COBB COUNTY-MARIETTA WATER AUTHORITY

MARIETTA, GEORGIA

FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2011

COBB COUNTY-MARIETTA WATER AUTHORITY

FINANCIAL REPORT
DECEMBER 31, 2011

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MAULDIN
& JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of
Cobb County-Marietta Water Authority
Marietta, Georgia

We have audited the accompanying basic financial statements of the **Cobb County-Marietta Water Authority** (the "Authority"), as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cobb County-Marietta Water Authority, as of December 31, 2011, and the changes in financial position and cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (on pages 3 through 10) and the Schedule of Funding Progress (on page 27) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mauldin & Jenkins, LLC

Atlanta, Georgia
March 21, 2012

COBB COUNTY-MARIETTA WATER AUTHORITY
Management's Discussion and Analysis
Fiscal Year Ended December 31, 2011

Overview of the Financial Report

Our discussion and analysis of the Cobb County-Marietta Water Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31. Readers should review it in conjunction with the Authority's audited Financial Report to enhance their understanding of the Authority's financial performance.

Financial Highlights

Key financial highlights for are as follows:

- Water Sales revenue increased 8% from $62.1 million in 2010 to $67.4 million in 2011, an increase of $5.3 million, although gallons sold decreased 0.6%, from 30.4 billion gallons to 30.2 billion gallons.

- Operating expenses increased from $32.8 million in 2010 to $37.3 million in 2011, an increase of $4.5 million or 14%.

- Operating income for 2011 was $30.2 million, compared to $29.4 million in 2010, an increase of $.8 million or 2.7%.

- Interest income decreased $1 million from last year to $1.5 million in 2011.

- Revenue bond debt decreased from $49,025,000 in 2010 to $45,500,000 in 2011, a decrease of $3,525,000 or almost 8%.

- GEFA loans outstanding increased from $37.3 million in 2010 to $37.7 million in 2011.

- Total net assets increased from $358 million in 2010 to $387 million in 2011, an increase of $29 million or 8%.

- At December 31, 2011, the Authority reported unrestricted net assets of $11.2 million, an increase of $1.1 million from last year or 11%.

Authority Highlights

Highlights for 2011

Construction in Progress:

Projects awarded for design in 2011:

- East Cobb Reinforcement Phase 1 – Lower Roswell Road
- Macland Road 36" Water Main Relocation – New Macland Road to Paulding County Line

Projects awarded for construction in 2011:

- Administrative and Engineering Office
- East Cobb Reinforcement Phase 1 – Lower Roswell Road
- Woodlawn Drive 36" Water Main Replacement

Projects completed in 2011:

- Administrative and Engineering Office
- East Cobb Reinforcement Phase 1 – Lower Roswell Road
- Quarles Plant 2 Rehabilitation
- Quarles Reservoir Rehabilitation and Improvements – Contract 1 – Dredging
- Quarles Reservoir Rehabilitation and Improvements – Contract 2 – Piping
- West Side Connector 36" Water Main Replacement
- Woodlawn Drive 36" Water Main Replacement
- Wyckoff Pipe Storage Yard Relocation
- Wyckoff Regulatory and Operational Improvements – Intake and Electrical
- Wyckoff Regulatory and Operational Improvements – Filter Building Roof

Other Items:

- Cobb County-Marietta Water Authority's average daily demand decreased slightly from 2010 to 2011, 83.36 mgd to 82.75 mgd. Although drought restrictions were lifted in 2009, demands remain suppressed with the downturn in the economy and an increased focus on conservation.

- CCMWA's Wyckoff Water Treatment Plant received the Best Operated Plant (Large Plant Category) from the Georgia Association of Water Professionals.

- The Capital Improvement Plan and Financial Model continue to be analyzed and revised to reflect demand and regulatory requirements. The total value of the CIP is $248 million for the 5-year period, 2011 through 2015.

- The Authority entered into a contract with the team of PBS&J/Atkins to provide engineering services for the Water System Hydraulic Model Update and Energy Optimization Study. At the completion of this project, CCMWA's hydraulic computer model will be updated and calibrated for a future long-range transmission system master planning project.

- The Laboratory Division performed tests on approximately 50,000 chemical and bacteriological samples.

- The Wyckoff and Quarles operations divisions performed approximately 1,200 process control tests per day.

- The Transmission Division received and reviewed approximately 26,300 pipeline location inquiries through the Utilities Protection Center. They responded to approximately 4,500 of the inquiries by providing field locations of Authority facilities.

Financial Statements

The Financial Statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. Finally, the Statement of Cash Flows provides information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities.

Financial Analysis of the Authority
The Statements of Net Assets for 2011 and 2010 are summarized in a Condensed Statement of Net Assets. (See Table I). The Authority's net assets increased 8% in 2011 over last year due to continued investment in capital improvements.

Table I
Condensed Statement of Net Assets
(Amounts Expressed in Millions of Dollars)

	2011	2010
Assets:		
Current and Other Assets	$102.6	$121.0
Capital Assets	381.8	336.1
Total Assets	484.4	457.1
Liabilities:		
Long-Term Debt Outstanding	81.7	85.3
Other Liabilities	15.9	13.8
Total Liabilities	$97.6	$99.1
Net Assets:		
Invested in Capital Assets, Net of Related Debt	297.3	248.1
Restricted	78.3	99.8
Unrestricted	11.2	10.1
Total Net Assets	$386.8	$358.0

The Statements of Revenues, Expenses, and Changes in Net Assets for 2011 and 2010 are summarized in a Statement of Changes in Net Assets (See Table II). The Authority experienced a $900,000 increase in net income for the year ended December 31, 2011 compared to the year ended December 31, 2010.

