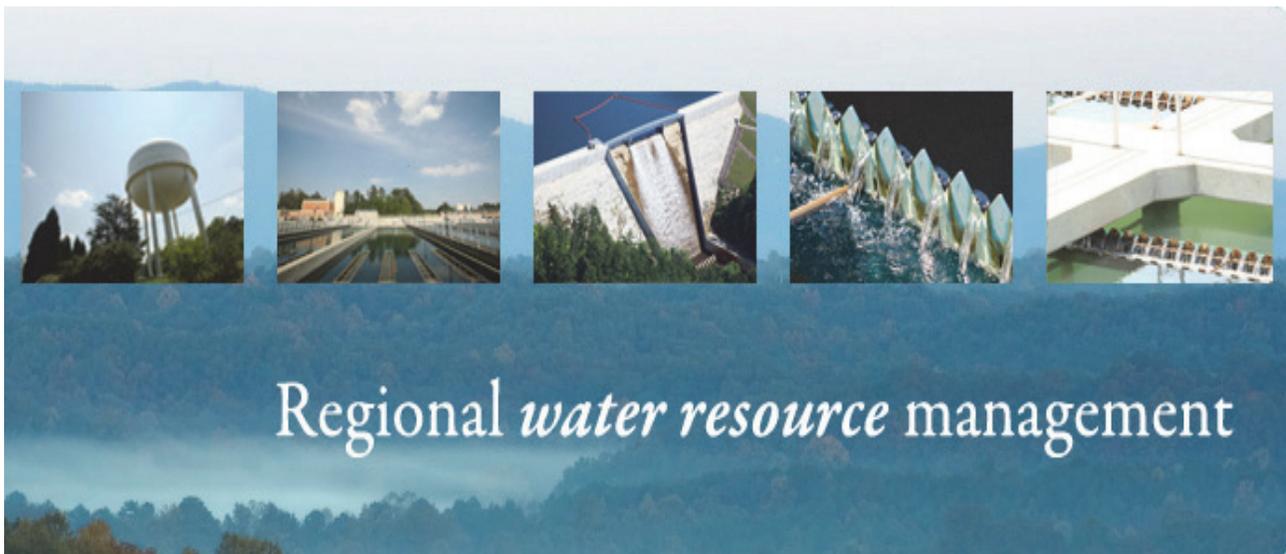


**COBB COUNTY-MARIETTA WATER AUTHORITY  
MARIETTA, GEORGIA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
DECEMBER 31, 2016**



*Regional water resource management*

**COBB COUNTY-MARIETTA WATER AUTHORITY  
MARIETTA, GEORGIA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2016**

**Prepared by:  
Finance Division**

**Cole E. Blackwell  
Director of Finance**

## **INTRODUCTORY SECTION**

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# COBB COUNTY-MARIETTA WATER AUTHORITY

## COMPREHENSIVE ANNUAL FINANCIAL REPORT DECEMBER 31, 2016

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**COBB COUNTY-MARIETTA WATER AUTHORITY**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2016**

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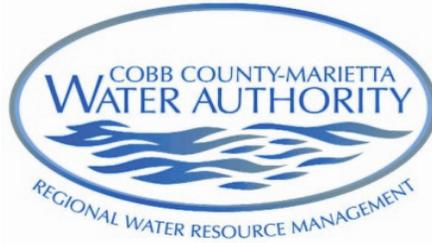
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March 31, 2017

Cobb County-Marietta Water Authority Board  
Customers and Stakeholders  
Marietta, Georgia

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Cobb County-Marietta Water Authority (CCMWA) for the fiscal and calendar year ended December 31, 2016. This report is the responsibility of CCMWA's management and has been prepared in accordance with Generally Accepted Accounting Principles (GAAP), and in conformance with current accounting and financial reporting requirements and principles promulgated by the Governmental Accounting Standards Board (GASB). To the best of our knowledge and belief, the enclosed financial data is accurate in all material respects and represents the financial position, results of operations, and cash flows of CCMWA for the period then ended. All disclosures for the reader to gain an understanding of CCMWA's financial activities have been included.

CCMWA's management believes it has established internal controls that adequately protect assets and provide reasonable assurance of proper recording of financial transactions and presentation of financial reports and accompanying information. No matter how well-designed and operated, internal controls cannot guarantee that an entity's objectives will be met because of inherent limitations in all internal control systems. However, management maintains a commitment to developing, implementing and monitoring internal controls to ensure accurate, responsible, and transparent financial management.

Mauldin and Jenkins, LLC, Certified Public Accountants, conducted an independent audit of these financial statements in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. As a result of their audit procedures, Mauldin and Jenkins has issued an unmodified opinion on the financial statements of CCMWA for the fiscal year ended December 31, 2016. The auditor's report is located in the front of the Financial Section of this report.

In accordance with GAAP, a narrative introduction, overview and analysis accompany the basic financial statements, in the form of Management's Discussion and Analysis (MD&A). The MD&A is located immediately following the independent auditor's report.

### **Organization of the Comprehensive Annual Financial Report**

This Comprehensive Annual Financial Report may be read by a wide variety of people. Therefore, useful information has been provided, even to those who may not be familiar with CCMWA. Toward that end, this report is presented in the three major sections: Introductory, Financial and Statistical.

The introductory section is meant to familiarize the reader with CCMWA's organizational structure, as well as the nature and scope of services provided. This transmittal letter, a list of CCMWA board members and an organizational chart comprise the introductory section.

The financial section includes the independent auditor's report on the basic financial statements, management's discussion and analysis of CCMWA's financial position and results of operations, and the audited financial statements, including accompanying note disclosures and required supplementary information.

The statistical section includes information regarding CCMWA's economic condition and environment, and is divided into five sections: financial trends, revenue capacity, debt capacity, demographic and economic information, and other operating information.

### **Profile of Cobb County-Marietta Water Authority**

#### **General**

The Cobb County-Marietta Water Authority was created in 1951 by an act of the General Assembly of the State of Georgia and is a political subdivision of the state. CCMWA is unique because it has one primary mission: supply drinking water to its wholesale customers. CCMWA's service area includes customers in Cobb County, Cherokee County, Douglas County, Fulton County and Paulding County. All of CCMWA's customers are governmental water purveyors with the exception of Lockheed Martin Corporation, which shares its location with the Dobbins Air Force Base complex in Marietta.

CCMWA has award-winning water treatment and testing facilities, which include the James E. Quarles Water Treatment Plant (WTP), the Hugh A. Wyckoff WTP and the Calvin F. Simmons Microbiological Laboratory. Each facility is staffed with certified professionals who manage the operations 24 hours a day, seven days a week. The dual WTPs which are supplied water from two separate river basins provide production flexibility and reliability for the CCMWA service area, and the laboratory ensures drinking water safety and regulatory compliance.

The Quarles WTP was the first CCMWA water treatment plant, with the first phase built in 1952. Since that time it has undergone many system enhancements and expansions to meet the growing community's water needs, and is currently permitted to produce 86 million gallons per day. The original water treatment facility built on the Quarles WTP campus is scheduled to be replaced in CCMWA's current 5-year capital improvement program. Source water for the Quarles WTP comes from the Chattahoochee River, which is part of the Apalachicola-Chattahoochee-Flint (ACF) River Basin. There are 34 employees at the Quarles WTP, and they monitor, execute and manage every aspect of the water treatment process using conventional treatment processes.

Originally built in the early 1960s, the Wyckoff WTP has expanded and enhanced its operations over the years and is currently permitted to produce 72 million gallons of water per day. Source water for the Wyckoff WTP comes from Allatoona Lake, a U.S. Army Corps of Engineers impoundment on the Etowah River, which is part of the Alabama-Coosa-Tallapoosa (ACT) River Basin. There is a team of 35 industry professionals at Wyckoff who manage all aspects of the treatment process, including advanced treatment using granular activated carbon, to ensure the highest standards.

CCMWA's Laboratory Division is responsible for testing the water that CCMWA provides to its wholesale customers to ensure that it meets state and federal drinking water standards. Certified Laboratory Analysts test approximately 500 water samples each month from raw water sources, the two drinking water plants, CCMWA's water transmission pipeline system, and wholesale customers' distribution systems. The Laboratory Division also provides, for a fee, microbiological water testing services to residents who have wells, and for various other purposes. The Microbiological Lab is certified by the State of Georgia. Facilities include a research lab, chemistry lab, microbiology lab, level II microbiology lab, media prep lab and incubator lab.

In addition to water treatment and testing facilities, a transmission pipeline network including over two hundred miles of pipe conveys drinking water to CCMWA's ten wholesale customers. The system includes pipes of diameters ranging from 16 to 64 inches, with most of the pipe at least 36 inches in diameter. To provide additional water supply, CCMWA operates the Hickory Log Creek Reservoir, a pumped storage project located upstream of the Wyckoff WTP in the Etowah River Basin. Hickory Log Creek Reservoir covers approximately 411 acres and impounds about 5.7 billion gallons of water. The reservoir is jointly owned and operated by CCMWA and the City of Canton, with CCMWA owning 75% of the project and the City of Canton owning 25%. The reservoir was constructed with a designed yield of 44 million gallons per day, with 33 million gallons per day being allocated to CCMWA.

## **Governance**

CCMWA is governed by a seven member board. CCMWA was created as a body corporate and politic which is deemed to be a political subdivision of the State of Georgia and a public corporation. The board of CCMWA is composed of seven members, consisting of:

- The Chairman of the Cobb County Board of Commissioners
- The Chairman of the Paulding County Board of Commissioners
- One member selected by the governing authority of the City of Marietta
- One member selected by the governing authority of the City of Smyrna
- Three members selected by a caucus consisting of all members of the General Assembly whose districts are wholly or partially within Cobb County. The three members selected by the caucus include: one member from Cobb Commission District 1 or 4, excluding residents of Marietta and Smyrna; one member from Cobb Commission District 2 or 3, excluding residents of Marietta and Smyrna; and one member from unincorporated Cobb County.

Note: As of January 2017, the board of CCMWA was changed by an Act of the Georgia General Assembly. A seat is no longer held by the Chairman of the Paulding County Board of Commissioners. The vacated seat is now selected by a caucus consisting of all members of the General Assembly whose districts are wholly or partially within Cobb County. The selected member must be a resident of unincorporated Cobb County.

## **Accounting and Financial Reporting**

CCMWA is operated as a single enterprise fund. CCMWA is accounted for as a separate accounting entity with a separate self-balancing set of accounts. CCMWA utilizes the accrual basis of accounting; revenues are recorded when earned and expenses are recorded when liabilities are incurred. CCMWA's accounting procedures comply with the Governmental Accounting Standards Board and General Accepted Accounting Principles.

## **Budgetary Controls**

CCMWA believes annual budget preparation, adoption, implementation and continual monitoring is essential to fiscal responsibility, accountability and transparency of operations. Accordingly, CCMWA develops and adopts an operating budget annually and updates its 5-year capital improvement budget each year. The purpose of the budget process is to authorize and control expenditures, project revenues, develop pro-forma financial statements, project cash flows, and meet obligations of bond covenants.

## **Other Relevant Information**

### **General**

CCMWA's core purpose is to provide sustainable and reliable drinking water that supports public health, public safety, and economic vitality of the region. Core values inherent at CCMWA include service, stewardship and professionalism. We strive to employ a culture of safety, innovation and transparency. At a minimum, CCMWA staff is expected to act with integrity, inspire trust, and apply the highest levels of technical expertise. We aim to acquire and treat sufficient sources of water for our customers and the communities they serve, while leaving a legacy of sustainable water supplies for generations to come.

Through 2016, both of CCMWA's WTPs maintained full regulatory compliance with state and federal regulations and permit requirements. CCMWA's water transmission system, laboratories and water supply reservoir also remained in full compliance throughout the year. In 2016, both plants received the Georgia Association of Water Professionals (GAWP) Platinum Award, recognizing a minimum of 5 consecutive years of total compliance of water quality, monitoring and reporting requirements.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Cobb County-Marietta Water Authority for its comprehensive annual financial report for the fiscal year ended December 31, 2015. In order to be awarded the Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

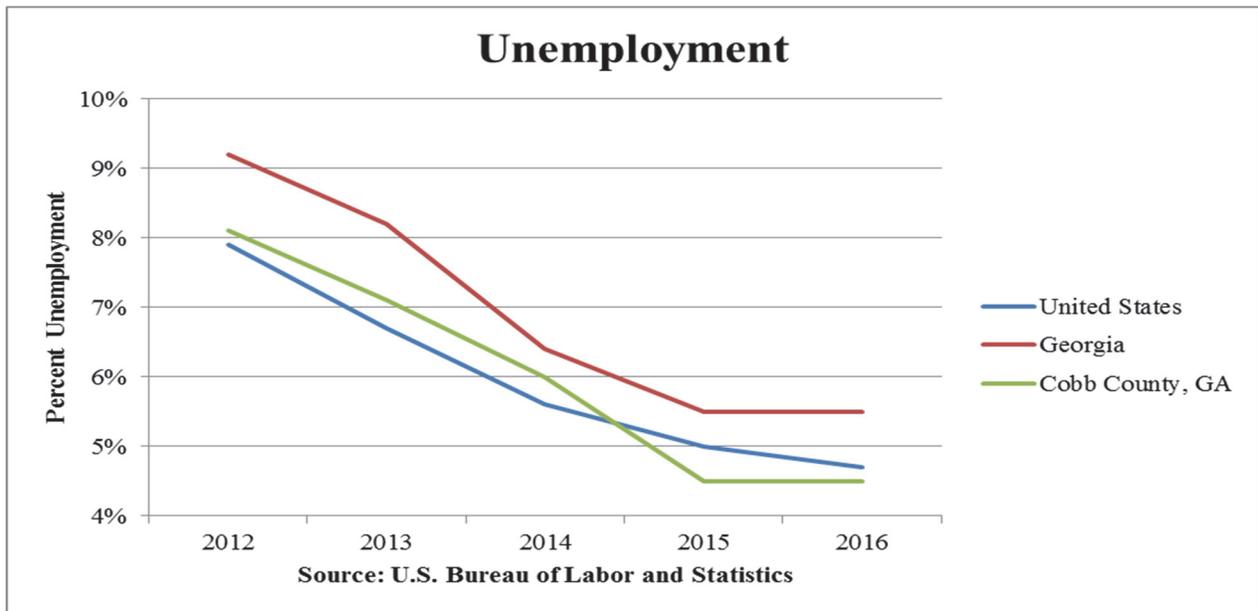
### **Current Economic Environment**

Growth had been the hallmark of CCMWA's service area for several decades prior to the "Great Recession" that began in December 2007. Since 2007, CCMWA has experienced water sales falling to levels not seen in nearly 20 years. However, CCMWA was in a strong financial position before the recession, and, with the implementation of responsible and strategic rate adjustments, it has maintained a strong financial position despite reduced water sales.

