COBB COUNTY-MARIETTA WATER AUTHORITY

MARIETTA, GEORGIA

FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2012

COBB COUNTY-MARIETTA WATER AUTHORITY

FINANCIAL REPORT
DECEMBER 31, 2012

TABLE OF CONTENTS

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the **Cobb County-Marietta Water Authority** (the "Authority"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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.

Auditor's 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.

200 GALLERIA PARKWAY S.E., SUITE 1700 • ATLANTA, GA 30339-5946 • 770-955-8600 • 800-277-0080 • FAX 770-980-4489 • www.mjcpa.com
Members of The American Institute of Certified Public Accountants • RSM International

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, 2012, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* as well as Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of January 1, 2012. 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 the Management's Discussion and Analysis (on pages 4 through 12) and the Schedule of Funding Progress (on page 29) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2013 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* in considering the Authority's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Atlanta, Georgia
May 2, 2013

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 are as follows:

- Water Sales revenue increased 7.8% from $67.4 million in 2011 to $72.7 million in 2012, an increase of $5.3 million. Gallons sold remained stable from 30.24 billion gallons sold in 2011 to 30.27 billion gallons sold in 2012.

- Operating expenses increased from $37.3 million in 2011 to $38.7 million in 2012, an increase of $1.4 million or almost 4%.

- Operating income for 2012 was $34 million, compared to $30.1 million in 2011, an increase of $3.9 million or 13%.

- Interest income decreased $263,000 from 2011 to $1.2 million in 2012.

- Revenue bond debt decreased 8% from $45,500,000 in 2011 to $41,820,000 in 2012, a decrease of $3,680,000.

- GEFA loans outstanding increased $18.9 million from $37.7 million in 2011 to $56.6 million in 2012.

- Total net position increased by 8% from $386.4 million in 2011 (restated) to $418.2 million in 2012, an increase of $31.8 million.

- At December 31, 2012, the Authority reported an unrestricted net position of $13.2 million, which is an increase of $2.4 million over prior year.

Authority Highlights

Highlights for 2012

Construction in Progress:
Projects awarded for design in 2012:
- Backup Power Generation, Quarles Water Treatment Plant & Raw Water Intake
- Highway 41, Phase 4 Pipeline, Dobbins AFB to Windy Ridge Parkway (reinstituted after 2007 delay)
- Hickory Log Creek Reservoir, Operations Building

Projects awarded for construction in 2012:
- Hickory Log Creek Reservoir, SCADA System
- Macland Road 36-Inch Water Main Relocation – New Macland Road to Paulding County Line

Projects completed in 2012:
- Austell Road – West Side Connector 24-Inch Water Main
- Highway 41 Pipeline Relocation – Canton Road to Bells Ferry Road, (D.O.T. Related)

Other Items:

- Cobb County-Marietta Water Authority's average daily demand increased slightly from 2011 to 2012, 82.75 mgd to 82.94 mgd. Although drought restrictions were lifted in 2009, demands remain suppressed with the downturn in the economy and a continuing focus on conservation.

- Implemented a transmission system valve maintenance program with dedicated crew and equipment to enhance reliability and facilitate a planned program for repair and replacement of system and control valves.

- Implemented a multi-year planned program for coatings maintenance to extend life of equipment and above-ground pipes at various CCMWA facilities.

- 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 $253 million for the 5-year period, 2012 through 2016.

- The Authority continued to work with Atkins Engineering to update the Water System Hydraulic Model and complete an 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 plan.

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

- The Wyckoff and Quarles operations divisions received ratings of "Outstanding Performance" as a result of a Georgia Environmental Protection Division Sanitary Survey.

- An emergency radio system was implemented for backup communications in the event of a crisis resulting in a loss of conventional telecommunications.

- The Transmission Division received and reviewed approximately 28,087 pipeline location inquiries through the Utilities Protection Center. The division responded to approximately 3,440 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 Position 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 Position. 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 Position for 2012 and 2011 are summarized in a Condensed Statement of Net Position. (See Table I). The Authority's net position increased 8% in 2012 over last year due to continued investment in capital improvements.