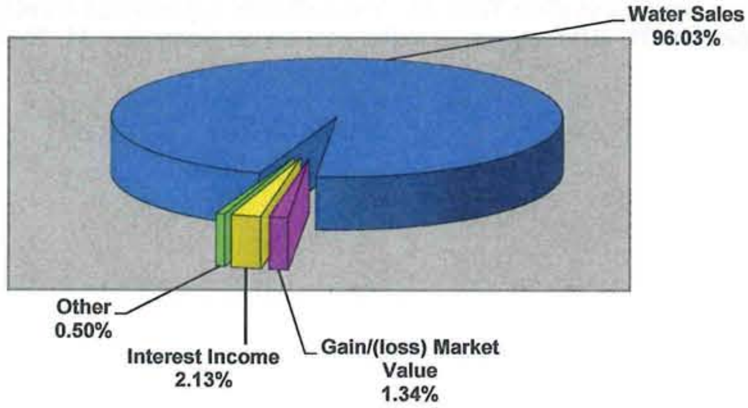
Table II
Changes in Net Assets
(Amounts Expressed in Millions of Dollars)

	2011	2010
Revenues:		
Operating Revenue	$67.4	$62.2
Interest Income	1.5	2.5
Other Income	1.3	.1
Total Revenue	70.2	64.8
Expenses:		
Operating Expenses	37.3	32.8
Interest Expense	3.6	3.7
Other Expenses	.6	.5
Total Expenses	41.5	37.0
Increase in Net Assets	$28.7	$27.8

Revenues

The Authority's total revenue of $70.2 million reflects an increase in 2011 of $5.4 million or 8% (See Changes in Net Assets – Table II). Revenue from Water Sales increased $5.2 million from the prior year. Interest Income decreased $1 million from 2010 to $1.5 million in 2011. The market value of investments adjustment resulted in a $1.5 million swing upward from the 2010 loss.

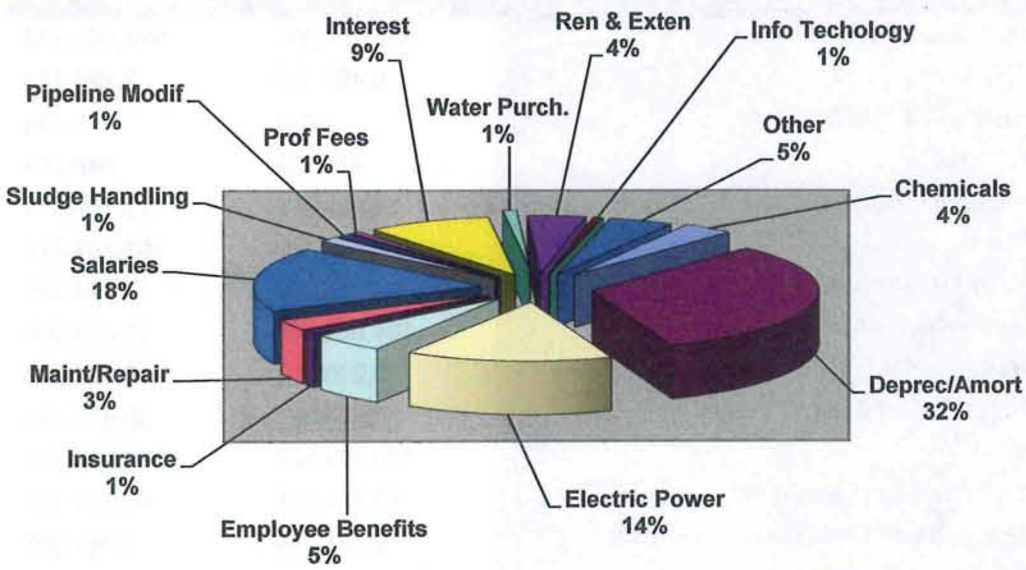
2011 Total Revenue by Source



Expenses

The Authority's total operating expenses of $37.3 million reflect an increase in 2011 of $4.5 million or 14% (See Changes in Net Assets – Table II). Depreciation and amortization increased $2.4 million to $13.2 million in 2011. Salary expenses increased 2% to $7.4 million. Employee benefits increased 6% to $2.2 million in 2011. Electric power increased 14% to $6 million. Sludge handling decreased $295,000 or 34% from the prior year. Renewal and extension expenses increased 19% or $269,000 in 2011 to $1.7 million. Pipeline modification/emergency repairs increased 8% to $439,000. Chemical expense increased 8% to $1.5 million. Information technology increased 87% to $233,000. Water purchases doubled from last year to $387,000 due to a shortage of billing in 2010 by the Corps of Engineers for CCMWA's allocation of O & M expenses to power.

2011 Total Expenses by Source



Budgetary Highlights

The fiscal year 2011 budget was based on projected production of 82 million gallons per day (MGD) to generate over $66 million in water sales. Actual 2011 production came in above forecast at 82.75 MGD, generating almost $67.4 million in water sales revenue, which was $1.4 million above forecast. Division operating expenses of $35.6 million came in under budget by $2.7 million. Renewal & Extension expenditures totaling $1.7 million for the year were below forecast by $1.1 million. The resulting 2011 operating income (including R&E expenses) of $30.2 million exceeded the $24.9 million budget by $5.2 million. Actual interest income was $339,000 over budget. The 2011 actual net income of $28.7 million was approximately $6 million over the $22.7 million forecast.