In late 2014, CCMWA was informed by Paulding County, CCMWA's second largest customer, that the county was accelerating its plans to develop its own drinking water reservoir and water treatment plant. Water sales to Paulding County currently make up approximately 14 percent of CCMWA's annual revenue, but Paulding is now working to become essentially independent of CCMWA by mid-2019. Because of Paulding's announcement, beginning in 2015, CCMWA

revised its Capital Improvement Plan to eliminate future capital improvement expenditures intended to solely or primarily benefit Paulding County. By making this change in future capital investments, CCMWA will minimize the effect that the loss of Paulding County as a customer will have on future net income.

CCMWA’s service area has experienced modest, but steady growth over the last few years, and has recovered from the recession. Unemployment in Georgia remains higher than the national average, but employment in Cobb County, which is CCMWA’s primary service area, is slightly better than the national average, as depicted in the graph below.



As previously mentioned, CCMWA has experienced reduced water sales over the last several years. Water conservation efforts and the increasing cost of water resulted in decreased consumer demand. However, gradual strengthening of the economy in CCMWA’s service area has increased base demand for water. For the 2017 budget, CCMWA increased its projected average water sales from 80.5 million gallons per day (MGD) to 81.0 MGD. Most of Georgia, including CCMWA’s service area experienced severe drought during 2016. Because of the drought, CCMWA experienced a spike in water demand. Forecasted demand of 80.5 MGD was surpassed with actual water sales for 2016 averaging 86.3 MGD. Some of this increase was by a need for supplemental water by Douglasville/Douglas County Water & Sewer Authority because of the drought’s effect on their reservoir levels. If the drought continues through 2017, management anticipates increased water use restrictions could result in a return to reduced water demands. Management plans to reevaluate long-term water sales forecasts during the 2018 budgeting process and adjust the capital improvement program accordingly. Because CCMWA is not highly leveraged, reduced water sales have less financial impact on CCMWA than on utilities with a higher debt ratio. Detailed information on debt held by CCMWA can be found in the Notes to Financial Statements.

CCMWA has been actively engaged in the tri-state dispute between Georgia, Florida and Alabama over use of water in both the ACT and ACF river basins since 1990, as CCMWA has water treatment plants in each of these basins. For 2016, CCMWA incurred over \$800,000 in expenses related to the tri-state water dispute. CCMWA entered into a lawsuit with the United States Army Corps of Engineers (USACE) in 2014 over USACE's failure to render a decision on reallocation of storage in Allatoona Lake for the purpose of water supply. CCMWA requested USACE to reallocate storage in Allatoona for water supply in 1981, but has yet to receive a decision from USACE.

In addition, CCMWA entered into a separate lawsuit against the USACE on February 1, 2017 over CCMWA's right to store water allocated by the State of Georgia in the storage space CCMWA owns in Allatoona Lake. CCMWA has a half-century-old contract with the USACE to use a portion of Allatoona Lake to store water for its customers. CCMWA and its customers have invested hundreds of millions of dollars to increase the amount of water in CCMWA's portion of the reservoir. This is done by returning water to the lake after it is used, and by releasing water from Hickory Log Creek Reservoir, a water supply reservoir constructed by CCMWA upstream of Allatoona Lake. The State of Georgia issued a permit to CCMWA to store and withdraw this water from Allatoona Lake. The Corps is improperly trying to override that permit, claiming that it – and not the State of Georgia – is responsible for allocating water from the reservoir.

## **Outlook**

CCMWA currently has no plans for debt issuance, and will fund its capital improvement projects via use of a pay-as-you-go funding plan over the next five year planning horizon. However, if rates become favorable, refinancing of existing debt may occur. CCMWA has two debt issues outstanding: a revenue bond issued in 2009, and a revenue bond issued in 2015 used to refinance previously issued debt. The 2009 revenue bond will be paid in full in 2021, and the \$5.7 million per year reduction in debt service will partially offset the revenue loss when Paulding County is no longer a significant customer of CCMWA.

Reduced capital spending, particularly on projects previously anticipated to meet a growing need for water in Paulding County, will also offset the revenue loss from Paulding.

CCMWA's current capital improvement plan takes into consideration the expectation of continued modest economic growth in its service area in the next five years, along with the loss of most of its sales to Paulding County.

CCMWA implemented a 5-year rate program beginning in January 2014, which set annual rate increases at 4 percent through 2018. However, due to CCMWA's strong financial position and higher than anticipated net income year-over-year, a revised 5-year rate program was introduced beginning January 2017, which set annual rate increases at 3 percent through 2021. This rate program is anticipated to accommodate modest increases in the Consumer Price Index and the Construction Cost Index over the period. By utilizing integrated long-term capital improvement

planning, correlated rate adjustments, appropriate use of net position and a continued focus on operational efficiency, CCMWA expects a positive financial future.

### Long Term Financial Considerations

The largest impact to cash flow, and consequently on revenue needs for CCMWA, is the capital improvement plan. Below is a snapshot of anticipated cash flows through 2021:

<b>Year</b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>
<b>Projected Water Demand (MGD)</b>	81.0	82.2	77.2	74.4	74.5
<b>Anticipated Rate Increase</b>	3.0%	3.0%	3.0%	3.0%	3.0%
<b>Revenues</b>	\$ 87.7	\$ 91.9	\$ 88.7	\$ 87.7	\$ 90.6
<b>Expenses (Without Depreciation)</b>	29.6	30.4	30.8	31.4	32.5
<b>Net Income</b>	33.8	35.4	30.8	28.3	29.5
<b>Total CIP Spending</b>	60.1	52.1	45.7	31.6	28.3
<b>Ending Cash Balance</b>	<u>\$ 149.9</u>	<u>\$ 150.0</u>	<u>\$ 153.1</u>	<u>\$ 168.6</u>	<u>\$ 189.5</u>
<b>Targeted Minimum Ending Cash Balance</b>	<u>\$ 42.3</u>	<u>\$ 44.7</u>	<u>\$ 49.5</u>	<u>\$ 56.3</u>	<u>\$ 71.3</u>

It should be noted that if projected water demand is revised downward, there is still enough projected positive cash flow for CCMWA to maintain its targeted minimum ending cash balances through 2021. Furthermore, CCMWA has ample debt capacity—\$400 million approved by the Georgia General Assembly—should financial considerations warrant funding of capital improvements with sources other than cash reserves.

### Major Initiatives

CCMWA began a multi-year process of replacing its original water treatment plant (Quarles Plant No. 1) in 2015. The project has a total budget of \$69.6 million. In 2015, CCMWA also commenced construction of the Southwest Connector Phase I Pipeline, one of its most ambitious transmission pipeline projects, which will supply water from the Quarles WTP to southwest Cobb County and Douglas County. The Southwest Connector is a two-phase project with Phase I having a planned completion in late 2017 at a cost of approximately \$51.6 million. Phase II of the project is not scheduled to begin until 2021, and may be deferred, pending actual growth in water demand over the next few years. In addition, CCMWA began the Wyckoff WTP Filter Building Rehabilitation and Electrical Improvements Project in 2015, which is expected to be complete in late 2017 at a cost of about \$27.3 million. Capital Improvement Program spending is estimated at \$60.1 million in 2017, with total capital spending for 2017 through 2021 totaling almost \$218 million.

CCMWA continues to pursue allocation of additional water resources via storage reallocation in Allatoona Lake from USACE. CCMWA is also litigating to secure water supply from the Hickory Log Creek Reservoir through a change in USACE’s accounting methodology for Allatoona. Water

released from Hickory Log Creek reservoir flows downstream in the Etowah River to Allatoona. Currently, USACE does not recognize those releases as being available for water supply by CCMWA, although the State of Georgia has allocated CCMWA this water through a modified withdrawal permit issued in 2014. If USACE continues to not recognize releases from Hickory Log Creek Reservoir as water supply for CCMWA, it is possible that CCMWA will be required to construct a pipeline from Hickory Log Creek Reservoir to the Wyckoff WTP at a cost expected to exceed \$200 million. If such a pipeline is constructed, CCMWA anticipates funding of the project through future debt issuance. The pipeline is not currently in CCMWA's capital improvement plan, as CCMWA expects USACE will eventually recognize releases from Hickory Log Creek Reservoir as belonging to CCMWA, according to the State's allocation.

The Cobb County-Marietta Water Authority has a proud history and a bright future. We are fortunate that our predecessors took the long view from the very creation of the Authority. They looked ahead into the future and planned for the region's long-term water needs, and we continue to strive to provide a sustainable system of water resources, treatment facilities and transmission lines for today and tomorrow.

The future is bright, but it will be full of change and challenges. Battles over water rights will continue for the foreseeable future. Threats to our water quality – both natural and manmade – are real and deserve our attention to mitigate and control. Variability in weather patterns, including drought, and uncertainty about future water demands from our customers add to the mix. One of our greatest challenges will be to ensure that the depth of knowledge and commitment within our workforce can be sustained as we face a wave of retirements in the near future.

### **Acknowledgments**

We express our thanks to each division of CCMWA, all of whom have adhered to sound stewardship and financial practices, contributing significantly toward the fiscal stability of CCMWA. Thanks must also be expressed to the CCMWA Board, who diligently considers each decision brought before it and keeps the best interest of both CCMWA and its customers in mind. Responsible and sound direction of the Board has been, and will continue to be, the single most important attribute of CCMWA's financial stability.

Respectfully Submitted,

Glenn M. Page, P.E.  
General Manager  
CCMWA

Cole E. Blackwell  
Director of Finance  
CCMWA

## CCMWA Board

---

Seven members make up CCMWA's Board. Members are selected by virtue of their office or by appointment.

**By Virtue of their Office:**

- Chairman of the Cobb County Commission
- Chairman of the Paulding County Commission

**Appointed by the Governing Authority of the:**

- City of Marietta
- City of Smyrna

**Appointed by the Cobb County Delegation to the Georgia General Assembly:**

- One member from Cobb County Commission District 2 or 3, excluding residents of Marietta and Smyrna
- One member from Cobb County Commission District 1 or 4, excluding residents of Marietta and Smyrna
- One member from unincorporated Cobb County