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

	2012	2011
Assets:		
Current and Other Assets	$131.0	$102.2
Capital Assets	398.7	381.8
Total Assets	529.7	484.0
Deferred Outflows	2.9	0.0
Liabilities:		
Long-Term Debt Outstanding	98.9	81.7
Other Liabilities	15.5	15.9
Total Liabilities	$114.4	$97.6
Net Position:		
Net Investment in Capital Assets	291.1	297.3
Restricted	113.9	78.3
Unrestricted	13.2	10.8
Total Net Position	$418.2	386.4

The Statements of Revenues, Expenses, and Changes in Net Position for 2012 and 2011 are summarized in a Condensed Statement of Changes in Net Position (See Table II). The Authority achieved an increase in net position of $31.8 million for the year ended December 31, 2012 which was $3.1 million greater than the $28.7 million increase achieved for the year ended December 31, 2011.

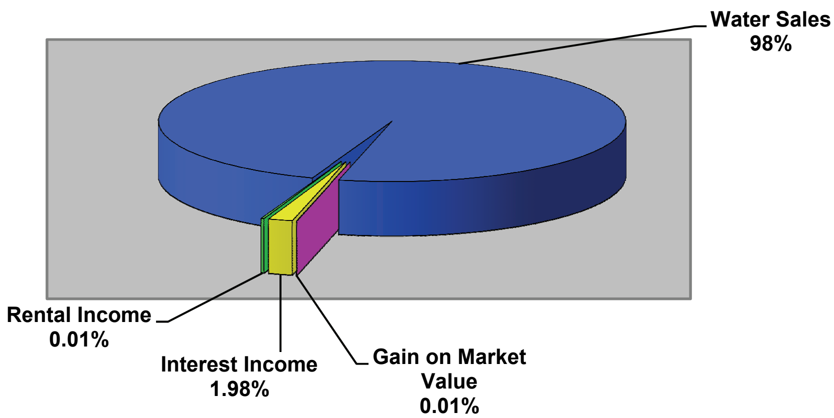
Table II Condensed Statement of Changes in Net Position
(Amounts Expressed in Millions of Dollars)

	2012	2011
Revenues:		
Operating Revenue	$72.7	$67.4
Interest Income	1.2	1.5
Other Income	0.2	1.3
Total Revenue	74.1	70.2
Expenses:		
Operating Expenses	38.7	37.3
Interest Expense	3.6	3.6
Other Expenses	0.0	0.6
Total Expenses	42.3	41.5
Increase in Net Position	$31.8	$28.7

Revenues

The Authority's total revenue of $74.1 million reflects an increase in 2012 of $3.9 million or 6% (See Condensed Statement of Changes in Net Position – Table II). Revenue from Water Sales increased $5.3 million from the prior year. Interest Income decreased $263,000 from 2011 to $1.2 million in 2012. The gain on market value of investments in 2012 was $20,213, down from the prior year gain of $940,000.