Capital Assets and Debt Administration

Capital Assets

At the end of 2011, the Authority had $382 million invested in a broad range of capital assets, a $46 million, or 14%, increase over the prior year. This increase includes $8 million in pipe replacement, $38 million in treatment plant and other improvements, along with continued investment in other construction projects (See Capital Assets at December 31 – Table III). More detailed information about capital assets can be found in Note 4 of the Notes to Financial Statements.

Table III
Capital Assets at December 31
Net of Accumulated Depreciation

	2011	2010
Land and Easements	$22,762,439	$22,049,792
Buildings	5,492,332	2,224,198
Furniture & Fixtures	4,641	5,354
Vehicles	471,776	548,767
Machinery & Equipment	14,997,572	13,759,771
Distribution Lines	104,872,183	101,701,474
Pumping Stations	23,356,947	20,114,491
Treatment Plants	104,921,206	86,322,506
Water Tanks	5,216,597	2,428,058
Water Resources	38,628,887	39,425,359
	320,724,580	288,579,770
Construction in Progress	56,764,675	45,633,425
Retainage on Construction Contracts	4,347,744	1,940,997
Net Capital Assets	$381,836,999	$336,154,192

Debt Administration

CCMWA's debt ceiling is $400 million. The Authority has no current plans to increase its level of debt.

The Authority had $81.7 million in outstanding long-term debt at the end of 2011 (See Outstanding Long Term Debt - Table IV). Long-Term debt is comprised of four components – 2002 Revenue Bonds, 2009 Refunding Revenue Bonds, GEFA Loans payable and Compensated Absences payable. More detailed information about long-term debt can be found in Note 5 of the Notes to Financial Statements.

The Authority executed a Phase 1 promissory note dated August 24, 2006 to borrow $35,000,000 at 3.81% from the Georgia Environmental Facilities Authority (GEFA) for the construction of the Hickory Log Creek Reservoir. The final disbursement of the $35 million was made by GEFA in November 2008, and the interest accrued during construction of $1,708,506 was paid in December 2008. The Phase 1 loan repayment began in January 2009 with 360 monthly payments of $163,284.

In April 2008, the Authority executed a Phase 2 GEFA promissory note for its reservoir project in the amount of $24,580,533, of which a total of $4,720,028 has been disbursed as of December 31, 2011. The potential disbursement of all or part of the remaining $19,860,507 note balance is anticipated by the end of 2012, the expected completion date of the reservoir project. The monthly repayment schedule will begin after the final Phase 2 disbursement. In October 2010, $2,714,069 of the loan had been disbursed and put into repayment with 360 monthly payments of $13,114 at an interest rate of 4.10%. As of December 31, 2011, an additional $2,005,959 had been disbursed from the loan, with interest only accruing during construction and paid on a monthly basis.

On October 2, 2009 the Authority issued Revenue Bonds, Series 2009 for the purpose of refunding $42,490,000 in aggregate principal of the Series 2002 Revenue Bonds. These bonds were issued in the amount of $41,910,000 with interest rates ranging from 3.00% to 5.25%, interest payments due semiannually on May 1 and November 1, and principal payments due annually on November 1 with the bonds maturing on November 1, 2021.

As part of the refunding, the proceeds from the new bonds have been placed in an irrevocable trust to provide future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. On December 31, 2011, the outstanding amount of defeased bonds is $42,490,000.

The Authority's financial advisors and staff continue to analyze funding options available to the Authority. The funding options include but are not limited to bond issuance and/or low interest loans balanced with an appropriate rate structure.

Table IV
Outstanding Long-Term Debt

	2011	2010
Revenue Bonds Payable - Principal	$45,500,000	$49,025,000
Unamortized Premium	4,910,564	5,801,175
Deferred Charge	(3,555,129)	(4,141,109)
Less Current Bonds Payable	(3,680,000)	(3,525,000)
Total Revenue Bonds, Long Term	43,175,435	47,160,066
GEFA Loan Funds Disbursed	36,911,505	36,583,071
Accrued Interest	122,552	119,313
Total GEFA Loan Payable	37,034,057	36,702,384
Compensated Absences Payable	1,492,435	1,398,752
Total Outstanding Long-Term Debt	$81,701,927	$85,261,202

Looking forward to 2012

Water Sales and Testing:

- Production forecast – 82.00 MGD
- In-county rate $2.34/1000 gallons; out-of-county rate $2.59/1000 gallons

Construction in Progress:

Projects scheduled to begin design:
- Backup Power Generation – Quarles WTP
- Highway 41, Phase 4, Dobbins to Windy Ridge Pkwy

Projects scheduled to begin construction:
- Backup Power Generation – Quarles WTP
- Hickory Log Creek Reservoir Office Building
- Hickory Log Creek Reservoir SCADA System
- Macland Road 36" Water Main Relocation – New Macland Road to Paulding County Line

Projects scheduled for completion:
- Austell West Side Connector 24" Water Main – Flint Hill Road to SR5/Austell Road
- Hickory Log Creek Reservoir Office Building

Projects scheduled for design, construction and completion are on an ongoing basis for Asset Replacement and Renewal.

