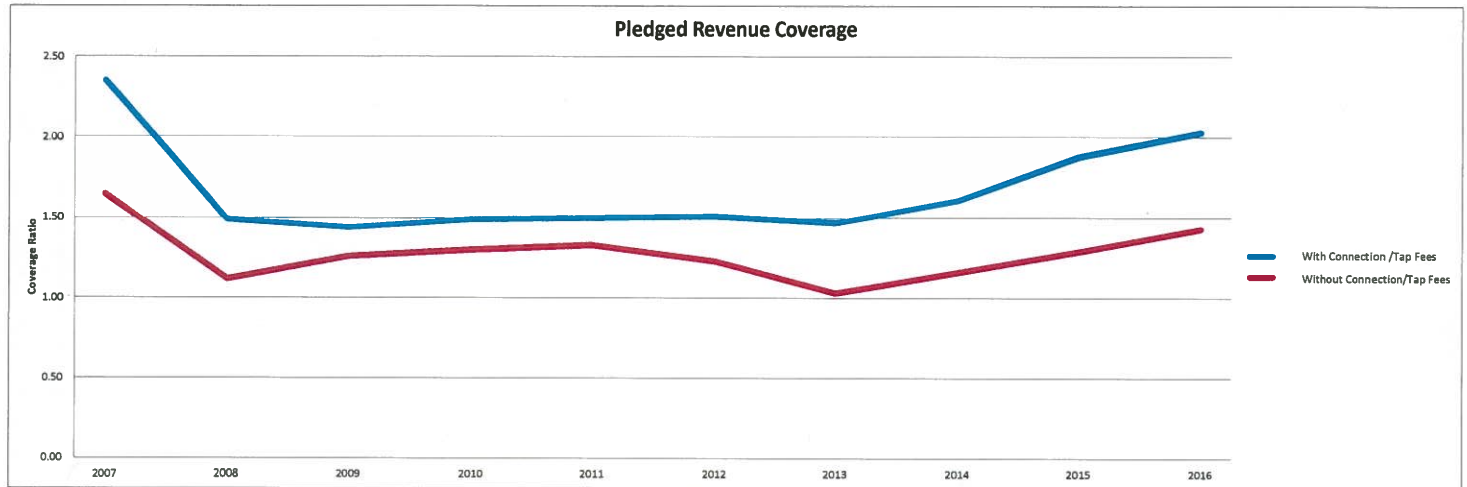
Schedule of Revenue Bond Coverage
Last Ten Fiscal Years

Fiscal Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating Revenues	\$ 39,553,233	\$ 36,316,552	\$ 39,537,278	\$ 40,444,233	\$ 41,573,119	\$ 40,724,762	\$ 38,262,258	\$ 41,090,561	\$ 44,069,546	\$ 46,729,222
Connection Fees	9,385,153	5,421,472.00	2,692,117	2,775,016	2,440,500	4,129,792	6,370,896	6,364,148	8,444,815	8,569,147
Other Income	1,915,457	1,537,278.00	634,774	340,499	322,959	376,186	316,428	372,125	280,691	424,677
Gross Total Revenues	50,853,843	43,275,302.00	42,864,169	43,559,748	44,336,578	45,230,740	44,949,582	47,826,834	52,795,052	55,723,046
Less Operating Expenses Excluding Depreciation	19,548,887	21,336,664.00	21,602,447	21,881,731	22,632,817	23,361,631	23,751,079	24,677,100	25,727,489	26,841,187
Net Revenue Available	\$ 31,304,956	\$ 21,938,638	\$ 21,261,722	\$ 21,678,017	\$ 21,703,761	\$ 21,869,109	\$ 21,198,503	\$ 23,149,734	\$ 27,067,563	\$ 28,881,859

Total Highest Annual Debt Service	\$ 13,312,000	\$ 14,724,000	\$ 14,724,000	\$ 14,564,000	\$ 14,452,000	\$ 14,452,000	\$ 14,421,000	\$ 14,421,000	\$ 14,421,000	\$ 14,237,000
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Coverage Ratio										
With Connection /Tap Fees	2.35	1.49	1.44	1.49	1.50	1.51	1.47	1.61	1.88	2.03
Without Connection/Tap Fees	1.65	1.12	1.26	1.30	1.33	1.23	1.03	1.16	1.29	1.43