**Griffin L. Chalfant**  
Chairman



**Charlie N. Crowder**  
Vice Chairman



**Dan Buyers**  
Secretary



**A. Max Bacon**  
Member



**David A. Austin**  
Member



**Timothy D. Lee**  
Member

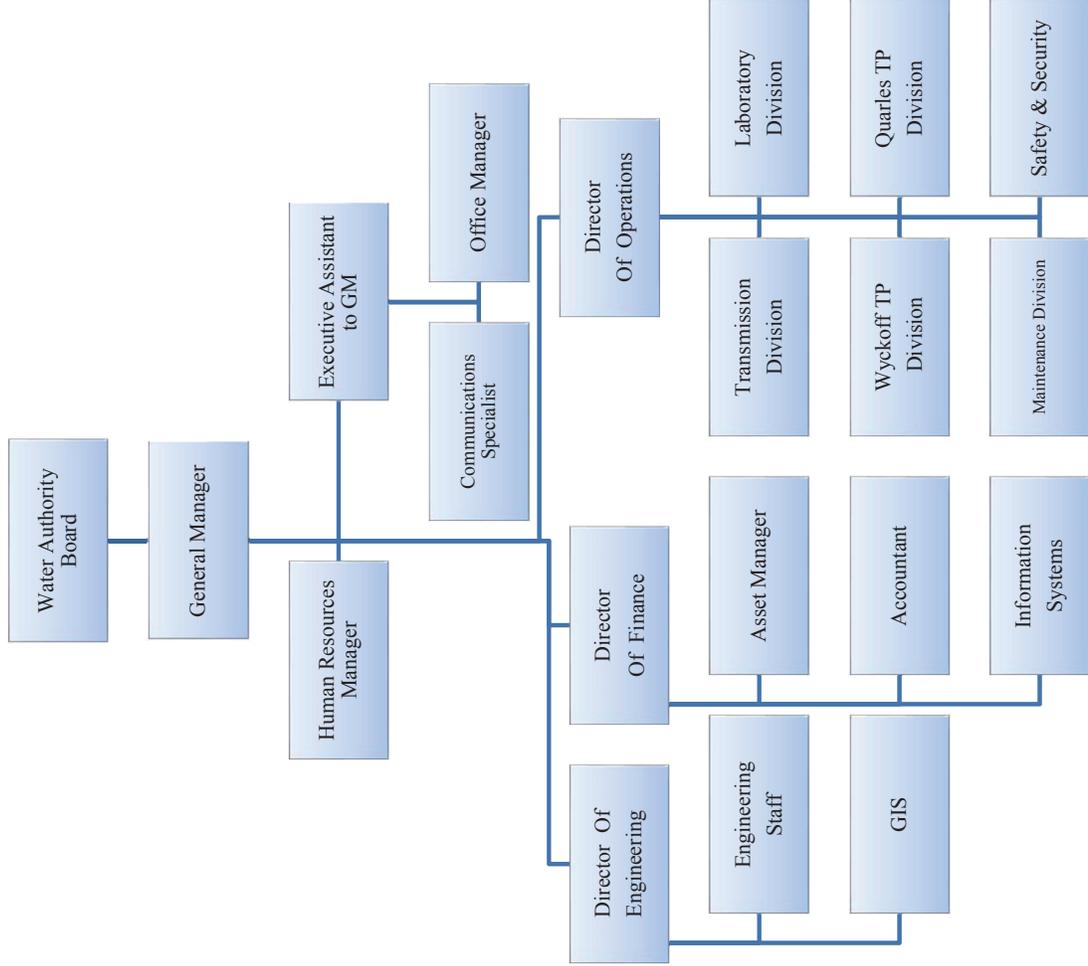


**James Scott**  
Member

***Our core purpose is to provide sustainable and reliable drinking water that supports public health, public safety and economic vitality of the region.***

# CCMWA Organizational Chart

## Management and Administration





Government Finance Officers Association

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

Presented to

**Cobb County  
Marietta Water Authority  
Georgia**

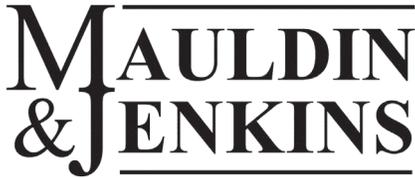
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2015**

Executive Director/CEO

## FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT

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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, 2016, 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.

---

***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, 2016, 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.

***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 13), the Schedule of Changes in the Authority's Net Pension Liability and Related Ratios (on page 35), and Schedule of Authority Contributions (on page 36), as listed in the table of contents, 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 Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section and the statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

---

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2017 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  
March 31, 2017

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended December 31, 2016**

---

**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, 2016. 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 11.6% from \$80.4 million in 2015 to \$89.7 million in 2016, an increase of \$9.3 million. Gallons sold increased 7.0% from 29.45 billion gallons sold in 2015 to 31.50 billion gallons sold in 2016.
- Operating expenses increased from \$45.1 million in 2015 to \$46.2 million in 2016, an increase of \$1.1 million or 2.4%.
- Operating income for 2016 was \$43.4 million, compared to \$35.3 million in 2015, representing an increase of \$8.1 million or 22.9%.
- Interest income remained steady at \$1.6 million in 2016.
- Revenue bond debt decreased from \$82.7 million in 2015 to \$76.3 million in 2016, representing a decrease of \$6.4 million resulting from scheduled repayment of principal.
- CCMWA's Series 2015 bond issue was assigned AAA bond ratings from Standard and Poor's and Fitch. Moody's assigned a bond rating of Aaa to CCMWA's Series 2015 bond issue. CCMWA was last rated in 2015 and expects a ratings review in 2017.
- CCMWA's pension fund net investment return was 6.3% for 2016 as compared to an actuarially presumed net investment return of 7.25%. As of December 31, 2015 CCMWA's pension fund had a \$1.0 million net pension liability. As of December 31, 2016 CCMWA's pension fund had a \$1.5 million net pension liability.
- Total net position increased by \$42.7 million, or 8.4%, from \$510 million in 2015 to \$552.7 million in 2016.
- At December 31, 2016, the Authority reported an unrestricted net position of \$170.5 million, which is a decrease of \$14.6 million compared to \$185.1 million in 2015. This is a result of planned utilization of unrestricted net position for funding of capital projects in 2016.

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended December 31, 2016**

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**Authority Highlights**

***Highlights for 2016***

***Construction in Progress:***

Projects awarded for construction in 2016:

- Dallas Highway Parallel Water Main

Projects completed in 2016:

- Backup Power Generation – Quarles Water Treatment Plant and Raw Water Intake

***Other Items:***

- Cobb County-Marietta Water Authority's average daily demand increased 7.0% from 2015 to 2016, from 80.67 million gallons per day (MGD) to 86.30 MGD, primarily because of drought conditions. Rainfall decreased 42.5 % in CCMWA's service area, a decline of 23 inches from 2015 to 2016.

- The Capital Improvement Plan (CIP) and Financial Model were analyzed and revised to reflect asset renewal and replacement needs, reduced demand projections and anticipated regulatory requirements. The total value of the revised CIP is \$217.7 million for the 5-year period, 2017 through 2021.

- The Authority's Finance Division was awarded the Distinguished Budget Presentation Award for its 2016 budget document and the Certificate of Achievement for Excellence in Financial Reporting for its 2015 Comprehensive Annual Financial Report, both by the Government Finance Officers Association.

- The Authority completed an update to its 10-year outlook for asset renewal and replacement projects, typically defined as routine capital projects with an estimated cost less than \$2.0 million.

- The Authority implemented a 5-year Strategic Plan in 2016 with nine strategic initiatives designed to improve the Authority's ability to provide sustainable and reliable drinking water that supports public health, public safety and the economic vitality of the region.

- The Laboratory Division performed over 12,270 tests of chemical and bacteriological samples.

- The Georgia Association of Water Professional (GAWP) conducted "Plant of the Year" inspections at the Wyckoff and Quarles Treatment Divisions in 2016. The Wyckoff Division received a score of 91.51% and the Quarles Division received a score of 92.83%, representing two of the three treatment plants ranking in the 90<sup>th</sup> percentile.

- The Transmission Division continued a planned process of pipeline easement clearing, resulting in approximately 14 miles of pipeline easement cleared for improved access for inspection and maintenance activities.

- The Transmission Division continued implementation of the valve maintenance program, with 464 valves exercised in the transmission system, and 141 of those valves receiving needed maintenance.

- The Transmission Division received and reviewed approximately 38,000 pipeline location inquiries through the Utilities Protection Center. The division responded to approximately 3,200 of the inquiries by providing field locations of Authority facilities.

- The Authority revised its outlook for proposed rate increases over the period covering 2017 – 2021. As a result of realized cost controls and operational efficiencies, CCMWA reduced its planned rate increases from 4% per year to 3% per year.

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended December 31, 2016**

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**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, capital and non-capital financing activities.

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended December 31, 2016**

**Financial Analysis of the Authority**

The Statements of Net Position for 2015 and 2016 are summarized in a Condensed Statement of Net Position. (See Table I). The Authority's net position increased by 8.4% in 2016 as compared to 2015, due primarily to investment of net income in anticipation of investment in future capital projects.

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

	2016	2015
<b><u>Assets:</u></b>		
<b>Current and Other Assets</b>	\$180.9	\$195.9
<b>Capital Assets</b>	<u>462.1</u>	<u>407.5</u>
<b>Total Assets</b>	<u>643.0</u>	<u>603.4</u>
<b><u>Deferred Outflows</u></b>	<u>2.8</u>	<u>3.1</u>
<b><u>Liabilities:</u></b>		
<b>Long-Term Debt Outstanding</b>	73.3	79.6
<b>Other Liabilities</b>	<u>19.7</u>	<u>16.8</u>
<b>Total Liabilities</b>	<u>93.0</u>	<u>96.4</u>
<b><u>Deferred Inflows</u></b>	<u>0.1</u>	<u>0.1</u>
<b><u>Net Position:</u></b>		
<b>Invested in Capital Assets</b>	381.0	323.8
<b>Restricted</b>	1.1	1.1
<b>Unrestricted</b>	<u>170.5</u>	<u>185.1</u>
<b>Total Net Position</b>	<u>\$552.7</u>	<u>\$510.0</u>

The Statements of Revenues, Expenses and Changes in Net Position for 2016 and 2015 are summarized in a Condensed Statement of Changes in Net Position (See Table II). The Authority achieved an increase in net position of \$42.7 million for the year ended December 31, 2016, which was \$8.8 million more than the \$34.0 million increase achieved for the year ended December 31, 2015.

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended December 31, 2016**

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

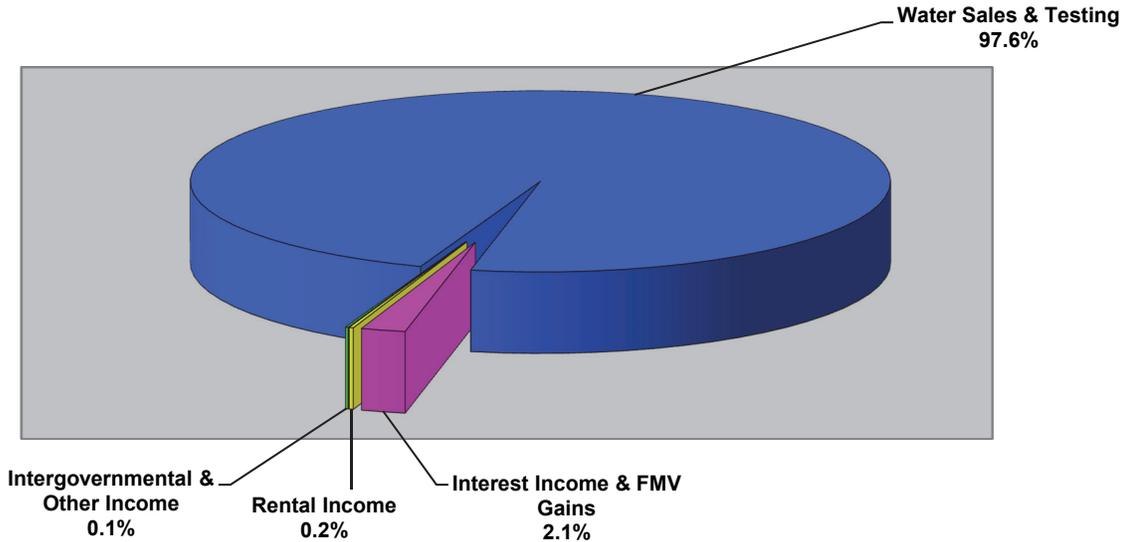
	2016	2015
<b>Revenues:</b>		
Operating Revenue	\$89.7	\$80.4
Interest Income	1.6	1.6
<b>Non-Operating Revenue:</b>		
Intergovernmental Revenues	-	-
Rental Income	0.2	0.1
Sales Tax Refunds	-	-
Loss on Disposal of Capital Assets	-	-
Other Income	-	-
Gain (Loss) on Market Value of Investments	<u>0.3</u>	<u>0.6</u>
<b>Total Revenue</b>	<b>91.8</b>	<b>82.8</b>
<b>Expenses:</b>		
<b>Operating Expenses:</b>		
General Expenses	2.1	2.0
Administration	0.8	0.7
Administration and Rental Buildings	0.1	0.1
Finance	0.4	0.4
Engineering Division	1.1	1.1
Information Technology	0.3	0.2
Safety and Security	0.2	0.2
Research and Development	1.4	1.3
Hickory Log Creek Division	0.4	0.4
Wyckoff Plant Division	8.5	8.4
Quarles Plant Division	8.1	7.9
Laboratory	1.1	1.0
Transmission	1.7	1.9
Depreciation	20.1	19.5
Interest Expense	<u>2.8</u>	<u>3.7</u>
<b>Total Expenses</b>	<b>49.1</b>	<b>48.8</b>
<b>Increase in Net Position</b>	<b>\$42.7</b>	<b>\$34.0</b>
<b>Net Position, Beginning of Year</b>	<b><u>\$510.0</u></b>	<b><u>476.0</u></b>
<b>Net Position, End of Year</b>	<b><u>\$552.7</u></b>	<b><u>\$510.0</u></b>

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended December 31, 2016**

**Revenues**

The Authority's total revenue of \$91.8 million reflects an increase in 2016 of \$9.0 million. (See Condensed Statement of Changes in Net Position – Table II). Revenue from Water Sales increased \$9.3 million in 2016 to \$89.7 million, compared to \$80.4 million from the prior year. Interest Income remained steady at \$1.6 million in 2016. The gain on market value of investments in 2016 was down \$320,500 compared to the prior year gain of \$648,000.