Other Items:

- Water conservation practices, both mandatory and voluntary, are expected to continue. Slower growth, combined with lower per capita demand, is expected to suppress water sales for an extended period of time.

- The Capital Improvement Plan and Financial Model continue to be analyzed and revised to reflect demand and regulatory requirements. A CIP inflation driver of 0% is used for 2012, 3% for 2012 through 2015, and 4% thereafter. The operations inflation driver is 5% annually. Significant factors impacting the O&M inflation rate include escalating costs of energy and conversion to new chemical feed systems. O & M costs will increase significantly in 2012, when the Granular Activated Carbon Facility at the Wyckoff Plant goes on-line to meet the requirements of the Disinfectants/Disinfection Byproducts Rule.

- An update to the System Hydraulic Model is being performed, including an Energy Optimization Study and a surge analysis for a portion of the system. Results will be used for future capital planning and to seek efficiencies in power required for pumping and other plant operations.

- The engineering staff is preparing a scope of services and Request for Proposals for the Phase I Facilities Master Plan, which will evaluate the ability of existing water treatment facilities to meet future demands and regulatory requirements.

Requests for Information

This financial report is designed to provide a general overview of the Cobb County-Marietta Water Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Cobb County-Marietta Water Authority, 1170 Atlanta Industrial Drive, Marietta, GA 30066.

COBB COUNTY-MARIETTA WATER AUTHORITY
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	8,676,813
Receivables:		
Accounts		4,700,580
Intergovernmental		108,657
Restricted assets:		
Cash and cash equivalents		28,152,102
Investments		59,522,471
Accrued interest receivable		184,173
Intergovernmental receivable		91,842
Total current assets		101,436,638
NON-CURRENT ASSETS		
Capital assets:		
Land		22,762,439
Buildings		6,468,160
Utility plant & distribution lines		388,189,499
Furniture and fixtures		108,847
Machinery and equipment		19,690,762
Vehicles		1,564,569
Construction in progress		61,112,419
		499,896,695
Less accumulated depreciation		118,059,696
Total capital assets, net of accumulated depreciation		381,836,999
Other assets:		
Net pension asset		791,956
Debt issuance costs		348,979
Total non-current assets		382,977,934
Total assets	$	484,414,572

See Notes to Financial Statements.

LIABILITIES	
CURRENT LIABILITIES	
Payable from current assets:	
Accounts payable	$ 1,338,451
Compensated absences payable	425,021
Accrued expenses and other liabilities	143,157
	1,906,629
Payable from restricted assets:	
Retainage payable	4,347,743
Construction accounts payable	4,881,581
Revenue bonds payable	3,680,000
Notes payable	763,095
Accrued interest payable	345,445
	14,017,864
Total current liabilities	15,924,493
LONG-TERM LIABILITIES	
Compensated absences payable	1,492,435
Notes payable	36,911,505
Revenue bonds payable, net	43,175,435
Accrued construction interest payable	122,552
Total long-term liabilities	81,701,927
Total liabilities	97,626,420
NET ASSETS	
Invested in capital assets, net of related debt	297,306,964
Restricted for debt service	636,358
Restricted for capital projects	77,647,619
Unrestricted	11,197,211
Total net assets	$ 386,788,152

COBB COUNTY-MARIETTA WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2011

Operating revenues:	
Charges for services:	
Water sales and testing	$ 67,441,944
Total operating revenues	67,441,944
Operating expenses:	
General and administration	2,943,897
Distribution	1,476,915
Laboratory	950,287
Water plant	15,667,002
Engineering division	955,659
Hickory Log Creek Reservoir division	374,219
Depreciation and amortization	13,220,003
Other operating expenses	1,687,406
Total operating expenses	37,275,388
Operating income	30,166,556
Non-operating revenues (expenses):	
Interest income	1,496,084
Gain on market value of investments	940,425
Interest expense and fiscal charges	(3,581,503)
Rental income	109,865
Intergovernmental	244,658
Loss on disposal of capital assets	(635,909)
Total non-operating revenues (expenses), net	(1,426,380)
Change in net assets	28,740,176
Total net assets, beginning of year	358,047,976
Total net assets, end of year	$ 386,788,152

See Notes to Financial Statements.

COBB COUNTY-MARIETTA WATER AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	$ 67,053,465
Payments for goods and services	(17,384,538)
Payments to employees	(6,482,344)
Net cash provided by operating activities	43,186,583
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments for purchases and construction of capital assets	(57,606,046)
Proceeds from long-term borrowings	1,091,530
Principal payments on long-term borrowings	(4,259,826)
Interest paid on long-term borrowings	(3,655,328)
Net cash used in capital and related financing activities	(64,429,670)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(28,445,075)
Proceeds from investments	46,126,131
Rents received	109,865
Interest received	1,578,830
Net cash provided by investing activities	19,369,751
Net decrease in cash and cash equivalents	(1,873,336)
Cash and cash equivalents:	
Beginning of year	38,702,251
End of year	$ 36,828,915
Classified as:	
Cash and cash equivalents	$ 8,676,813
Restricted cash and cash equivalents	28,152,102
	$ 36,828,915

Continued

COBB COUNTY-MARIETTA WATER AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$	30,166,556
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization		13,220,003
Changes in assets and liabilities:		
Increase in accounts receivable		(351,639)
Increase in restricted intergovernmental receivable		(36,840)
Increase in net pension asset		(81,098)
Increase in accounts payable		217,814
Increase in compensated absences		22,847
Increase in accrued expenses and other liabilities		28,940
Net cash provided by operating activities	$	43,186,583
NONCASH INVESTING ACTIVITIES		
Increase in fair value of investments	$	940,425

See Notes to Financial Statements.