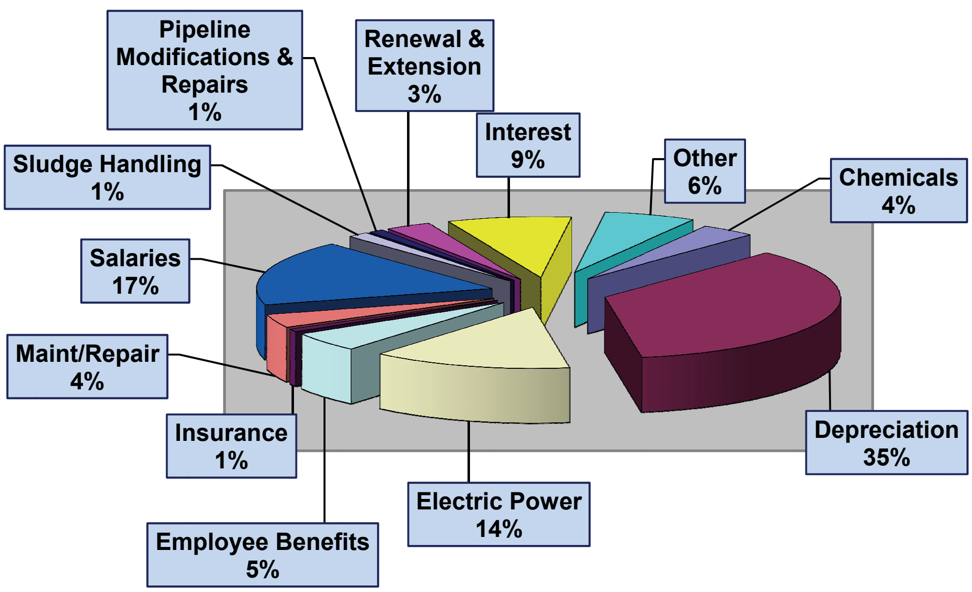
2012 Total Revenue by Source



Expenses

The Authority's total expenses for 2012 were $42.3 million, an increase of $800,000 over 2011 total expenses (See Condensed Statement of Changes in Net Position – Table II). Depreciation expense increased $1.6 million to $15 million in 2012. Salary expenses remained steady year over year at $7.4 million. Electric power decreased 3% in 2012 to $5.8 million. Both Chemicals and Sludge Handling expenses increased 7% over prior year. Chemical expenses in 2012 were $1.6 million and Sludge Handling expenses were $615,000. Renewal and extension expenses decreased 22% to $1.3 million this year.

2012 Total Expenses by Source



Budgetary Highlights

The fiscal year 2012 budget was based on projected production of 82 million gallons per day (MGD) to generate over $71.3 million in water sales. Actual 2012 production came in above forecast at 83.02 MGD, generating $72.7 million in water sales revenue, which was $1.4 million above forecast. Actual division operating expenses of $37.4 million came in under the 2012 budget of $41.5 million by $4.1 million. Renewal & Extension expenses totaling $1.3 million for the year were well below the budget of $3.4 million. The resulting 2012 operating income (including R&E expenses) of $34 million exceeded the $26.4 million budget by $7.6 million. Actual interest income was $528,000 over budget. The 2012 actual net income of $31.8 million was approximately $8 million over the $23.8 million forecast.

Capital Assets and Debt Administration

Capital Assets

At the end of 2012, the Authority had $399 million invested in a broad range of capital assets, a $17 million increase (net of depreciation) over the prior year. This increase includes $29 million in treatment plant improvements (still in progress) and $3 million in machinery & equipment, along with $15 million in depreciation expense in 2012. (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

	2012	2011
Land and Easements	$23,785,309	$22,762,439
Buildings	5,314,780	5,492,332
Furniture & Fixtures	3,798	4,641
Vehicles	625,097	471,776
Machinery & Equipment	18,090,614	14,997,572
Distribution Lines	103,154,945	104,872,183
Pumping Stations	21,364,750	23,356,947
Treatment Plants	99,303,535	104,921,206
Water Tanks	4,957,366	5,216,597
Water Resources	39,770,155	38,628,887
	316,370,349	320,724,580
Construction in Progress	78,189,353	56,764,675
Retainage on Construction Contracts	4,149,787	4,347,744
Net Capital Assets	$398,709,489	$381,836,999

Debt Administration

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

The Authority had $98.9 million in outstanding long-term debt at the end of 2012 (See Outstanding Long Term Debt - Table IV). Long-Term debt is comprised of three components – 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 Finance 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. In October 2010, $2,714,069 of the Phase 2 loan had been disbursed and put into repayment with 360 monthly payments of $13,114 at an interest rate of 4.10%. By August 2012, the remaining $21,866,464 had been fully disbursed and was put into repayment (referenced as the Phase 3 loan) with 360 monthly payments of $105,687 at an interest rate of 4.10%.

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 were 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 November 1, 2012 the Series 2002 Revenue Bonds were called and paid off in full using the proceeds of the trust and a final cash payment by the Authority.