**2016 Total Revenue by Source**



**Expenses**

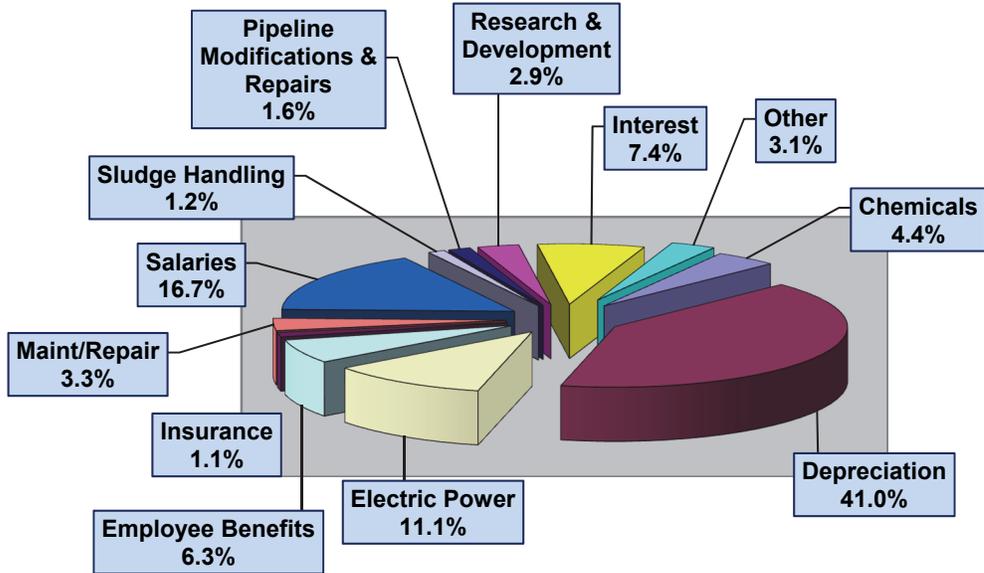
The Authority's total expenses for 2016 were \$49.1 million, an increase of \$300,000 over 2015 total expenses (See Condensed Statement of Changes in Net Position – Table II). Depreciation expense increased 3.1% in 2016 to \$20.1 million due to new capital project completions. Salary expenses increased 3.8% year over year to \$8.2 million. Employee benefit costs exclusive of pension expense remained constant in 2016 at \$2.1 million. Electric power expense decreased 3.4% in 2016 to \$5.4 million due to a reduction in provider fuel cost recovery charges. Chemical expense increased 20.8% year over year to \$2.1 million due to the regeneration of Granular Activated Carbon used as a result of reduced raw water quality as compared to 2015.

Sludge Handling/Residuals Management expenses were \$572,000, representing a 2.3% decrease in cost year over year due to less turbidity in raw water, resulting in less sludge production. Research and Development expenses were \$1.4 million, representing a \$107,000 increase over 2015. Insurance expenses of \$553,000 decreased by \$29,000 year over year due to lower worker's compensation insurance premiums. Pipeline modifications and repair expense decreased 23.3% year over year to \$765,000 in 2016 due to a reduction in the number of emergency pipeline repairs. General maintenance and repair expense decreased by 11.5% in 2016 to \$1.6 million. Other expenses decreased 10.2% from \$1.7 million in 2015 to \$1.5 million in 2016.

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended December 31, 2016**

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**2016 Total Expenses by Source**



**Capital Assets and Debt Administration**

**Capital Assets**

At the end of 2016, the Authority had \$462.1 million invested in a broad range of capital assets, a \$54.5 million increase (net of depreciation) over the prior year. During 2016, the Authority invested \$74.6 million in capital assets, but accumulated \$20.1 million in additional depreciation expense (See Capital Assets as of December 31 – Table III). More detailed information about capital assets can be found in Note 4 of the Notes to Financial Statements.

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended December 31, 2016**

**Table III**  
**Capital Assets as of December 31**  
**Net of Accumulated Depreciation**

	2016	2015
<b>Land and Easements</b>	\$26,210,982	\$26,549,632
<b>Buildings</b>	24,972,412	25,502,120
<b>Furniture &amp; Fixtures</b>	14,051	19,456
<b>Vehicles</b>	525,584	457,902
<b>Machinery &amp; Equipment</b>	66,971,812	61,341,181
<b>Distribution Lines</b>	96,815,035	100,517,656
<b>Pumping Stations</b>	15,234,824	16,519,271
<b>Treatment Plants</b>	93,661,904	99,477,000
<b>Water Tanks</b>	4,506,092	2,801,271
<b>Water Resources</b>	<u>38,281,340</u>	<u>39,208,090</u>
	367,194,036	372,393,579
<b>Construction in Progress</b>	89,099,906	32,667,700
<b>Retainage on Construction Contracts</b>	<u>5,759,064</u>	<u>2,493,457</u>
<b>Net Capital Assets</b>	<u>\$462,053,006</u>	<u>\$407,554,736</u>

**Debt Administration**

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

The Authority had \$73.3 million in outstanding long-term debt at the end of 2016 (See Outstanding Long Term Debt - Table IV). Long-Term debt is comprised of four components – 2009 Refunding Revenue Bonds, 2015 Revenue Bonds, Net Pension Liability, and Compensated Absences payable. More detailed information about long-term debt can be found in Note 5 of the Notes to Financial Statements.

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.

On June 15, 2015 the Authority issued Revenue Bonds, Series 2015 for the purpose of refunding \$51,013,580 in aggregate principle of two (Phase 1 & 2) loans made by the Georgia Environmental Finance Authority (GEFA). These bonds were issued in the amount of \$47,315,000, with interest rates ranging from 2.00% to 5.00%, 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, 2042.

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.

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended December 31, 2016**

**Table IV**  
**Outstanding Long-Term Debt**

	2016	2015
<b>Revenue Bonds Payable - Principal</b>	\$71,025,000	\$76,620,000
<b>Unamortized Premium</b>	5,276,219	6,087,667
<b>Less Current Bonds Payable</b>	<u>(5,860,000)</u>	<u>(5,595,000)</u>
<b>Total Revenue Bonds, Long Term</b>	<u>70,441,219</u>	<u>77,112,667</u>
<b>Net Pension Liability</b>	1,521,691	1,043,986
<b>Compensated Absences Payable</b>	1,993,619	2,078,693
<b>Less Current Compensated Absences Payable</b>	<u>(681,402)</u>	<u>(637,882)</u>
<b>Total Outstanding Long-Term Debt</b>	<u>\$73,275,127</u>	<u>\$79,597,464</u>

**Looking forward to 2017**

**Water Sales and Testing:**

- Production forecast – 81.0 MGD
  - In-county rate \$2.87/1000 gallons; out-of-county rate \$3.18/1000 gallons

**Construction in Progress:**

Projects scheduled to begin design:

- Wyckoff Finished Water, 42-inch Water Main Replacement
- Mableton Parkway, 36-inch Water Main Replacement
- U.S. Highway 41, Parallel 24-inch Water Main

Projects scheduled to begin construction:

- Quarles Water Treatment Plant No. 1 Replacement

Projects scheduled for completion:

- Dallas Highway Parallel Water Main
- Highway 41, Phase 4 36-Inch Water Main Replacement (Dobbins AFB to Windy Ridge Pkwy.)
- Highway 41, Phase 4 Tunnel
- West Side Loop 48-Inch Water Main Replacement
- Southwest Connector Water Main, East Cobb Phase
- Wyckoff Filter Building Rehabilitation & Electrical Improvements
- Forty-eight small Asset Renewal and Replacement projects or purchases scheduled for design, construction and completion at a cost of \$5.4 million.

The Authority's entire Capital Improvement Program in 2017 is budgeted to expend \$60.1 million, inclusive of Asset Renewal and Replacement projects and a \$3.8 million general contingency. The Authority plans to fund all 2017 capital improvements with cash.

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended December 31, 2016**

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**Other Items:**

- Since 2007, emphasis on conservation and the economy have slowed growth of water sales. CCMWA has experienced modest gains in water demand over the last two years and anticipates less than 1% growth in water sales for 2017. Capital and financial planning have been revised accordingly, with sales for 2017 planned to average 81.0 MGD vs. 80.5 MGD planned for 2016.
- The Capital Improvement Plan and Financial Model continue to be analyzed and revised to reflect changing demand projections and increasing regulatory requirements. A CIP inflation driver of 4% is used through CCMWA's 30-year planning horizon. The operations inflation driver is 3% annually. Significant factors impacting the Operations & Maintenance (O&M) inflation rate include escalating costs of energy and advanced treatment technologies. O&M costs should not increase significantly in 2017, as no additional treatment techniques are planned and source water quality is not anticipated to significantly degrade.
- The Finance Division, in coordination with independent consultants and other CCMWA Divisions, will apply for reimbursement of sales taxes paid by contractors on various capital improvement projects. The Finance Division anticipates a potential for refund of sales taxes in excess of \$300,000 during 2017.
- The Engineering Division will utilize its pipe replacement prioritization program to identify and prioritize pipe replacements in the transmission system. The results will be utilized to ensure timely replacement of aged pipelines through CCMWA's Capital Improvement Plan.
- The Engineering Division will make a concerted effort to review vertical assets, with particular focus at CCMWA's drinking water treatment plants, to ensure reliability and redundancy through appropriate capital improvement planning.
- In 2015, Paulding County received a permit to build the Richland Creek Reservoir, and is pursuing an aggressive construction program to develop an independent water supply. Paulding County accounted for 14.0% of the Authority's water sales revenue in 2016, and this revenue stream is expected to effectively end by mid-2019. The Authority has revised its Capital Improvement Plan to eliminate future capital improvement expenditures intended to solely or primarily benefit Paulding County.

**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, 2016**

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<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 49,623,453
Receivables:	
Accounts	6,681,451
Intergovernmental receivable	40,539
Accrued interest receivable	337,608
Investments	121,137,105
Restricted cash and cash equivalents	1,657,744
Inventory	<u>1,416,051</u>
Total current assets	<u>180,893,951</u>
<b>NON-CURRENT ASSETS</b>	
Capital assets:	
Land	26,210,982
Buildings	28,468,091
Utility plant & distribution lines	419,875,686
Furniture and fixtures	135,165
Machinery and equipment	97,818,241
Vehicles	2,109,752
Construction in progress	<u>94,858,970</u>
	669,476,887
Less accumulated depreciation	<u>207,423,881</u>
Total capital assets, net of accumulated depreciation	<u>462,053,006</u>
Total assets	<u>642,946,957</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charges on refunding	1,035,635
Pension related items	<u>1,787,862</u>
Total deferred outflows of resources	<u>2,823,497</u>

**See Notes to Financial Statements.**

<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Payable from current assets:	
Accounts payable	\$ 5,648,947
Accrued expenses and other liabilities	1,223,241
Retainage payable	5,759,064
Compensated absences payable	681,402
	<u>13,312,654</u>
Payable from restricted assets:	
Revenue bonds payable	5,860,000
Accrued interest payable	505,911
	<u>6,365,911</u>
 Total current liabilities	 <u>19,678,565</u>
 <b>LONG-TERM LIABILITIES</b>	
Compensated absences payable	1,312,217
Revenue bonds payable, net	70,441,219
Net pension liability	1,521,691
	<u>73,275,127</u>
 Total long-term liabilities	 <u>73,275,127</u>
 Total liabilities	 <u>92,953,692</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension related items	<u>92,620</u>
 <b>NET POSITION</b>	
Net investment in capital assets	381,028,358
Restricted for debt service	1,151,833
Unrestricted	170,543,951
	<u>552,724,142</u>
 Total net position	 <u>\$ 552,724,142</u>

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION**  
**YEAR ENDED DECEMBER 31, 2016**

**Operating revenues:**

Charges for services:

Water sales and testing

\$ 89,655,464

Total operating revenues

89,655,464

**Operating expenses:**

General expenses

2,145,825

Administration

755,214

Administration and rental buildings

90,243

Finance

410,986

Engineering division

1,137,137

Information technology

249,165

Safety and security

210,514

Research and development

1,413,167

Hickory Log Creek division

409,310

Wyckoff Plant division

8,440,087

Quarles Plant division

8,079,773

Laboratory

1,038,546

Transmission

1,717,536

Depreciation

20,126,666

Total operating expenses

46,224,169

Operating income

43,431,295

**Non-operating revenues (expenses):**

Interest income

1,553,449

Net increase in the fair value of investments

327,490

Interest expense and fiscal charges

(2,832,098)

Rental income

177,238

Gain on disposal of capital assets

37,303

Other income

74,815

Total non-operating revenues (expenses), net

(661,803)

Change in net position

42,769,492

**Net position, beginning of year**

509,954,650

**Net position, end of year**

\$ 552,724,142

See Notes to Financial Statements.