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

The Cobb County-Marietta Water Authority (the "Authority") was created by Act No. 319 of the General Assembly of the State of Georgia in 1951 and has been amended from time to time by other Acts of the General Assembly. The Act provides that the general purpose of the Authority is to acquire an adequate source or sources of water supply, treatment of such water, and distribution of water to the Cobb County Water system and the various municipalities in the County and environs, including adjoining counties and municipalities located therein.

The Authority consists of seven members who are selected as follows: (1) one member is the chairperson of the Board of Commissioners of Cobb County, Georgia; (2) one member is selected by the governing board of the City of Marietta, Georgia; (3) one member is selected by the governing body of the City of Smyrna, Georgia; (4) one member is the chairperson of the Board of Commissioners of Paulding County, Georgia; (5) three members are selected by a caucus consisting of all members of the General Assembly of the State of Georgia whose districts are wholly or partially within Cobb County. The three members selected by a caucus shall include one member from the Cobb County Commission District 1 or 4 and one member from the Cobb County Commission District 2 or 3, excluding residents of Marietta and Smyrna; and one member from unincorporated Cobb County.

Fund Accounting:

The Authority uses one fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The fund presented in this report is a Proprietary Fund Type - *Enterprise Fund.* Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Measurement Focus/Basis of Accounting:

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of this fund are included in the statement of net assets. Net assets are segregated into capital assets net of related debt and restricted and unrestricted net asset components. Proprietary fund operating statements present increases (revenues) and decreases (expenses) in net total assets. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus/Basis of Accounting (Continued):

In accounting and reporting for its proprietary operations, the Authority applies all Governmental Accounting Standards Board (GASB) pronouncements, and applies all Financial Accounting Standards Board (FASB) pronouncements and interpretations issued on or before November 30, 1989. Such FASB pronouncements are applied unless they conflict or contradict GASB pronouncements. The Authority also has the option of following subsequent private-sector guidance, subject to the same limitation. The Authority has elected not to follow subsequent private-sector guidance.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The Authority's principal operating revenue is water sales while the operating expenses include direct general and administrative expenses, distribution, laboratory, water plant, depreciation and amortization, and other operating expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Management Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Cash and Investments:

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Authority.

For purposes of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) with an original maturity date of three months or less, to be cash equivalents.

Investments are stated at fair value.

Restricted Assets:

Certain proceeds of the revenue bonds as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable covenants.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bond Premium, Discount, Issuance Costs and Deferred Charges on Refunding:

Bond premiums, discounts and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. Deferred charges on refunding are amortized over the shorter of the life of the refunded bonds or the refunding bonds using the effective interest method. Bond premiums, discounts, and deferred charges on refunding are presented as additions and reductions of the face amount of bonds payable, whereas issuance costs are recorded as deferred charges.

Net Pension Asset:

The amount reported as net pension asset in the Statement of Net Assets is the cumulative difference between annual pension cost and the Authority's contributions to the Defined Benefit Pension Plan.

Capital Assets:

The Authority has established minimum capitalization thresholds for its various classes of capital assets. These assets are depreciated using the straight-line method according to the following estimated ranges of useful lives:

Capital Asset Class	Threshold	Estimated Useful Life
Construction in Progress	> $1	Various
Land and Land Improvements	> $1	Various
Computer Hardware and Software	> $5,000	3 Years
Furniture, Fixtures and Other Equipment	> $5,000	5-7 Years
Laboratory and Monitoring Equipment	> $5,000	10 Years
Building and Building Improvements	> $10,000	25-50 Years
Infrastructure	> $10,000	10-50 Years
Machinery and Equipment	> $10,000	5-25 Years
Vehicles	> $10,000	5 Years
Intangible Assets	> $25,000	3-50 Years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. During the fiscal year ended December 31, 2011, $51,947 of interest was capitalized.

Construction in progress and the related retainage consist of costs associated with distribution lines, pumping stations, water storage and plant construction which were not completed as of year-end. Because these projects are incomplete and not ready for their intended use, no depreciation is recorded.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences:

Annual leave hours are available to employees after six (6) months of employment in a full time position. The maximum annual leave accruals for employees who work 40-hour weeks and 12-hour shifts are 400 hours and 600 hours, respectively.

Employees hired after February 29, 2004 earn sick leave for each pay period up to a maximum of 65 days (520 hours for 40-hour week employees and 780 hours for 12-hour shift employees). Employees hired prior to February 29, 2004 earn sick leave for each pay period up to a maximum of 90 days (720 hours for 40-hour week employees and 1080 hours for 12-hour shift employees). Accumulated sick leave over 65 days in both cases is allowed as "Earned Time." Earned time may be taken as pay or time off.

NOTE 2. DEPOSITS AND INVESTMENTS

Total deposits and investments as of December 31, 2011, are summarized as follows:

As reported in the Statement of Net Assets		
Cash and cash equivalents	$	8,676,813
Restricted:		
Cash and cash equivalents		28,152,102
Investments		59,522,471
	$	96,351,386
Cash deposited with financial institutions	$	48,480,514
Georgia Fund 1		4,772,020
U.S. Government Agencies		43,098,852
	$	96,351,386

Custodial Credit Risk – Deposits. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal and state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of December 31, 2011, the Authority did not have any deposits which were uninsured or under collateralized, as defined by State statutes.