The Authority continues to analyze all available funding options. 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

	2012	2011
Revenue Bonds Payable - Principal	$41,820,000	$45,500,000
Unamortized Premium	4,063,113	4,910,564
Less Current Bonds Payable	(3,850,000)	(3,680,000)
Total Revenue Bonds, Long Term	42,033,113	46,730,564
GEFA Loan Payable	55,443,496	36,911,505
Compensated Absences Payable	1,439,654	1,492,435
Total Outstanding Long-Term Debt	$98,916,263	$85,134,504

Looking forward to 2013

Water Sales and Testing:

- Production forecast – 81.00 MGD
- In-county rate $2.48/1000 gallons; out-of-county rate $2.75/1000 gallons

Construction in Progress:

Projects scheduled to begin design:

- West Side Loop and Dallas Highway Pipelines (48-Inch Replacement and 36-Inch Parallel Line)
- Wyckoff Water Treatment Plant Electrical Improvements and Filter Building Rehabilitation

Projects scheduled to begin construction:

- Backup Power Generation – Quarles Water Treatment Plant and Raw Water Intake
- Hickory Log Creek Reservoir Operations Building
- Hickory Log Creek Reservoir SCADA System
- Macland Road 36-Inch Water Main Relocation – New Macland Road to Paulding County Line

Projects scheduled for completion:

- Hickory Log Creek Reservoir Operations Building
- Hickory Log Creek Reservoir SCADA System
- Backup Power Generation, Quarles Water Treatment Plant and Raw Water Intake
- Wyckoff Water Treatment Plant Regulatory & Operational Improvements
- Macland Road 36-Inch Water Main Relocation – New Macland Road to Paulding County Line

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

Other Items:

- Water conservation practices, both mandatory and voluntary, are expected to continue. Slow growth, combined with lower per capita demand, will likely suppress water sales beyond 2013.

- The Capital Improvement Plan and Financial Model continue to be analyzed and revised to reflect demand and regulatory requirements. A CIP inflation driver of 3% is used for 2013, 3% for 2014 through 2015, and 4% thereafter. The operations inflation driver is 5% annually. Significant factors impacting the Operations & Maintenance (O&M) inflation rate include escalating costs of energy and conversion to new chemical feed systems. O&M costs will increase significantly in 2013, 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, in coordination with independent consultants, is conducting the Phase I Facilities Master Plan, to evaluate the ability of existing water treatment facilities to meet future demands and regulatory requirements. This effort also includes a detailed evaluation of options regarding future rehabilitation or replacement of Quarles Water Treatment Plant I and the Wyckoff Intake and Pumping Station.

- The engineering staff is planning to evaluate an in situ method of testing existing pre-stressed concrete cylinder pipe in the transmission system during 2013. The results will be utilized to forecast timely replacement of the pipelines.

- Thirty-one Asset Renewal and Replacement projects are budgeted with a total appropriation of $3,796,000.

- In late 2012, the Water Authority created a new Finance Division to enable more timely financial decisions and to more effectively connect financial, engineering and operational information for decision-making. Overview of the Authority's Asset Management program was transferred from the Director of Operations to the Director of Finance. New financial software was purchased and implemented, and responsibilities for financial management and reporting were brought in-house effective January 1, 2013.

Requests for Information

This financial report is designed to provide a general overview of the Cobb County-Marietta Water 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 POSITION
DECEMBER 31, 2012

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	8,470,331
Receivables:		
Accounts		5,860,092
Intergovernmental		1,371,970
Restricted assets:		
Cash and cash equivalents		28,105,620
Investments		86,018,800
Accrued interest receivable		309,783
Intergovernmental receivable		26,738
Total current assets		130,163,334
NON-CURRENT ASSETS		
Capital assets:		
Land		23,785,309
Buildings		6,468,160
Utility plant & distribution lines		392,792,134
Furniture and fixtures		108,847
Machinery and equipment		24,418,171
Vehicles		1,795,070
Construction in progress		82,339,140
		531,706,831
Less accumulated depreciation		132,997,342
Total capital assets, net of accumulated depreciation		398,709,489
Other assets:		
Net pension asset		844,090
Total non-current assets		399,553,579
Total assets		529,716,913
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on refunding		2,969,433
Total deferred outflows of resources		2,969,433

See Notes to Financial Statements.