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2016**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers and users	\$ 90,551,341
Payments for goods and services	(18,670,807)
Payments to employees	(7,767,217)
Net cash provided by operating activities	64,113,317

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Payments for purchases and construction of capital assets	(71,359,329)
Capital contributions received	74,815
Proceeds from sale of capital assets	37,303
Principal payments on long-term borrowings	(5,595,000)
Interest paid on long-term borrowings	(3,298,072)
Net cash used in capital and related financing activities	(80,140,283)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchases of investments	(48,946,520)
Proceeds from sales of investments	56,441,212
Rents received	177,238
Interest received	1,547,940
Net cash provided by investing activities	9,219,870

Net decrease in cash and cash equivalents (6,807,096)

**Cash and cash equivalents:**

Beginning of year	58,088,293
End of year	\$ 51,281,197

**Classified as:**

Cash and cash equivalents	\$ 49,623,453
Restricted cash and cash equivalents	1,657,744
	\$ 51,281,197

**Continued**

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2016**

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**RECONCILIATION OF OPERATING INCOME TO NET  
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$	43,431,295
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense		20,126,666
Changes in assets and liabilities:		
Decrease in accounts receivable		801,074
Decrease in intergovernmental receivable		94,803
Increase in inventory		(191)
Decrease in prepaid items		128,287
Increase in deferred outflows of resources - pension items		(108,010)
Decrease in accounts payable		(1,625,929)
Decrease in compensated absences		(85,074)
Increase in accrued expenses and other liabilities		893,481
Increase in net pension liability		477,705
Decrease in deferred inflows of resources - pension items		(20,790)
Net cash provided by operating activities	<u>\$</u>	<u>64,113,317</u>

**NONCASH INVESTING ACTIVITIES**

Increase in fair value of investments	\$	<u>327,490</u>
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**See Notes to Financial Statements.**

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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**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.

## NOTES TO FINANCIAL STATEMENTS

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### 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. 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.

The local government investment pool, "Georgia Fund 1," created by OCGA 36-83-8, is a stable asset value investment pool, which follows Standard and Poor's criteria for AAAf rated money market funds and is regulated by the Georgia Office of the State Treasurer. 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 per share value). The asset value is calculated weekly to ensure stability. The pool distributes earnings (net of management fees) on a monthly basis and determines participants' shares sold and redeemed based on \$1 per share. The pool also adjusts the value of its investments to fair market value as of year-end and the Authority's investment in the Georgia Fund 1 is reported at fair value. The Authority considers amounts held in Georgia Fund 1 as cash equivalents for financial statement presentation.

The Authority's nonparticipating interest-earning investment contracts are recorded at cost. The remaining investments are recorded at fair value. Increases or decreases in the fair value during the year are recognized as a component of interest income.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Restricted Assets:**

Certain resources set aside for the repayment of the Authority's revenue bonds are classified as restricted assets on the statement of net position because their use is limited by applicable covenants.

#### **Prepaid Items:**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the Authority's financial statements.

#### **Inventories:**

Inventories of materials and supplies are stated at cost using the first-in, first-out (FIFO) method. The Authority uses the consumption method of accounting for inventory in that as items are purchased they are added to inventory then as subsequently used are recorded to expense.

#### **Deferred Outflows/Inflows 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 has one item (not related to pensions) 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.

The Authority also has deferred outflows of resources and deferred inflows of resources related to the recording of changes in its net pension liability. Certain changes in the net pension liability are recognized as pension expense over time instead of all being recognized in the year of occurrence. Experience gains or losses result from periodic studies by the Authority's actuary which adjust the net pension liability for actual experience for certain trend information that was previously assumed, for example the assumed dates of retirement of plan members. These experience gains or losses are recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining service lives of plan members. Changes in actuarial assumptions and benefit terms, which adjust the net pension liability, are also recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining service lives of plan members. The difference between projected investment return on pension investments and actual return on those investments is also deferred and amortized against pension expense over a five year period.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **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 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.

#### **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:

<b><u>Capital Asset Class</u></b>	<b><u>Threshold</u></b>	<b><u>Estimated Useful Life</u></b>
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, 2016 the Authority did not capitalize any interest.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Capital Assets (Continued):**

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.

#### **Pensions:**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Cobb County-Marietta Water Authority Retirement Plan (the "Retirement Plan") and additions to/deductions from the Retirement Plan's fiduciary net position have been determined on the same basis as they are reported by the Retirement Plan. The Retirement Plan utilizes the accrual basis of accounting. Contributions are recognized when paid or legally due. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2. DEPOSITS AND INVESTMENTS

Total deposits and investments as of December 31, 2016, are summarized as follows:

#### As reported in the Statement of Net Position

Cash and cash equivalents	\$	49,623,453
Investments		121,137,105
Restricted:		
Cash and cash equivalents		1,657,744
	<b>\$</b>	<b>172,418,302</b>
Deposits with financial institutions	\$	69,032,025
Georgia Fund 1		4,818,836
U.S. Government Agency Securities		81,039,756
U.S. Treasury Notes		16,518,555
State of Georgia Obligations		1,009,130
	<b>\$</b>	<b>172,418,302</b>

**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, 2016, the collateral pledged to secure the Authority’s deposits at one financial institution was less than the amount required by State law by approximately \$533,000. However, on January 6, 2017, the financial institution pledged an additional security with a fair value of \$684,662 thus bringing the Authority into compliance.

**Credit risk.** State statutes authorize the Authority to invest in U.S. Government obligations; U.S. Government agency (or other corporation of the U.S. Government) obligations; obligations fully insured or guaranteed by the U.S. Government or a U.S. Government agency; obligations of the State of Georgia or other states; obligations of other counties, municipal corporations and political subdivisions of the State of Georgia; negotiable certificates of deposit issued by any bank or trust company organized under the laws of any state of the United States of America; prime bankers’ acceptances; repurchase agreements; and pooled investment programs sponsored by the State of Georgia for the investment of local government funds.

Operating funds of the Authority are currently invested in the Georgia Fund 1; U.S. Treasuries, U.S. Government agencies, State of Georgia obligations; or certificates of deposit.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

**Interest Rate Risk.** The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of December 31, 2016, the Authority held the following investments:

Investment	Weighted Average Maturity (Years)	Credit Rating	Balance
Certificates of Deposit	1.59	(a)	\$ 22,569,664
United States Treasury Notes	1.93	AA+	16,518,555
United States Government Agency Securities	1.59	AA+	81,039,756
Georgia Fund 1	.09	AAAf	4,818,836
State of Georgia Obligations	1.09	AAA	1,009,130
			<u>\$ 125,955,941</u>

(a) These are certificates of deposit held at local financial institutions and are not rated.

**Fair Value Measurements.** The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The Authority has the following recurring fair value measurements as of December 31, 2016:

Investment	Level 1	Level 2	Fair Value
United States Treasury Notes	\$ 16,518,555	\$ -	\$ 16,518,555
United States Government Agency Securities	29,699,830	51,339,926	81,039,756
State of Georgia Obligations	-	1,009,130	1,009,130
	<u>\$ 46,218,385</u>	<u>\$ 52,349,056</u>	<u>98,567,441</u>
Total investments measured at fair value			
Investments not subject to level disclosure:			
Georgia Fund 1			<u>4,818,836</u>
Investments carried at cost:			
Certificates of Deposit			<u>22,569,664</u>
Total Investments			<u>\$ 125,955,941</u>

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

**Fair Value Measurements (continued).** The United States Treasury Notes and United States Government Agency Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those investments. The United States Government Agency Securities and State of Georgia Obligations classified as Level 2 of the fair value hierarchy are valued using documented trade histories for the exact securities in inactive markets.

The Georgia Fund 1 is an investment pool which does not meet the criteria of GASB Statement No. 79 and is thus valued at fair value in accordance with GASB Statement No. 39. As a result, the Authority does not disclose the investment in the Georgia Fund 1 within the fair value hierarchy.

The Authority's certificates of deposit are considered nonparticipating interest-earning investment contracts and, accordingly, are recorded at cost.

### NOTE 3. RECEIVABLES

Receivables consisted of the following at December 31, 2016:

Receivables:

Accounts	\$	6,681,451
Intergovernmental		40,539
Accrued interest		337,608
Total receivables	\$	<u>7,059,598</u>

Intergovernmental receivables consisted of \$40,539 due from the City of Canton for their share of the Hickory Log Creek Reservoir Project. Additional information about this project can be found in Note 9.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2016 is as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 26,549,632	\$ -	\$ -	\$ (338,650)	\$ 26,210,982
Construction in progress	35,161,157	74,624,936	-	(14,927,123)	94,858,970
Total	<u>61,710,789</u>	<u>74,624,936</u>	<u>-</u>	<u>(15,265,773)</u>	<u>121,069,952</u>
Capital assets, being depreciated:					
Buildings	28,321,138	-	-	146,953	28,468,091
Utility plants/distribution lines	417,185,954	-	-	2,689,732	419,875,686
Machinery and equipment	86,674,775	-	(1,058,090)	12,201,556	97,818,241
Furniture and fixtures	135,165	-	-	-	135,165
Vehicles	1,948,474	-	(66,254)	227,532	2,109,752
Total	<u>534,265,506</u>	<u>-</u>	<u>(1,124,344)</u>	<u>15,265,773</u>	<u>548,406,935</u>
Less accumulated depreciation for:					
Buildings	(2,819,018)	(676,661)	-	-	(3,495,679)
Utility plants/distribution lines	(158,662,666)	(12,713,825)	-	-	(171,376,491)
Machinery and equipment	(25,333,594)	(6,570,925)	1,058,090	-	(30,846,429)
Furniture and fixtures	(115,709)	(5,405)	-	-	(121,114)
Vehicles	(1,490,572)	(159,850)	66,254	-	(1,584,168)
Total	<u>(188,421,559)</u>	<u>(20,126,666)</u>	<u>1,124,344</u>	<u>-</u>	<u>(207,423,881)</u>
Total capital assets, being depreciated, net	<u>345,843,947</u>	<u>(20,126,666)</u>	<u>-</u>	<u>15,265,773</u>	<u>340,983,054</u>
Total capital assets, net	<u>\$ 407,554,736</u>	<u>\$ 54,498,270</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 462,053,006</u>

### NOTE 5. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2016 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 2009 Revenue bonds	\$ 29,695,000	\$ -	\$ (4,450,000)	\$ 25,245,000	\$ 4,680,000
Series 2015 Revenue bonds	46,925,000	-	(1,145,000)	45,780,000	1,180,000
Plus unamortized premium	6,087,667	-	(811,448)	5,276,219	-
Revenue bonds, net	<u>82,707,667</u>	<u>-</u>	<u>(6,406,448)</u>	<u>76,301,219</u>	<u>5,860,000</u>
Net pension liability	1,043,986	3,246,573	(2,768,868)	1,521,691	-
Compensated absences	<u>2,078,693</u>	<u>893,337</u>	<u>(978,411)</u>	<u>1,993,619</u>	<u>681,402</u>
Total long-term liabilities	<u>\$ 85,830,346</u>	<u>\$ 4,139,910</u>	<u>\$ (10,153,727)</u>	<u>\$ 79,816,529</u>	<u>\$ 6,541,402</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5. LONG-TERM DEBT (CONTINUED)

#### Revenue Bonds:

In October 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.

In June 2015, the Authority issued Revenue Bonds, Series 2015 for the purpose of retiring \$51,717,789 in notes payable to the Georgia Environmental Finance Authority. The bonds were issued in the principal amount of \$47,315,000 with interest rates ranging from 2.00% to 5.00%, 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, 2042.

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

Fiscal year ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 5,860,000	\$ 3,035,463	\$ 8,895,463
2018	6,085,000	2,812,863	8,897,863
2019	6,290,000	2,606,013	8,896,013
2020	6,540,000	2,354,413	8,894,413
2021	6,870,000	2,027,413	8,897,413
2022-2026	7,940,000	7,735,375	15,675,375
2027-2031	9,900,000	5,777,575	15,677,575
2032-2036	11,915,000	3,764,688	15,679,688
2037-2041	8,900,000	1,055,438	9,955,438
2042	725,000	27,188	752,188
Total	<u>\$ 71,025,000</u>	<u>\$ 31,196,429</u>	<u>\$ 102,221,429</u>

The Authority's revenue bonds are special limited obligations of the Authority payable solely from and secured by a pledge of and lien on all operating revenues derived by the Authority from the ownership and operation of its water system, remaining after the payment of expenses of operating, maintaining, and repairing the system. These revenues are pledged to secure the revenue bonds of the Authority until such time that all outstanding principal has been satisfied on the bonds.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 6. DEFINED BENEFIT PENSION PLAN

#### Plan Description

*Plan administration.* The Authority's pension plan, the Cobb County-Marietta Water Authority Retirement Plan (the "Retirement Plan") is a single-employer, defined benefit pension plan, and is overseen by a Pension Committee and administered by a third-party. The Pension Committee consists of not less than three members, nor more than nine who may, but need not be, Members of the Board of Directors of the Authority, officers or employees of the Authority, or retired participants of the Retirement Plan. The members of the Committee serve at the pleasure of the Authority and any or all members may be removed by the Authority at any time and successor members of the Committee will be named by the Authority. The Committee has the power and duty to do all things necessary to affect the intent and purposes of the Retirement Plan. However, the authority to amend or terminate the Retirement Plan as well as the authority to direct the trustee in the investment of the trust fund remains with the Authority. For the year ended December 31, 2016, the Retirement Plan did not issue separate financial statements.