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

Credit risk. State statutes authorize the Authority to invest in obligations of the United States, State of Georgia or other political subdivisions of the State of Georgia, and other states; prime bankers' acceptances; repurchase agreements; and the Georgia local government investment pool (Georgia Fund 1). Georgia Fund 1, created by OCGA 36-83-8, is a stable net asset value investment pool which follows Standard and Poor's criteria for AAAm rated money market funds. However, Georgia Fund 1 operates in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940 and is considered to be a 2a-7 like pool. The pool is not registered with the SEC as an investment company. The pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal ($1.00 per share value). Net asset value is calculated weekly to ensure stability. The pool distributes earnings (net of management fees) on a monthly basis and determines participant's shares sold and redeemed based on $1.00 per share value. The fair value of the Authority's position in the pool is the same as the value of pool shares ($1 per share value). The regulatory oversight agency for Georgia Fund 1 is the State Treasurer of the State of Georgia. The Authority has classified the Georgia Fund 1 funds as cash and cash equivalents. Therefore, unrestricted and restricted cash includes $4,772,020 in the Georgia Fund 1.

The Authority has an investment policy that limits investments to the third highest long-term rating and second highest short-term rating of Fitch Ratings, Moody's Investors Services, or Standard & Poor's Rating Services. As of December 31, 2011, the Georgia Fund 1 had a weighted average maturity of 60 days and a credit rating of AAAm. In addition, the Authority's $43,098,852 of U.S. Government Agencies securities as noted in the following tabular presentation were noted to have a quality rating of AAA. The reporting of investments at fair value resulted in an unrealized gain of $940,425 for the year ended December 31, 2011.

At December 31, 2011, the Authority had the following investments (including certain cash equivalents):

		Investments Maturities (In Years)			
Investment Type	**Fair Value**	**Less Than 1**	**1- 5**	**5 - 10**	**10 - 15**
Certificates of Deposit	$ 16,423,619	$ 16,423,619	$ -	$ -	$ -
U.S. Government Agencies	43,098,852	-	15,513,990	14,306,503	13,278,359
Total	$ 59,522,471	$ 16,423,619	$ 15,513,990	$ 14,306,503	$ 13,278,359

Interest Rate Risk. As a means of limiting its exposure to undue risks or market fluctuations, the Authority's investment policy limits maturities on individual investments as follows:

Revenue Fund Account – 90 days
Sinking Fund Account – One (1) year
Renewal and Extension Fund – 65% to five (5) years or less
Project Fund Account – Three (3) years

NOTE 3. RECEIVABLES

Receivables consisted of the following at December 31, 2011:

Receivables:		
Accounts	$	4,700,580
Intergovernmental		108,657
From restricted assets:		
Interest		184,173
Intergovernmental		91,842
Gross receivables	$	5,085,252

Restricted intergovernmental receivables consisted of $91,842 due from the City of Canton for their share of the Hickory Log Creek Reservoir Project.

NOTE 4. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2011 is as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	$ 22,049,792	$ 32,625	$ -	$ 680,022	$ 22,762,439
Construction in progress	47,574,422	59,729,883	-	(46,191,886)	61,112,419
Total	69,624,214	59,762,508	-	(45,511,864)	83,874,858
Capital assets, being depreciated:					
Buildings	3,071,313	-	-	3,396,847	6,468,160
Utility plants/distribution lines	350,351,662	-	(1,521,468)	39,359,305	388,189,499
Machinery and equipment	16,981,521	-	-	2,709,241	19,690,762
Furniture and fixtures	108,847	-	-	-	108,847
Vehicles	1,533,723	-	(15,625)	46,471	1,564,569
Total	372,047,066	-	(1,537,093)	45,511,864	416,021,837
Less accumulated depreciation for:					
Buildings	(847,115)	(128,713)	-	-	(975,828)
Utility plants/distribution lines	(100,359,774)	(11,718,420)	884,515	-	(111,193,679)
Machinery and equipment	(3,221,750)	(1,471,440)	-	-	(4,693,190)
Furniture and fixtures	(103,493)	(713)	-	-	(104,206)
Vehicles	(984,956)	(123,462)	15,625	-	(1,092,793)
Total	(105,517,088)	(13,442,748)	900,140	-	(118,059,696)
Total capital assets, being depreciated, net	266,529,978	(13,442,748)	(636,953)	45,511,864	297,962,141
Total capital assets, net	$ 336,154,192	$ 46,319,760	$ (636,953)	$ -	$ 381,836,999

NOTE 5. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2011 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	$ 49,025,000	$ -	$ (3,525,000)	$ 45,500,000	$ 3,680,000
Plus unamortized premium	5,801,175	-	(890,611)	4,910,564	-
Less deferred charges	(4,141,109)	-	585,980	(3,555,129)	-
Revenue bonds, net	50,685,066	-	(3,829,631)	46,855,435	3,680,000
Notes payable	37,317,896	1,091,530	(734,826)	37,674,600	763,095
Compensated absences	1,894,609	474,235	(451,388)	1,917,456	425,021
Total long-term liabilities	$ 89,897,571	$ 1,565,765	$ (5,015,845)	$ 86,447,491	$ 4,868,116

Revenue Bonds:

On June 1, 2002, the Authority issued Revenue Series 2002 Bonds for the purpose of financing the costs of making additions, extensions, and improvements to the Authority's water system. The original amount of the bonds was for $76,080,000 with interest rates ranging from 2% to 5.25%, interest payments due semiannually on May 1 and November 1, and principal payments due annually on November 1 with the bonds maturing on November 1, 2021.