LIABILITIES	
CURRENT LIABILITIES	
Payable from current assets:	
Accounts payable	$ 1,164,249
Compensated absences payable	523,766
Accrued expenses and other liabilities	195,978
	1,883,993
Payable from restricted assets:	
Retainage payable	4,149,787
Construction accounts payable	3,977,739
Revenue bonds payable	3,850,000
Notes payable	1,178,537
Accrued interest payable	505,732
	13,661,795
Total current liabilities	15,545,788
LONG-TERM LIABILITIES	
Compensated absences payable	1,439,654
Notes payable	55,443,496
Revenue bonds payable, net	42,033,113
Total long-term liabilities	98,916,263
Total liabilities	114,462,051
NET POSITION	
Net investment in capital assets	291,046,250
Restricted for debt service	664,646
Restricted for capital projects	113,263,825
Unrestricted	13,249,574
Total net position	$ 418,224,295

COBB COUNTY-MARIETTA WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2012

Operating revenues:	
Charges for services:	
Water sales and testing	$ 72,733,198
Total operating revenues	72,733,198
Operating expenses:	
General and administration	2,996,304
Distribution	1,722,593
Laboratory	958,795
Water plant	15,380,070
Engineering division	977,919
Hickory Log Creek Reservoir division	315,974
Depreciation	15,004,203
Other operating expenses	1,317,730
Total operating expenses	38,673,588
Operating income	34,059,610
Non-operating revenues (expenses):	
Interest income	1,233,407
Gain on market value of investments	20,213
Interest expense and fiscal charges	(3,586,120)
Rental income	127,247
Loss on disposal of capital assets	(69,235)
Total non-operating revenues (expenses), net	(2,274,488)
Change in net position	31,785,122
Net position, beginning of year, restated	386,439,173
Net position, end of year	$ 418,224,295

See Notes to Financial Statements.

COBB COUNTY-MARIETTA WATER AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	$ 71,638,790
Payments for goods and services	(17,049,618)
Payments to employees	(6,747,319)
Net cash provided by operating activities	47,841,853
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments for purchases and construction of capital assets	(34,497,942)
Proceeds from sale of capital assets	186,903
Proceeds from long-term borrowings	19,866,371
Principal payments on long-term borrowings	(4,598,938)
Interest paid on long-term borrowings	(3,810,140)
Net cash used in capital and related financing activities	(22,853,746)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(93,173,186)
Proceeds from investments	66,697,070
Rents received	127,247
Interest received	1,107,798
Net cash used in investing activities	(25,241,071)
Net decrease in cash and cash equivalents	(252,964)
Cash and cash equivalents:	
Beginning of year	36,828,915
End of year	$ 36,575,951
Classified as:	
Cash and cash equivalents	$ 8,470,331
Restricted cash and cash equivalents	28,105,620
	$ 36,575,951

Continued

COBB COUNTY-MARIETTA WATER AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$	34,059,610
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense		15,004,203
Changes in assets and liabilities:		
Increase in accounts receivable		(1,159,512)
Decrease in restricted intergovernmental receivable		65,104
Increase in net pension asset		(52,134)
Decrease in accounts payable		(174,203)
Increase in compensated absences		45,964
Increase in accrued expenses and other liabilities		52,821
Net cash provided by operating activities	$	47,841,853
NONCASH INVESTING ACTIVITIES		
Increase in fair value of investments	$	20,213

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 and basis of accounting. The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

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. For the year ended December 31, 2012, the Authority implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements. Statement No. 63 identified net position as the residual of all other elements presented in a statement of financial position and Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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 other operating expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 position because their use is limited by applicable covenants.

Deferred Outflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The Authority only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or the refunding debt.

Bond Premiums, Discounts, and Issuance Costs:

Bond premiums and discounts are deferred and amortized over the term of the bonds using the effective interest method. Additionally, bond premiums and discounts are presented as an addition and reduction, respectively, of the face amount of bonds payable in the statement of net position. Issuance costs are expensed when paid in the statement of revenues, expenses, and changes in net position.

Net Pension Asset:

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

Net Position Flow Assumption:

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., bond proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the statement of net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 year ended December 31, 2012, $71,865 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.

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, 2012, are summarized as follows:

As reported in the Statement of Net Position

Cash and cash equivalents	$	8,470,331
Restricted:		
Cash and cash equivalents		28,105,620
Investments		86,018,800
	$	122,594,751
Cash deposited with financial institutions	$	52,915,530
Georgia Fund 1		4,779,278
U.S. Government Agencies		64,899,943
	$	122,594,751

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, 2012, the Authority did not have any deposits which were uninsured or under collateralized, as defined by State statutes.