*Plan membership.* The Retirement Plan covers all full-time employees who are employed by and receive compensation from the Authority. At December 31, 2016, Retirement Plan membership consisted of the following:

Inactive participants currently receiving benefits	42
Inactive participants entitled to, but not receiving benefits	9
Active plan members	<u>110</u>
Total	<u><u>161</u></u>

*Benefits provided.* The Retirement Plan provides retirement, disability, and death benefits. The normal retirement benefits begin at age 65 for participants who have completed ten (10) years of credited service. At that time, the participant becomes eligible to receive basic annual benefits. The basic benefit is equal to 2% of the participant's average monthly compensation (those thirty-six consecutive months of credited service that produce the highest average) multiplied by the years of credited service accumulated to date, up to thirty (30) years, plus 1% of the participant's average monthly compensation (as defined above) to date multiplied by credited service in excess of thirty (30) years. These benefits are payable in the normal form—that is, a monthly annuity payable for the life of the participant. Early retirement is allowed on the last day of any month in which a participant's employment terminates and the participant has attained age fifty-five (55) and has completed at least ten (10) years of credited service. The early retirement benefit is calculated in the same manner as the normal retirement benefit and is then reduced by 1.5% for each year by which the participant's benefit commences prior to his or her normal retirement date.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

*Benefits provided (continued).* A participant who becomes totally and permanently disabled after ten (10) years of service will receive a monthly accrued benefit commencing on the first day of the month following his or her normal retirement date. The monthly accrued benefit is calculated based upon credited service only up to inception of disability. The average monthly plan compensation for the period of disability will be determined based upon the assumption that the participant's compensation will continue at the same rate as during the last full calendar year preceding inception of disability. To be considered totally and permanently disabled, a participant must qualify for Social Security disability benefits.

If a participant dies before his or her normal retirement date and has ten or more years of credited service, his or her beneficiary will receive 120 guaranteed monthly payments, commencing immediately. If a participant dies on or after his or her normal retirement date, his or her beneficiary will receive the benefit payable under the normal form elected by the participant, commencing immediately.

*Contributions.* A resolution by the Board of Directors of the Authority grants the authority to establish and amend the contribution requirements of the Authority to the Pension Committee, subject to the approval of the Board. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by Retirement Plan members during the year, with an additional amount to finance any unfunded accrued liability. The Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members. Currently, employees of the Authority do not contribute to the Retirement Plan. For the year ended December 31, 2016, the Authority's contribution rate was 12.12% of annual payroll.

#### **Net Pension Liability of the Authority**

The Authority's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of that date.

*Actuarial assumptions.* The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	4.75% compounded annually, including inflation
Investment rate of return	7.25%, net of investment expenses, including inflation

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

#### Net Pension Liability of the Authority (Continued)

Mortality rates were based on the RP-2014 Morality for Healthy Lives with Fully Generational using 1/2 of scale MP-2016.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period of January 1, 2008 through December 31, 2016.

The long-term expected rate of return on Retirement Plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of investment expenses and inflation) are developed for each major asset class. Multiplying the weights by the target asset allocation percentage and adding expected inflation produces the long-term expected rate of return. Best estimates of arithmetic real rates of return for each major asset class included in the Retirement Plan's target asset allocation as of December 31, 2016 are:

<u>Asset Class</u>	<u>Target Allocation Percentage</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity		
Large Cap	45%	8%
Mid Cap	6%	9%
Small Cap	6%	9%
International Equity		
Large Cap	6%	9%
Emerging Markets	2%	10%
Real Estate	2%	7%
Domestic Fixed Income	32%	5%
Cash (T-bills)	1%	2%

*Discount rate.* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that Authority contributions will continue to be made at the current rates. Based on those assumptions, the Retirement Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Retirement Plan members.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

*Changes in the Net Pension Liability of the Authority.* The changes in the components of the net pension liability of the Authority for the year ended December 31, 2016 were as follows:

	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a) - (b)</b>
<b>Balances at 12/31/15</b>	\$ 31,226,068	\$ 30,182,082	\$ 1,043,986
<b>Changes for the year:</b>			
Service cost	620,318	-	620,318
Interest	2,352,652	-	2,352,652
Differences between expected and actual experience	168,602	-	168,602
Changes in actuarial assumptions	105,001	-	105,001
Contributions—employer	-	881,500	(881,500)
Net investment income	-	1,887,368	(1,887,368)
Benefit payments, including refunds of employee contribution	(972,975)	(972,975)	-
<b>Net changes</b>	<b>2,273,598</b>	<b>1,795,893</b>	<b>477,705</b>
<b>Balances at 12/31/16</b>	<b>\$ 33,499,666</b>	<b>\$ 31,977,975</b>	<b>\$ 1,521,691</b>

The required schedule of changes in the Authority's net pension liability and related ratios immediately following the notes to the financial statements presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the total pension liability.

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the Authority, calculated using the discount rate of 7.25 percent, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Authority's net pension liability (asset)	\$ 5,382,757	\$ 1,521,691	\$ (1,763,499)

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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 revisions 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 December 31, 2016 and the current sharing pattern of costs between employer and employee.

#### **Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended December 31, 2016, the Authority recognized pension expense of \$1,230,406. At December 31, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 1,558,226	\$ -
Differences between expected and actual experience	141,508	89,910
Changes in assumptions	88,128	-
Changes in benefit terms	-	2,710
Total	\$ 1,787,862	\$ 92,620

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal year ending December 31:	
2017	\$ 517,724
2018	517,724
2019	517,724
2020	97,761
2021	34,507
Thereafter	9,802
Total	\$ 1,695,242

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 7. COMMITMENTS AND CONTINGENCIES

#### **Contractual Commitments:**

For the year ended December 31, 2016, contractual commitments on uncompleted contracts were \$31,181,352.

#### **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.

## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 10. ECONOMIC DEPENDENCY**

The Cobb County-Marietta Water Authority has twelve customers for which the Authority is the source of water supply. However, two of these customers account for a significant portion of the Authority's overall operating revenues.

Cobb County, Georgia purchases its water supply from the Authority pursuant to a long-term contract that expires on May 15, 2032. For the year ended December 31, 2016, revenues from Cobb County amounted to \$59,366,984 or 66.2% of the Authority's operating revenues.

Paulding County, Georgia purchases its water supply from the Authority pursuant to a long-term contract that expires on June 1, 2032. For the year ended December 31, 2016, revenues from Paulding County amounted to \$12,838,338 or 14.3% of the Authority's operating revenues. In addition, Paulding County has notified the Authority that it is presently planning to stop purchasing water supply from the Authority in mid-2019.

## **REQUIRED SUPPLEMENTARY INFORMATION**

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# COBB COUNTY-MARIETTA WATER AUTHORITY

## REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CHANGES IN THE AUTHORITY'S NET PENSION LIABILITY AND RELATED RATIOS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>			
Service cost	\$ 620,318	\$ 613,728	\$ 563,408
Interest on total pension liability	2,352,652	2,220,010	1,981,839
Differences between expected and actual experience	168,602	(130,274)	(102,464)
Changes in assumptions	105,001	-	1,557,332
Changes in benefit terms	-	(3,926)	-
Benefit payments	(972,975)	(903,430)	(847,216)
<b>Net change in total pension liability</b>	<u>2,273,598</u>	<u>1,796,108</u>	<u>3,152,899</u>
<b>Total pension liability - beginning</b>	<u>31,226,068</u>	<u>29,429,960</u>	<u>26,277,061</u>
<b>Total pension liability - ending (a)</b>	<u>\$ 33,499,666</u>	<u>\$ 31,226,068</u>	<u>\$ 29,429,960</u>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 881,500	\$ 855,000	\$ 840,000
Net investment income	1,887,368	154,130	2,252,513
Benefit payments	(972,975)	(903,430)	(847,216)
<b>Net change in plan fiduciary net position</b>	<u>1,795,893</u>	<u>105,700</u>	<u>2,245,297</u>
<b>Plan fiduciary net position - beginning</b>	<u>30,182,082</u>	<u>30,076,382</u>	<u>27,831,085</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 31,977,975</u>	<u>\$ 30,182,082</u>	<u>\$ 30,076,382</u>
<b>Authority's net pension liability (asset) - ending (a) - (b)</b>	<u>\$ 1,521,691</u>	<u>\$ 1,043,986</u>	<u>\$ (646,422)</u>
<b>Plan fiduciary net position as a percentage of the total pension liability (asset)</b>	95.5%	96.7%	102.2%
<b>Covered-employee payroll</b>	\$ 7,271,634	\$ 7,179,574	\$ 6,899,710
<b>Net pension liability (asset) as a percentage of covered-employee payroll</b>	20.9%	14.5%	-9.4%

**Notes to the Schedule:**

The schedule will present 10 years of information once it is accumulated.

<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
\$ 543,082	\$ 550,089	\$ 554,264	\$ 546,651	\$ 505,226	\$ 506,080
1,871,727	1,801,543	1,705,985	1,629,536	1,530,591	1,479,920
(158,628)	(683,324)	(293,928)	(485,942)	(108,007)	(698,684)
-	-	-	-	-	-
-	-	-	-	-	-
(770,851)	(681,788)	(694,083)	(663,543)	(636,874)	(585,744)
1,485,330	986,520	1,272,238	1,026,702	1,290,936	701,572
24,791,731	23,805,211	22,532,973	21,506,271	20,215,335	19,513,763
<u>\$ 26,277,061</u>	<u>\$ 24,791,731</u>	<u>\$ 23,805,211</u>	<u>\$ 22,532,973</u>	<u>\$ 21,506,271</u>	<u>\$ 20,215,335</u>
\$ 800,000	\$ 740,000	\$ 740,000	\$ 740,000	\$ 700,000	\$ 475,000
4,248,814	2,451,847	568,504	2,170,670	2,553,285	(3,452,950)
(770,851)	(681,788)	(694,083)	(663,543)	(636,874)	(585,744)
4,277,963	2,510,059	614,421	2,247,127	2,616,411	(3,563,694)
23,553,122	21,043,063	20,428,642	18,181,515	15,565,104	19,128,798
<u>\$ 27,831,085</u>	<u>\$ 23,553,122</u>	<u>\$ 21,043,063</u>	<u>\$ 20,428,642</u>	<u>\$ 18,181,515</u>	<u>\$ 15,565,104</u>
<u>\$ (1,554,024)</u>	<u>\$ 1,238,609</u>	<u>\$ 2,762,148</u>	<u>\$ 2,104,331</u>	<u>\$ 3,324,756</u>	<u>\$ 4,650,231</u>
105.9%	95.0%	88.4%	90.7%	84.5%	77.0%
\$ 6,469,029	\$ 6,159,167	\$ 5,717,773	\$ 5,641,194	\$ 5,132,691	\$ 5,121,170
-24.0%	20.1%	48.3%	37.3%	64.8%	90.8%

**COBB COUNTY-MARIETTA WATER AUTHORITY**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF AUTHORITY CONTRIBUTIONS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Actuarially determined contribution	\$ 866,779	\$ 769,650	\$ 739,780	\$ 740,481	\$ 747,005
Contributions in relation to the actuarially determined contribution	<u>881,500</u>	<u>855,000</u>	<u>840,000</u>	<u>800,000</u>	<u>740,000</u>
Contribution deficiency (excess)	<u>\$ (14,721)</u>	<u>\$ (85,350)</u>	<u>\$ (100,220)</u>	<u>\$ (59,519)</u>	<u>\$ 7,005</u>
Covered employee payroll	\$ 7,271,634	\$ 7,179,574	\$ 6,899,710	\$ 6,469,029	\$ 6,159,167
Contributions as a percentage of covered-employee payroll	12.12%	11.91%	12.17%	12.37%	12.01%
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Actuarially determined contribution	\$ 713,203	\$ 692,355	\$ 752,390	\$ 605,230	\$ 610,911
Contributions in relation to the actuarially determined contribution	<u>740,000</u>	<u>740,000</u>	<u>700,000</u>	<u>475,000</u>	<u>475,000</u>
Contribution deficiency (excess)	<u>\$ (26,797)</u>	<u>\$ (47,645)</u>	<u>\$ 52,390</u>	<u>\$ 130,230</u>	<u>\$ 135,911</u>
Covered employee payroll	\$ 5,717,773	\$ 5,641,194	\$ 5,132,691	\$ 5,121,170	\$ 5,042,007
Contributions as a percentage of covered-employee payroll	12.94%	13.12%	13.64%	9.28%	9.42%

**Notes to the Schedule:**

(1) Actuarial Assumptions

Valuation Date	December 31, 2016
Cost Method	Entry Age Normal
Actuarial Asset Valuation Method	20% write up method
Assumed Rate of Return on Investments	7.25% compounded annually net of investment expenses, including inflation
Projected Salary Increases	4.75% compounded annually, including inflation
Cost-of-living Adjustment	Liabilities are loaded 5.0% to account for future ad hoc COLAs
Amortization Method	Closed 15-Year Increasing assuming annual payroll growth of 3%
Remaining Amortization Period	15 years (closed)

# STATISTICAL SECTION

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This part of the Cobb County-Marietta Water Authority’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority’s overall financial health.