Source: Cherokee County Water & Sewerage Authority Historical Financial Records



Cherokee County Water & Sewerage Authority

Ratios of Revenue Bond Debt Outstanding
Last Ten Fiscal Years

Fiscal Year	Revenue Bonds	Total Outstanding Debt	Debt to Number of Customers	Debt Per Capita	Debt as Share of Personal Income (%)
2007	196,238,070	196,238,070	3.14	960	2.68%
2008	192,262,862	192,262,862	3.03	913	2.52%
2009	187,574,711	187,574,711	2.93	872	2.57%
2010	182,437,556	182,437,556	2.84	851	2.44%
2011	176,796,705	176,796,705	2.73	809	2.20%
2012	169,609,038	169,609,038	2.59	768	1.98%
2013	163,133,456	163,133,456	2.45	725	1.81%
2014	163,242,202	163,242,202	2.40	707	1.71%
2015	155,712,493	155,712,493	2.25	674	1.63%
2016	150,672,578	150,672,578	2.13	639 ⁽¹⁾	1.46% ⁽²⁾

(1) 2015 Population data used to calculate debt per capita

(2) Personal Income Data used from 2015 to calculate debt as share of personal income

Note: The only outstanding debt is Revenue Bond debt

Sources: US Census Bureau, US Bureau of Economic Analysis

Cherokee County Water & Sewerage Authority

Schedule of Revenue Bonds Payable

Year Ending August 31,	Principal	Interest	Total
2017	7,420,000	6,790,603	14,210,603
2018	7,755,000	6,456,353	14,211,353
2019	7,900,000	6,097,278	13,997,278
2020	8,305,000	5,694,678	13,999,678
2021	8,725,000	5,271,103	13,996,103
2022-2026	49,545,000	19,303,703	68,848,703
2027-2031	34,970,000	7,406,975	42,376,975
2032-2035	13,770,000	1,549,350	15,319,350
Total	138,390,000	58,570,043	196,960,043

Source: Cherokee County Water & Sewerage Authority Historical Financial Records

Demographic and Economic Information

Cherokee County Water & Sewerage Authority
Principal Employers
Prior Year and Eight Years Ago

2015			
Employer	Employees	Rank	% of Total County Employment
Cherokee County Schools	4,530	1	7.40
Cherokee County Government	1,582	2	2.58
Northside-Cherokee Hospital	1,485	3	2.43
Publix Supermarkets	1,085	4	1.77
Pilgrim's Pride Corp.	800	5	1.31
Chart Inc.	520	6	0.85
Wal-Mart	500	7	0.82
Universal Alloy Corporation	340	8	0.56
Inalfa Roof Systems	291	9	0.48
Target	265	10	0.43
Totals	11,398		18.62%

2008			
Employers	Employees	Rank	% of Total County Employment
Cherokee County School System	5,000	1	*
Cherokee County Government	1,330	2	*
Pilgrims Pride Corp.	850	3	*
Northside-Cherokee Hospital	740	4	*
Universal Alloy Corporation	500	5	*
Meyn America, Inc.	285	6	*
Chart Inc.	262	7	*
Piolax Corporation	250	8	*
Reinhardt University	205	9	*
City of Woodstock	193	10	*
Totals	9,615		0.00%

* Information not available

Note: Most recent data available presented

Sources: Cherokee County of Economic Development

Cherokee County Water & Sewerage Authority

Demographic and Economic Statistics
Prior Year and Nine Years ago

Year	Estimated Population	Personal Income (Amounts Expressed in Thousands)	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate %
2007	204,363	\$7,311,828	\$36,100	33.8	36,276	4.3
2008	210,529	\$7,618,522	\$36,580	33.0	36,500	8.2
2009	215,084	\$7,311,454	\$34,450	35.2	38,105	10.0
2010	214,346	\$7,486,312	\$34,780	34.1	38,585	8.9
2011	218,500	\$8,054,368	\$36,898	36.3	38,290	7.9
2012	220,800	\$8,581,906	\$38,837	36.7	39,161	6.9
2013	225,106	\$8,988,534	\$39,930	36.0	39,324	6.0
2014	230,985	\$9,544,757	\$41,322	37.0	40,504	5.6
2015	235,900	\$10,350,744	\$30,299	36.0	41,169	4.6