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 AAAf 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 $4,779,278 in Georgia Fund 1.

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2012, the Georgia Fund 1 had a weighted average maturity of 40 days and a credit rating of AAAm. In addition, the Authority's $64,899,943 of U.S. Government Agencies securities as noted in the following tabular presentation were noted to have a quality rating of AA+. The reporting of investments at fair value resulted in an unrealized gain of $20,213 for the year ended December 31, 2012.

At December 31, 2012, 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	$ 21,118,857	$ 2,073,852	$ 19,045,005	$ -	$ -
U.S. Government Agencies	64,899,943	-	25,944,188	11,379,400	27,576,355
Total	$ 86,018,800	$ 2,073,852	$ 44,989,193	$ 11,379,400	$ 27,576,355

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, 2012:

Receivables:		
Accounts	$	5,860,092
Intergovernmental		1,371,970
From restricted assets:		
Interest		309,783
Intergovernmental		26,738
Gross receivables	$	7,568,583

Restricted intergovernmental receivables consisted of $26,738 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, 2012 is as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	$ 22,762,439	$ 3,121	$ (139,751)	$ 1,159,500	$ 23,785,309
Construction in progress	61,112,419	31,939,565	-	(10,712,844)	82,339,140
Total	83,874,858	31,942,686	(139,751)	(9,553,344)	106,124,449
Capital assets, being depreciated:					
Buildings	6,468,160	-	-	-	6,468,160
Utility plants/distribution lines	388,189,499	-	(116,387)	4,719,022	392,792,134
Machinery and equipment	19,690,762	120,694	-	4,606,715	24,418,171
Furniture and fixtures	108,847	-	-	-	108,847
Vehicles	1,564,569	69,451	(66,557)	227,607	1,795,070
Total	416,021,837	190,145	(182,944)	9,553,344	425,582,382
Less accumulated depreciation for:					
Buildings	(975,828)	(177,552)	-	-	(1,153,380)
Utility plants/distribution lines	(111,193,679)	(13,047,704)	-	-	(124,241,383)
Machinery and equipment	(4,693,190)	(1,634,367)	-	-	(6,327,557)
Furniture and fixtures	(104,206)	(843)	-	-	(105,049)
Vehicles	(1,092,793)	(143,737)	66,557	-	(1,169,973)
Total	(118,059,696)	(15,004,203)	66,557	-	(132,997,342)
Total capital assets, being depreciated, net	297,962,141	(14,814,058)	(116,387)	9,553,344	292,585,040
Total capital assets, net	$ 381,836,999	$ 17,128,628	$ (256,138)	$ -	$ 398,709,489

NOTE 5. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2012 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	$ 45,500,000	$ -	$ (3,680,000)	$ 41,820,000	$ 3,850,000
Plus unamortized premium	4,910,564	-	(847,451)	4,063,113	-
Revenue bonds, net	50,410,564	-	(4,527,451)	45,883,113	3,850,000
Notes payable	37,674,600	19,866,371	(918,938)	56,622,033	1,178,537
Compensated absences	1,917,456	763,114	(717,150)	1,963,420	523,766
Total long-term liabilities	$ 90,002,620	$ 20,629,485	$ (6,163,539)	$ 104,468,566	$ 5,552,303

NOTE 5. LONG-TERM DEBT (CONTINUED)

Revenue Bonds:

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.