<b>Financial Trends</b> .....	<b><u>Page</u></b> <b>37</b>
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**These schedules contain trend information to help the reader understand how the Authority’s financial performance and well-being have changed over time.**

<b>Revenue Capacity</b> .....	<b>42</b>
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**These schedules contain information to help the reader assess the Authority’s most significant revenue source – water sales and testing revenues.**

<b>Debt Capacity</b> .....	<b>46</b>
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**These schedules present information to help the reader assess the affordability of the Authority’s current levels of outstanding debt and the Authority’s ability to issue additional debt in the future.**

<b>Demographic and Economic Information</b> .....	<b>48</b>
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**These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority’s financial activities take place.**

<b>Operating Information</b> .....	<b>50</b>
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**These schedules contain service and infrastructure data to help the reader understand how the information in the Authority’s financial report relates to the services the Authority provides and the activities it performs.**

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year.

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**NET POSITION BY COMPONENT**  
**LAST TEN YEARS**

*Unaudited*

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net Investment in Capital Assets	\$193,756,994	\$203,964,259	\$212,678,111	\$248,151,230	\$297,306,964	\$291,046,250	\$303,939,439	\$303,122,478	\$323,777,529	\$381,028,358
Restricted for Debt Service	585,844	685,767	568,204	605,479	636,358	664,646	695,480	1,132,336	1,107,667	1,151,833
Unrestricted	98,638,346	103,188,010	117,022,928	109,291,267	88,844,830	126,513,399	137,373,343	172,275,047	185,069,454	170,543,951
Total Net Position	<u>\$292,981,184</u>	<u>\$307,838,036</u>	<u>\$330,269,243</u>	<u>\$358,047,976</u>	<u>\$386,788,152</u>	<u>\$418,224,295</u>	<u>\$442,008,262</u>	<u>\$476,529,861</u>	<u>\$509,954,650</u>	<u>\$552,724,142</u>

\*Source: Cobb County-Marietta Water Authority historical financial records

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**CHANGES IN NET POSITION**  
**LAST TEN YEARS**

*Unaudited*

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating Revenues	\$43,847,613	\$41,800,727	\$53,503,832	\$62,174,419	\$67,441,944	\$72,733,198	\$69,314,666	\$75,661,819	\$80,356,367	\$89,655,464
Operating Expenses	26,568,658	27,445,170	30,602,469	32,790,707	37,275,388	38,673,588	40,152,408	44,474,605	45,099,147	46,224,169
Operating Income	17,278,955	14,355,557	22,901,363	29,383,712	30,166,556	34,059,610	29,162,258	31,187,214	35,257,220	43,431,295
Non-Operating Revenue (Expense)	1,623,724	501,293	(470,156)	(1,604,979)	(1,426,380)	(2,274,488)	(7,008,314)	3,334,385	(1,333,152)	(661,803)
Change in Net Position	18,902,679	14,856,850	22,431,207	27,778,733	28,740,176	31,785,122	22,153,944	34,521,599	33,924,068	42,769,492
Net Position - Beginning	274,078,505	292,981,186	307,838,036	330,269,243	358,047,976	386,439,173	419,854,318	442,008,262	476,030,582	(1) 509,954,650
Net Position - Ending	\$292,981,184	\$307,838,036	\$330,269,243	\$358,047,976	\$386,788,152	\$418,224,295	\$442,008,262	\$476,529,861	\$509,954,650	\$552,724,142

\*Note: Additional detail for Operating Revenues, Operating Expenses and Non-Operating Revenue (Expense) as shown above can be found in the schedules that immediately follow.

(1) Beginning net position for 2015 was restated by (\$499,279) resulting from the implementation of GASB Statement No. 68.

\*Source: Cobb County-Marietta Water Authority historical financial records

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**OPERATING REVENUES BY SOURCE**  
**LAST TEN YEARS**  
*Unaudited*

<u>FISCAL YEAR</u>	<u>WATER AND LABORATORY REVENUES</u>	<u>TOTAL</u>
2007	\$ 43,847,613	\$ 43,847,613
2008	41,800,727	41,800,727
2009	53,503,832	53,503,832
2010	62,174,419	62,174,419
2011	67,441,944	67,441,944
2012	72,733,198	72,733,198
2013	69,314,666	69,314,666
2014	75,661,819	75,661,819
2015	80,356,367	80,356,367
2016	89,655,464	89,655,464

\*Source: Cobb County-Marietta Water Authority historical financial records

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**OPERATING EXPENSES BY FUNCTION**  
**LAST TEN YEARS**

*Unaudited*

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General & Administration (1)	\$ 3,458,686	\$ 2,495,382	\$ 2,572,338	\$ 2,813,300	\$ 2,943,897	\$ 2,996,304	\$ 3,113,314	\$ 3,188,620	\$ 3,573,643	\$ 3,861,947
Engineering Division	864,671	692,811	868,783	962,571	955,659	977,919	1,082,671	1,047,869	1,095,825	1,137,137
Research & Development	1,127,119	950,072	1,095,593	1,418,459	1,687,406	1,317,730	1,265,607	1,167,698	1,306,390	1,413,167
Hickory Log Creek Reservoir	-	212,212	305,215	321,358	374,219	315,974	314,081	344,821	407,793	409,310
Wyckoff Treatment Division	6,379,794	6,342,066	6,735,231	6,908,924	7,676,831	7,536,234	7,036,782	8,372,891	8,396,900	8,440,087
Quarles Treatment Division	6,640,194	6,600,926	7,010,139	7,190,920	7,990,171	7,843,836	8,103,217	7,965,241	7,897,152	8,079,773
Laboratory Division	790,064	854,147	911,751	976,776	950,287	958,795	974,934	1,010,305	1,038,148	1,038,546
Transmission Division	759,950	916,018	1,243,929	1,363,544	1,476,915	1,722,593	1,606,697	1,847,542	1,913,257	1,717,536
Depreciation	6,548,180	8,381,536	9,859,490	10,834,855	13,220,003	15,004,203	16,655,105	19,529,618	19,470,039	20,126,666
	<u>\$ 26,568,658</u>	<u>\$ 27,445,170</u>	<u>\$ 30,602,469</u>	<u>\$ 32,790,707</u>	<u>\$ 37,275,388</u>	<u>\$ 38,673,588</u>	<u>\$ 40,152,408</u>	<u>\$ 44,474,605</u>	<u>\$ 45,099,147</u>	<u>\$ 46,224,169</u>

\*Source: Cobb County-Marietta Water Authority historical financial records

(1) General & Administration expense includes General, Administration, Administration & Rental Buildings, Finance, Information Technology, and Safety and Security expenses.

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**NON-OPERATING REVENUES (EXPENSES)**  
**LAST TEN YEARS**

*Unaudited*

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Interest Income	\$ 4,650,736	\$ 3,986,170	\$ 3,263,041	\$ 2,545,833	\$ 1,496,084	\$ 1,233,407	\$ 1,464,502	\$ 1,566,250	\$ 1,558,881	\$ 1,553,449
Gain (Loss) on Market Value of Investments (1)	-	-	77,247	-	940,425	20,213	(4,716,259)	3,316,553	648,014	327,490
Interest Expense & Fiscal Charges	(3,030,927)	(3,033,367)	(4,062,169)	(3,682,796)	(3,581,503)	(3,586,120)	(3,873,321)	(3,593,125)	(3,689,056)	(2,832,098)
Intergovernmental	44,603	204,665	246,990	-	244,658	-	-	377,117	-	-
Rental Income	4,735	4,733	4,735	71,643	109,865	127,247	116,764	119,904	142,511	177,238
Gain (Loss) on Disposal of Capital Assets	(61,825)	(660,908)	-	(539,659)	(635,909)	(69,235)	-	-	(74,684)	37,303
Other Income (Expense)	16,402	-	-	-	-	-	-	1,547,686 (2)	81,182	74,815
<b>Total Non-Operating Revenues (Expenses), Net</b>	<b>\$ 1,623,724</b>	<b>\$ 501,293</b>	<b>\$ (470,156)</b>	<b>\$ (1,604,979)</b>	<b>\$ (1,426,380)</b>	<b>\$ (2,274,488)</b>	<b>\$ (7,008,314)</b>	<b>\$ 3,334,385</b>	<b>\$ (1,333,152)</b>	<b>\$ (661,803)</b>

(1) The gain (loss) reported on the market value of the Authority's investments will vary based upon market conditions each reporting period.

(2) The Finance Division, in coordination with independent consultants and other CCMWA divisions, applied for reimbursement of sales taxes paid by contractors on various projects which amounted to approximately \$1.3 million net of fees. This item led to the significant increase in other income during 2014.

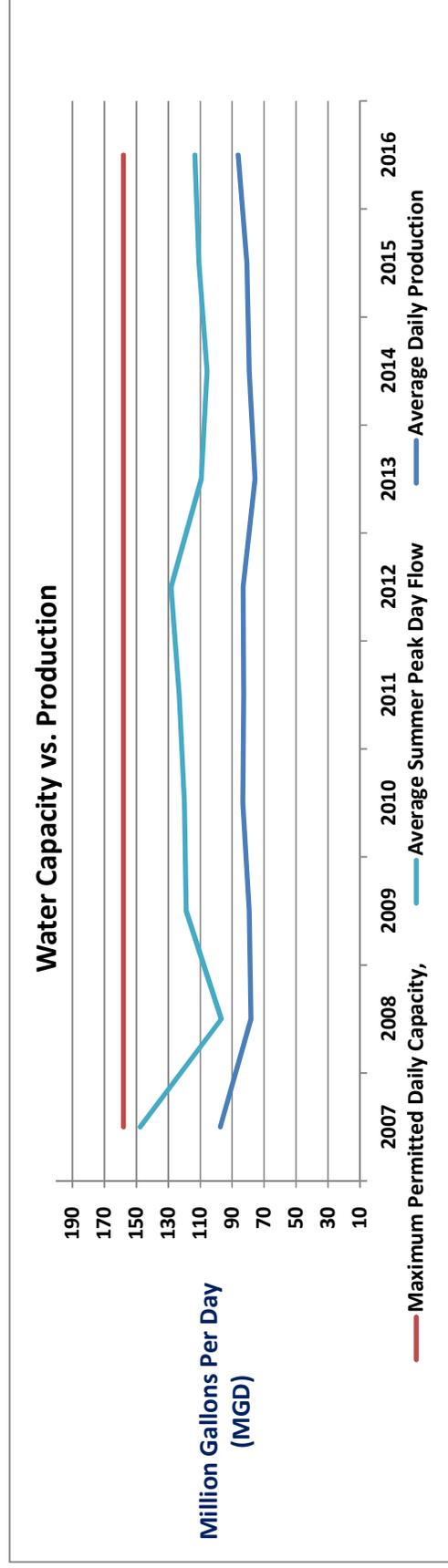
\*Source: Cobb County-Marietta Water Authority historical financial records

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**WATER CAPACITY COMPARED WITH ANNUAL AVERAGE DAILY FLOW**  
**LAST TEN YEARS**  
**(ALL NUMBERS EXPRESSED IN MILLIONS OF GALLONS)**

*Unaudited*

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Maximum Permitted Daily Capacity, MGD of Water Treatment Plants (WTPs):</b>										
Quarles WTP	86	86	86	86	86	86	86	86	86	86
Wyckoff WTP	72	72	72	72	72	72	72	72	72	72
	158	158	158	158	158	158	158	158	158	158
Average Daily Production	97	78	79	83	83	83	76	79	81	86
Percent of Capacity Used	61.65	49.51	50.27	52.72	52.46	52.60	47.94	50.25	51.15	54.65
Average Summer Peak Day Flow	148	97	119	120	123	128	109	106	111	113
Percent of Capacity Used	93.44	61.28	75.16	75.84	77.95	81.23	69.18	66.88	70.19	71.75

**\*Source:** Cobb County-Marietta Water Authority Historical Records



**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**NUMBER OF CUSTOMERS**  
**LAST TEN YEARS**  
*Unaudited*

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Wholesale Water Customers</b>										
In-County Governmental Customers	5	5	5	5	5	5	5	5	5	5
In-County Industrial/Private Customers	2	2	1	1	1	1	1	1	1	1
Out-of-County Governmental Customers	6	6	6	6	6	6	6	6	6	6
Out-of-County Industrial/Private Customers	-	-	-	-	-	-	-	-	-	-
	13	13	12	12	12	12	12	12	12	12