On October 2, 2009, the Authority issued Revenue Bonds, Series 2009 for the purpose of refunding $42,490,000 in aggregate principal of the Series 2002 Revenue Bonds. These bonds were issued in the amount of $41,910,000 with interest rates ranging from 3.00% to 5.25%, interest payments due semiannually on May 1 and November 1, and principal payments due annually on November 1 with the bonds maturing on November 1, 2021.

As part of the refunding, the proceeds from the new bonds have been placed in an irrevocable trust to provide future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. On December 31, 2011, the outstanding amount of the defeased bonds is $42,490,000.

NOTE 5. LONG-TERM DEBT (CONTINUED)

Revenue Bonds (Continued):

Debt service requirements to maturity on the Series 2002 and 2009 bonds are as follows:

	Principal	Interest	Total
Fiscal year ending December 31,			
2012	$ 3,680,000	$ 2,072,673	$ 5,752,673
2013	3,850,000	1,910,388	5,760,388
2014	4,035,000	1,717,888	5,752,888
2015	4,240,000	1,516,138	5,756,138
2016	4,450,000	1,304,138	5,754,138
2017-2021	25,245,000	3,559,788	28,804,788
Total	45,500,000	$ 12,081,013	$ 57,581,013
Plus: unamortized premium	4,910,564		
Less: deferred charges	(3,555,129)		
Net total bonds payable	$ 46,855,435		

Notes Payable:

The Authority has certain promissory notes outstanding with the Georgia Environmental Facilities Authority for the purpose of funding the construction of the Hickory Log Creek Reservoir with interest rates ranging from 3.81% to 4.10% per annum. As of December 31, 2011, $37,674,600 was outstanding and payments are due each month in the amount of $176,399. The notes mature on December 1, 2038 and September 1, 2040, respectively. The maturity schedule of the notes is as follows:

	Principal	Interest	Total
Fiscal year ending December 31,			
2012	$ 763,095	$ 1,353,689	$ 2,116,784
2013	793,490	1,323,294	2,116,784
2014	824,115	1,292,669	2,116,784
2015	856,229	1,260,555	2,116,784
2016	889,260	1,227,524	2,116,784
2017-2021	4,995,969	5,587,954	10,583,923
2022-2026	6,048,062	4,535,861	10,583,923
2027-2031	7,322,186	3,261,737	10,583,923
2032-2036	8,864,731	1,719,192	10,583,923
2037-2040	4,311,506	195,039	4,506,545
Total	$ 35,668,643	$ 21,757,514	$ 57,426,157

NOTE 5. LONG-TERM DEBT (CONTINUED)

Notes Payable (Continued):

On April 21, 2008, the Authority executed a promissory note to borrow up to $21,866,464 from the Georgia Environmental Facilities Authority for the purpose of funding the construction of the Hickory Log Creek Reservoir. As of December 31, 2011, $19,860,507 has not been drawn. Interest is accrued at 4.1% per annum until final disbursement. Shortly thereafter, interest accrued during the construction will be repaid in a lump sum payment and then monthly principal and interest payments will commence on the total of outstanding disbursements for a 30 year repayment term at 4.1%. The outstanding balance of this note payable is $2,005,957 at December 31, 2011 which is not included in the above debt service table because it is in the draw down phase as of December 31, 2011. When construction of the project is completed, a repayment schedule will be determined and payments will commence shortly thereafter.

NOTE 6. DEFINED BENEFIT PENSION PLAN

Plan Description

The Authority's defined benefit plan, the Cobb County-Marietta Water Authority Retirement Plan (CCMWARP), provides retirement benefits to its participants and persons or entities entitled to receive a retirement benefit upon the death of a participant. The CCMWARP is a single employer defined benefit pension plan that covers all full-time employees who are employed by and receive compensation from the Authority. Appointed or elected members of the Authority are not eligible. The Authority's Board of Directors established the Plan's benefit provisions and contribution requirements and any amendments to such must be approved by the Board. A third-party administers the CCMWARP. A stand-alone report is issued annually and may be obtained by contacting the Authority's administrative office.

At January 1, 2012, the date of the most recent actuarial valuation, there were 147 participants consisting of the following:

Inactive participants receiving benefits	32
Terminated members entitled to but not yet receiving benefits	9
Active plan members:	
Vested	65
Non-Vested	41
Total	147

All pensioners on December 30, 1992 receive up to a 3% per annum cost of living adjustment in their benefits which is based on the Department of Labor CPI index as of January 31st of each year.

NOTE 6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Funding Policy

The primary sources of income for this Plan are investment earnings and contributions made by the Authority. The Authority contributed $185,000 per quarter during fiscal year 2011 to the Plan for a total of $740,000. Any contributions in excess of the annual required contributions are accumulated in the Contribution Surplus Account which is controlled by the Authority's third-party administrator and is drawn upon when actual contributions fall below the annual required contribution. The net contribution surplus balance or net pension asset was $791,956 as of December 31, 2011. For January 1, 2012, the actuarially determined contribution rate was 13.10% of covered payroll or $747,005 compared to 12.47% of covered payroll or $713,203 for the Plan Year beginning January 1, 2011.