Debt service requirements to maturity on the revenue bonds are as follows:

	Principal	Interest	Total
Fiscal year ending December 31,			
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	4,680,000	1,081,638	5,761,638
2018-2021	20,565,000	2,478,150	23,043,150
Total	$ 41,820,000	$ 10,008,340	$ 51,828,340

Notes Payable:

The Authority has certain promissory notes outstanding with the Georgia Environmental Finance Authority (GEFA) 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, 2012, $56,622,033 was outstanding and payments are due each month in the amount of $282,086. The notes mature on December 1, 2038, September 1, 2040, and July 1, 2042, respectively. The debt service requirements to maturity on the Authority's GEFA notes are as follows:

	Principal	Interest	Total
Fiscal year ending December 31,			
2013	$ 1,178,537	$ 2,206,488	$ 3,385,025
2014	1,225,249	2,159,776	3,385,025
2015	1,274,122	2,110,903	3,385,025
2016	1,324,612	2,060,413	3,385,025
2017	1,378,057	2,006,968	3,385,025
2018-2022	7,758,672	9,166,456	16,925,128
2023-2027	9,435,295	7,489,833	16,925,128
2028-2032	11,474,623	5,450,505	16,925,128
2033-2037	13,955,922	2,969,206	16,925,128
2038-2042	7,616,944	585,588	8,202,532
Total	$ 56,622,033	$ 36,206,136	$ 92,828,169

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, 2013, the date of the most recent actuarial valuation, there were 148 participants consisting of the following:

Inactive participants receiving benefits	32
Terminated members entitled to but not yet receiving benefits	8
Active plan members:	
Vested	66
Non-Vested	42
Total	148

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.

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 2012 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 $844,090 as of December 31, 2012. For January 1, 2013, the actuarially determined contribution rate was 11.45% of covered payroll or $740,481 compared to 13.10% of covered payroll or $747,005 for the Plan Year beginning January 1, 2012.

NOTE 6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Funding Policy (Continued)

For the year ended December 31, 2012, the Authority's recommended contributions were $747,005 while the actual contributions were $740,000. The recommended contribution was determined as part of the January 1, 2012 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, 2012 are as follows:

Annual required contribution	$ 747,005
Interest on net pension obligation (asset)	(86,645)
Adjustments to annual required contribution	27,506
Annual pension cost	687,866
Contributions made	740,000
Increase in net pension obligation (asset)	(52,134)
Net pension obligation (asset), beginning of year	(791,956)
Net pension obligation (asset), end of year	$ (844,090)

Basis of Valuation		
Current and Recent Valuation Date	January 1, 2012	January 1, 2013
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	30 years (closed)	30 years (closed)

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)
2012	$ 687,866	$ 740,000	107.6 %	$ (844,090)
2011	658,902	740,000	112.3	(791,956)
2010	644,452	740,000	114.8	(710,858)

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

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Funded Ratio (1)/(2)	(4) Unfunded (2)-(1)	(5) Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2013	$ 21,992,642	$ 24,791,731	88.71%	$ 2,799,089	$ 6,469,029	43.27%

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, 2013.

NOTE 7. COMMITMENTS AND CONTINGENCIES

Contractual Commitments:

For the year ended December 31, 2012, contractual commitments on uncompleted contracts were $32,741,640.

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.

The Authority is a defendant in a lawsuit. Although the outcome of this lawsuit is not presently determinable, in the opinion of management and legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the Authority.

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.

NOTE 10. CHANGE IN ACCOUNTING PRINCIPLE

In conjunction with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the Authority is required to change its accounting treatment of debt issuance costs. The new standard requires that debt issuance costs be recognized as an expense in the period incurred rather than capitalized and recognized as an expense (amortized) in a systematic and rational manner over the duration of the related debt as was the required treatment in prior reporting periods.

Therefore, in conjunction with the implementation of Statement No. 65, the following restatement was required to beginning net position to properly recognize debt issuance costs as expenses in the periods in which they were incurred:

Net position, previously reported	$	386,788,152
Recognition of issuance costs incurred in prior periods		(348,979)
Beginning net position, restated	$	386,439,173

REQUIRED SUPPLEMENTARY INFORMATION

COBB COUNTY-MARIETTA WATER AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT PLAN
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED DECEMBER 31, 2012

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)
1/1/2013	$ 21,992,642	$ 24,791,731	$ 2,799,089	88.7%	$ 6,469,029	43.3%
1/1/2012	20,964,106	23,805,211	2,841,105	88.1%	6,159,167	46.1%
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%

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, 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 the Cobb County-Marietta Water Authority (the "Authority"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 2, 2013. As referenced in our report, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* as well as Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of January 1, 2012.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 the Authority's financial statements are free from 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*.

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Atlanta, Georgia
May 2, 2013