**\*Source:** Cobb County-Marietta Water Authority Historical Records

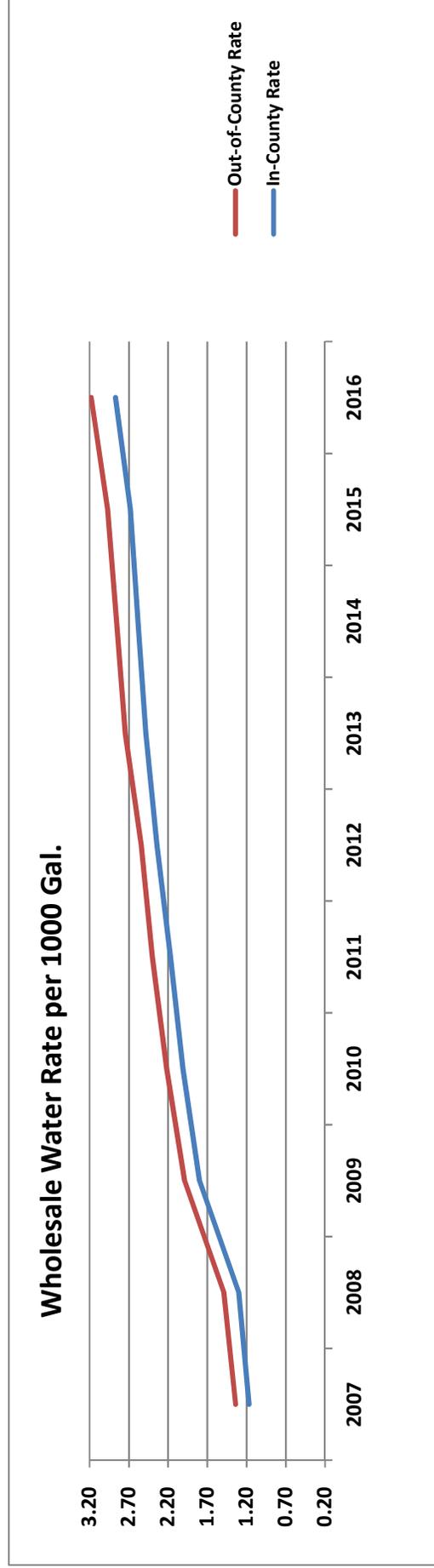
# COBB COUNTY-MARIETTA WATER AUTHORITY

## WHOLESALE WATER RATES LAST TEN YEARS

*Unaudited*

Wholesale Water Price Per Thousand Gallons	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Base Charge	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
In-County Rate	1.17	1.30	1.80	2.01	2.17	2.34	2.48	2.58	2.68	2.87
Out-of-County Rate	1.34	1.49	1.99	2.22	2.40	2.54	2.75	2.86	2.97	3.18

\*Source: Cobb County-Marietta Water Authority historical financial records



**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**LIST OF CUSTOMERS BY DEMAND**  
**CURRENT YEAR AND NINE YEARS AGO**

*Unaudited*

	2016			2007		
	Demand in Thousands of Gallons	Revenue	Percentage of Sales	Demand in Thousands of Gallons	Revenue	Percentage of Sales
Cobb County Water System	21,199,610	\$ 59,366,984	72.0%	24,066,736	\$ 28,593,521	67.9%
Paulding County (1)	4,154,802	12,838,338	14.1%	3,955,894	5,324,107	11.2%
Marietta Board of Lights and Water	2,918,789	8,143,421	9.9%	3,510,442	4,113,803	9.9%
City of Smyrna	1,440,932	4,020,200	4.9%	1,633,482	1,911,428	4.6%
City of Woodstock	589,035	1,838,584	2.0%	401,527	540,504	1.1%
City of Powder Springs	488,058	1,363,811	1.7%	445,224	520,915	1.3%
City of Austell	291,841	814,236	1.0%	337,150	394,466	1.0%
Lockheed-Martin Corporation	256,512	725,497	0.9%	343,920	402,805	1.0%
Douglasville/Douglas County Water Authority	141,607	447,858	0.5%	938,404	1,619,451	2.6%
City of Mountain Park	15,455	47,756	0.1%	19,083	25,647	0.1%
Cherokee County Water & Sewerage Authority	2,891	9,478	0.0%	35,148	50,806	0.1%
	<u>31,499,532</u>	<u>\$ 89,616,163</u>		<u>35,687,010</u>	<u>\$ 43,497,453</u>	

\*Source: Cobb County-Marietta Water Authority historical records

(1) Paulding County has informed the Cobb County-Marietta Water Authority that the county is building its own reservoir and water treatment facility. Paulding County expects to stop purchasing water from the Authority around the year 2019.

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**RATIOS OF OUTSTANDING DEBT BY TYPE**  
**LAST TEN YEARS**  
*Unaudited*

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<b>Fiscal Year</b>	<b>Senior Lien Revenue Bonds</b>	<b>Georgia Environmental Finance Authority Notes</b>	<b>Total Outstanding Debt</b>	<b>Percentage of Personal Income</b>	<b>Population</b>	<b>Debt per Capita</b>
2007	\$ 57,917,089	\$ 28,515,649	\$ 86,432,738	0.268%	670,440	128.92
2008	54,500,050	35,269,264	89,769,314	0.283%	679,820	132.05
2009	51,032,340	36,389,650	87,421,990	0.295%	684,780	127.66
2010	47,160,066	36,702,384	83,862,450	0.278%	689,750	121.58
2011	46,730,564	36,911,505	83,642,069	0.272%	697,550	119.91
2012	42,033,113	55,443,496	97,476,609	0.311%	707,170	137.84
2013	41,245,417	55,443,496	96,688,913	0.302%	716,950	134.86
2014	36,504,284	51,717,789	88,222,073	0.269%	726,850	121.38
2015	82,707,667	-	82,707,667	0.244%	733,860	112.70
2016	76,301,219	-	76,301,219	0.215%	741,334	102.92

\***Source:** Cobb County-Marietta Water Authority historical records

\*Note: Debt listed above does not include accrued compensated absences

\*Note: Population and personal income used in this table only represents Cobb County, Georgia. Source information for those items are found in the Demographic and Economic Statistics Table.

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**PLEGGED REVENUE COVERAGE**  
**LAST TEN YEARS**  
*Unaudited*

Fiscal Year	Operating Revenues		Operating Expenses (Excluding Depreciation)		Net Available Revenues		Principal		Interest		Total		Coverage Ratio
	Operating Revenues	Other Income	Operating Expenses (Excluding Depreciation)	Net Available Revenues	Principal	Interest	Total	Coverage Ratio					
2007	\$ 43,847,613	\$ 4,654,651	\$ 20,020,478	\$ 28,481,786	\$ 3,184,349	\$ 3,030,927	\$ 6,215,276	4.58					
2008	41,800,727	3,534,662	19,063,364	26,272,025	3,287,039	3,033,367	6,320,406	4.16					
2009	53,503,832	3,592,013	20,742,979	36,352,866	5,723,357	4,062,169	9,785,526	3.71					
2010	62,174,419	2,077,817	21,955,852	42,296,384	4,395,552	3,682,796	8,078,348	5.24					
2011	67,441,944	2,155,123	24,055,385	45,541,682	4,564,457	3,581,503	8,145,960	5.59					
2012	72,733,198	1,311,632	23,669,385	50,375,445	5,446,389	3,586,120	9,032,509	5.58					
2013	69,314,666	(3,134,993)	23,497,303	42,682,370	5,816,133	3,873,321	9,689,454	4.41					
2014	75,661,819	6,927,510	24,944,987	57,644,342	7,760,707	3,829,349	11,590,056	4.97					
2015	80,356,367	2,430,588	25,629,108	57,157,847	4,630,000	3,365,293	7,995,293	7.15					
2016	89,655,464	2,170,295	26,097,503	65,728,256	5,595,000	3,298,072	8,893,072	7.39					

\*Source: Cobb County-Marietta Water Authority historical records

\*Note: Cobb County-Marietta Water Authority does not receive funding from property taxes or impact fees.

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**PRINCIPAL EMPLOYERS**  
**CURRENT AND NINE YEARS AGO**  
*Unaudited*

<u>Employer</u>	<u>Industry</u>	<u>2016</u>		<u>2007</u>	
		<u>Employees</u>	<u>Percentage of Total County Employment</u>	<u>Employees</u>	<u>Percentage of Total County Employment</u>
Cobb County Schools	Government	14,984	4.03%	15,533	3.43%
Home Depot	Retail	12,000	3.23%	6,276	1.39%
Wellstar Health System	Healthcare	11,596	3.12%	9,838	2.17%
Kennesaw State University	Education	5,980	1.61%	3,185	0.70%
Lockheed Martin	Aircraft/Defense	5,100	1.37%	6,617	1.46%
Cobb County Government	Government	5,086	1.37%	5,427	1.20%
Publix Super Markets	Retail	3,619	0.97%	3,215	0.71%
Brand Energy & Infrastructure Holdings	Retail	2,803	0.75%	-	0.00%
Six Flags Over Georgia	Theme Park	2,772	75.00%	2,240	0.49%
Kroger Company	Retail	2,523	0.68%	1,898	0.42%
Walmart	Retail	-	0.00%	2,660	0.59%

\*Source: Cobb County Office of Economic Development and Cobb County Chamber of Commerce

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**DEMOGRAPHIC AND ECONOMIC STATISTICS**  
**LAST TEN YEARS**

*Unaudited*

<b>Fiscal Year</b>	<b>Population (1)</b>	<b>Personal Income (1)</b>	<b>Per Capita Personal Income (1)</b>	<b>County Unemployment Rate (2)</b>
2007	670,440	\$ 32,249,690,000	\$ 48,102	3.50%
2008	679,820	31,744,830,000	46,696	6.20%
2009	684,780	29,643,900,000	43,290	9.60%
2010	689,750	30,144,950,000	43,704	9.50%
2011	697,550	30,776,120,000	44,120	8.40%
2012	707,170	31,338,650,000	44,316	7.30%
2013	716,950	32,029,550,000	44,675	7.10%
2014	726,850	32,765,870,000	45,079	6.00%
2015	733,860	33,827,430,000	46,095	4.90%
2016	741,334	35,410,880,000	47,766	4.50%

<b>City</b>	<b>Population</b>
Acworth	22,131
Austell	7,107
Kennesaw	33,584
Marietta	59,067
Powder Springs	14,826
Smyrna	56,146

**\*Sources:**

- (1) Woods and Poole Economics 2015 Data Pamphlet
- (2) Cobb County Office of Economic Development and Cobb County Chamber of Commerce

**COBB COUNTY-MARIETTA WATER AUTHORITY  
FULL TIME EMPLOYEES BY FUNCTION  
LAST TEN YEARS**

*Unaudited*

<b>Division</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Water Treatment & Water Resources	68	68	66	69	71	72	72	72	71	71
Transmission	9	9	9	9	10	10	11	11	11	11
Laboratory	10	10	10	10	10	10	10	10	10	10
Engineering	6	6	7	8	9	9	9	9	8	8
Administration & Information Systems	6	7	9	11	11	11	12	12	12	12
	<u>99</u>	<u>100</u>	<u>101</u>	<u>107</u>	<u>110</u>	<u>111</u>	<u>113</u>	<u>113</u>	<u>112</u>	<u>112</u>

\*Source: Cobb County-Marietta Water Authority historical records

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**WATER TANK STORAGE CAPACITY**  
**LAST TEN YEARS**

*Unaudited*

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Ground Level Tanks:</b>										
Blackjack Mountain	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200
Brush Mountain	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Pine Mountain No. 1	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300
Pine Mountain No. 2	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Pete Shaw	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Factory Shoals	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Groover Mountain	3,100	3,100	3,100	3,100	3,100	3,100	3,100	3,100	3,100	3,100
Lost Mountain No. 1	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Lost Mountain No. 2	-	-	-	-	-	-	-	-	-	-
Quarles Washwater	500	500	500	500	500	500	500	500	500	500
	<u>36,100</u>	<u>40,100</u>	<u>40,100</u>							
<b>Elevated Tanks:</b>										
Wyckoff Washwater	400	400	400	400	400	400	400	400	400	400
<b>Storage at Water Plants:</b>										
Quarles Treatment Division	8,000	8,000	8,000	8,000	14,000	14,000	14,000	14,000	14,000	14,000
Wyckoff Treatment Division	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
	<u>14,000</u>	<u>14,000</u>	<u>14,000</u>	<u>14,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>
<b>Total Water Tank Storage Capacity:</b>	<u>50,500</u>	<u>50,500</u>	<u>50,500</u>	<u>50,500</u>	<u>56,500</u>	<u>56,500</u>	<u>56,500</u>	<u>56,500</u>	<u>60,500</u>	<u>60,500</u>

\*Source: Cobb County-Marietta Water Authority historical records

Note: All storage capacity figures expressed in thousands.

**COBB COUNTY-MARIETTA WATER AUTHORITY**  
**RAW WATER RESERVOIR STORAGE CAPACITY**  
**LAST TEN YEARS**

*Unaudited*

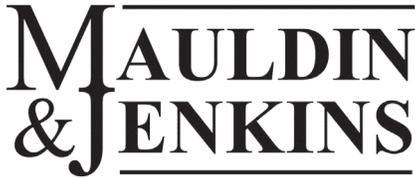
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Raw Water Reservoirs</b>										
Hickory Log Creek Reservoir {% Ownership}	-	-	4,327,500	4,327,500	4,327,500	4,327,500	4,327,500	4,327,500	4,327,500	4,327,500
Allatoona Reservoir {% Ownership}	4,281,688	4,281,688	4,281,688	4,281,688	4,281,688	4,281,688	4,281,688	4,281,688	4,281,688	4,281,688
Quarles Treatment Division Reservoir	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
	4,306,688	4,306,688	8,634,188	8,634,188	8,634,188	8,634,188	8,634,188	8,634,188	8,634,188	8,634,188
<b>Average Daily Flow</b>										
Average Daily Production	97,000	78,000	79,000	83,000	83,000	83,000	76,000	79,000	81,000	81,000
<b>Number of Days Supply</b>	44	55	109	104	104	104	114	109	107	107

\*Source: Cobb County-Marietta Water Authority historical records

Note: All storage capacity figures expressed in thousands.

**COMPLIANCE SECTION**

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**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**

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

We have audited, in accordance with the 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, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 31, 2017.

**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.

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### **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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mauldin & Jenkins, LLC*

Atlanta, Georgia  
March 31, 2017