For the year ended December 31, 2011, the Authority's recommended contributions were $713,203 while the actual contributions were $740,000. The recommended contribution was determined as part of the January 1, 2011 actuarial valuation using the entry age normal cost method. Actuarial assumptions include a 7.5% rate of return on investments and projected salary increases of 5.0%. The actuarial value of the plan assets is used for determining the contribution requirements while the market value of assets is used for measuring the funded status of the Plan. The actuarial valuation method is the difference in the expected return and the actual return spread evenly over 5 years, adjusted if necessary to within 20% of market value.

Annual Pension Cost

The Authority's annual pension cost and net pension obligation (asset) for the pension plan and related assumptions for the plan year ended December 31, 2011 are as follows:

Annual required contribution	$ 713,203
Interest on net pension obligation (asset)	(80,563)
Adjustments to annual required contribution	26,262
Annual pension cost	658,902
Contributions made	740,000
Increase in net pension obligation (asset)	(81,098)
Net pension obligation (asset), beginning of year	(710,858)
Net pension obligation (asset), end of year	$ (791,956)

Basis of Valuation		
Current and Recent Valuation Date	January 1, 2011	January 1, 2012
Future Rate of Net Investment Return	7.5%	7.5%
Projected Annual Salary Increases	5.0%	5.0%
Expected Annual Inflation	3.0%	3.0%
Cost of Living Adjustments	3.0%	3.0%
Actuarial Value of Assets	5-year weighted index	5-year weighted index
Amortization Method	Entry Age Normal	Entry Age Normal
Remaining Amortization Period	N/A	N/A

NOTE 6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Employer Contributions

Fiscal Year Ended December 31,	Annual Pension Cost (APC)	Actual Pension Contribution	Percentage of APC Contributed	Net Pension Obligation (Asset)
2011	$ 658,902	$ 740,000	112.3 %	$ (791,956)
2010	644,452	740,000	114.8	(710,858)
2009	707,600	700,000	98.9	(615,310)

The following is a schedule of funding progress, using the entry age actuarial cost method.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio (1)/(2)	(4) Unfunded (1)-(2)	Annual Covered Payroll	Percentage of Covered Payroll
1/1/2012	$ 20,964,106	$ 23,805,211	88.07%	$ (2,841,105)	$ 5,704,317	49.81%

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of January 1, 2012.

NOTE 7. COMMITMENTS AND CONTINGENCIES

Contractual Commitments:

For the year ended December 31, 2011, contractual commitments on uncompleted contracts were $48,624,255.

Grant Contingencies:

The Authority has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to the disallowance of certain expenses previously reimbursed by those agencies. Based upon prior experience, management of the Authority believes such disallowances, if any, will not be significant.

NOTE 8. RISK MANAGEMENT

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority carries insurance for all risks of loss, including general liability and errors and omission coverage through a private insurance company. The Authority carries commercial insurance for risks of loss related to property, general liability, equipment, automobiles and crime to cover torts, theft of and damage to assets, injuries, errors and omissions, and natural disaster. Significant losses are covered by the commercial insurance underlying these programs.

There have been no significant reductions of insurance coverage from coverage in the prior year, and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 9. JOINT VENTURES

On May 2, 2000, Cobb-County Marietta Water Authority (the "Authority") and the City of Canton entered into a joint project agreement for the construction of the Hickory Log Creek Reservoir. This project includes the construction of a dam, approximately 411 acre reservoir with approximately 15 miles of shoreline, pump station and intake facility, and a pipeline connecting the Reservoir with the Etowah River. The City of Canton's entitlement share or ownership of the project is 25% while the Authority's share is 75%. The term of the agreement between both parties is fifty (50) years from its beginning date. Both the City of Canton and the Authority have decided it would be wasteful and a needless expense to create a separate entity to construct, administer and operate the project. Therefore, there are no separate financial statements prepared other than the annual audited financial statements of both entities and monthly settlement statements.

REQUIRED SUPPLEMENTARY INFORMATION

COBB COUNTY-MARIETTA WATER AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT PLAN
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED DECEMBER 31, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2012	$ 20,964,106	$ 23,805,211	$ 2,841,105	88.1%	$ 5,704,317	49.8%
1/1/2011	20,264,745	22,532,973	2,268,228	89.9%	5,717,773	39.7%
1/1/2010	19,415,125	21,506,271	2,091,146	90.3%	5,641,194	37.1%
1/1/2009	18,055,215	20,215,335	2,160,120	89.3%	5,132,691	42.1%
1/1/2008	18,493,086	19,513,763	1,020,677	94.8%	5,121,170	19.9%
1/1/2007	17,167,468	17,732,204	564,736	96.8%	5,042,007	11.2%

Note: See assumptions used for the Schedule of Funding Progress in Note 6 to the financial statements.

COMPLIANCE SECTION

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

INDEPENDENT AUDITOR'S 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*

To the Members of the Board of the
Cobb County-Marietta Water Authority
Marietta, Georgia

We have audited the basic financial statements of the Cobb County-Marietta Water Authority (the "Authority"), as of and for the year ended December 31, 2011, and have issued our report thereon dated March 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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.*

We noted certain matters that we reported to management of the Authority in a separate letter dated March 21, 2012.

This report is intended solely for the information and use of the Board members, management, others within the organization, and the State of Georgia, and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Atlanta, Georgia
March 21, 2012