Note: Most recent data available is presented in table

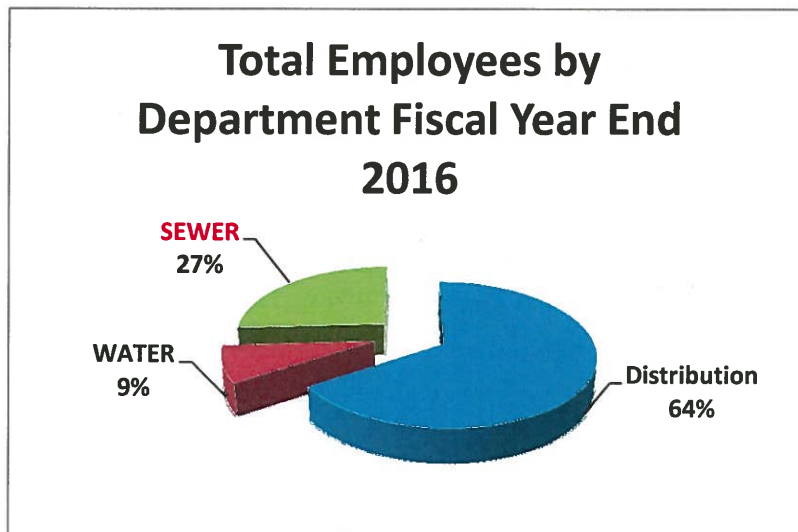
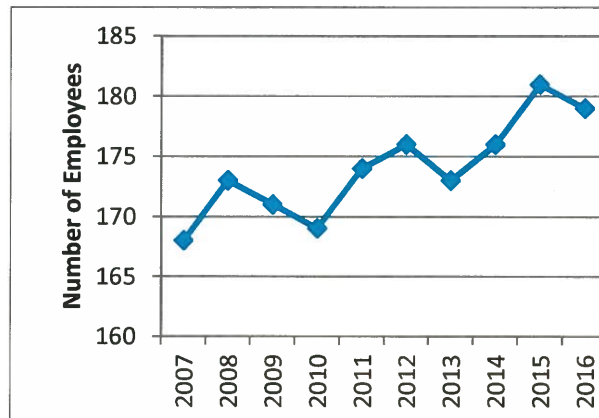
Sources: Bureau of the Census, Georgia Labor Market Explorer, Atlanta Regional Commission, US Bureau of Economic Analysis

Operating Information

Cherokee County Water and Sewerage Authority

Full-Time Water and Sewer Authority Employees by Department
Last Ten Fiscal Years

Fiscal Year End	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
DISTRIBUTION:	102	107	108	107	110	113	111	113	119	118
WATER:	17	17	17	17	17	17	17	16	15	15
SEWER:	49	49	46	45	47	46	45	47	47	46
TOTAL EMPLOYEES:	168	173	171	169	174	176	173	176	181	179



Source: Cherokee County Water & Sewerage Authority Historical Data

Cherokee County Water & Sewerage Authority
Water Tank Storage Capacity
Last Ten Fiscal Years
(All Numbers are Presented in Million Gallons)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Ground Level Tanks										
Tunnel Hill 10 MG	10	10	10	10	10	10	10	10	10	10
Tunnel Hill 2 MG	2	2	2	2	2	2	2	2	2	2
Elevated Tanks										
Clayton	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Free Home	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Holly Springs	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Macedonia	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Nelson	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Rose Creek	1	1	1	1	1	1	1	1	1	1
Tyson	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Unviter #1	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Univeter #2	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Yellow Creek	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Storage at Water Plant										
Clearwells 1-4	3.865	3.865	3.865	3.865	3.865	3.865	3.865	3.865	3.865	3.865
Total Finished Water Storage	21.015	21.015	21.015	21.015	21.015	21.015	21.015	21.015	21.015	21.015

Source: Cherokee County Water & Sewerage Authority Historical Data

Cherokee County Water & Sewerage Authority
Raw Water Supply in Reservoir
Last Ten Fiscal Years
(All Numbers are Presented in Million Gallons)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Drought Contingency Reservoir										
Yellow Creek	3,540	3,540	3,540	3,540	3,540	3,540	3,540	3,540	3,540	3,540
River										
Etowah	36	36	36	36	36	36	36	36	36	*40.5
Water Available for Use	3,576	3,576	3,576	3,576	3,576	3,576	3,576	3,576	3,576	3,580.5
Average Daily Flow										
Average Daily Production	14.70	14.27	14.79	14.27	14.79	15.08	13.91	14.71	14.79	16.14
Daily Release Down Stream	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Daily Flow	14.70	14.27	14.79	14.27	14.79	15.08	13.91	14.71	14.79	16.14
Number of Days Supply	243	251	242	251	241	237	257	243	242	219

Source: Cherokee County Water & Sewerage Authority Historical Data

*Riverbend intake & pump station in operation as of 6/22/2016 (permit # 028-1491-03)

Comprehensive Annual Financial Report

IV. Compliance Section

Cherokee County Water & Sewerage Authority- Cherokee County, Georgia



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, 2016, 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 23, 2016.

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 23, 2016