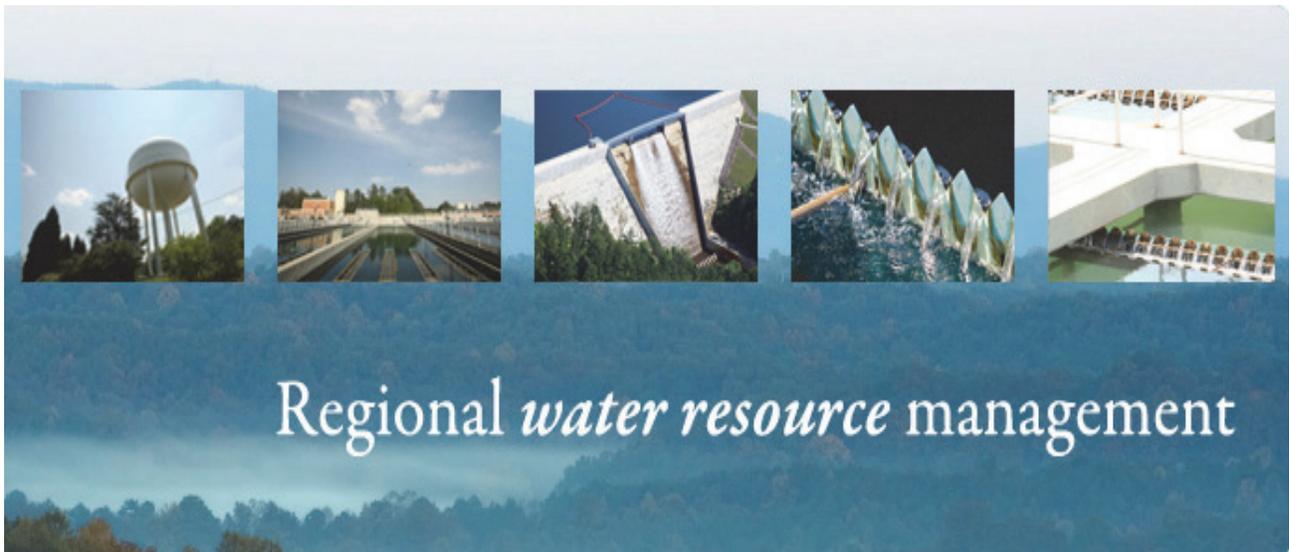


**COBB COUNTY-MARIETTA WATER AUTHORITY
MARIETTA, GEORGIA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2017**



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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2017

**Prepared by:
Finance Division**

**Allison Clements
Director of Finance**

COBB COUNTY-MARIETTA WATER AUTHORITY

COMPREHENSIVE ANNUAL FINANCIAL REPORT DECEMBER 31, 2017

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COBB COUNTY-MARIETTA WATER AUTHORITY

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
DECEMBER 31, 2017**

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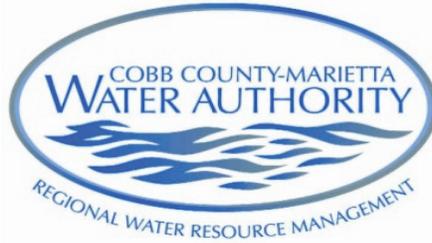
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INTRODUCTORY SECTION



April 2, 2018

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, 2017. 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, 2017. 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, and the treatment facilities operate 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. The laboratory ensures drinking water safety and regulatory compliance, as well as provides data helpful to operators and engineers for current and future treatment needs.

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 was partially demolished during 2017, and is in the process of being fully replaced as part of 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. The Quarles WTP staff 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. The team of industry professionals at Wyckoff 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:

- The Chairman of the Cobb 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
- Four members selected by a caucus consisting of all members of the General Assembly whose districts are wholly or partially within Cobb County. The four 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 two members from 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 2017, 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 2017, 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; 2017 marked 9 consecutive years for the CCMWA WTPs.

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, 2016. 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.

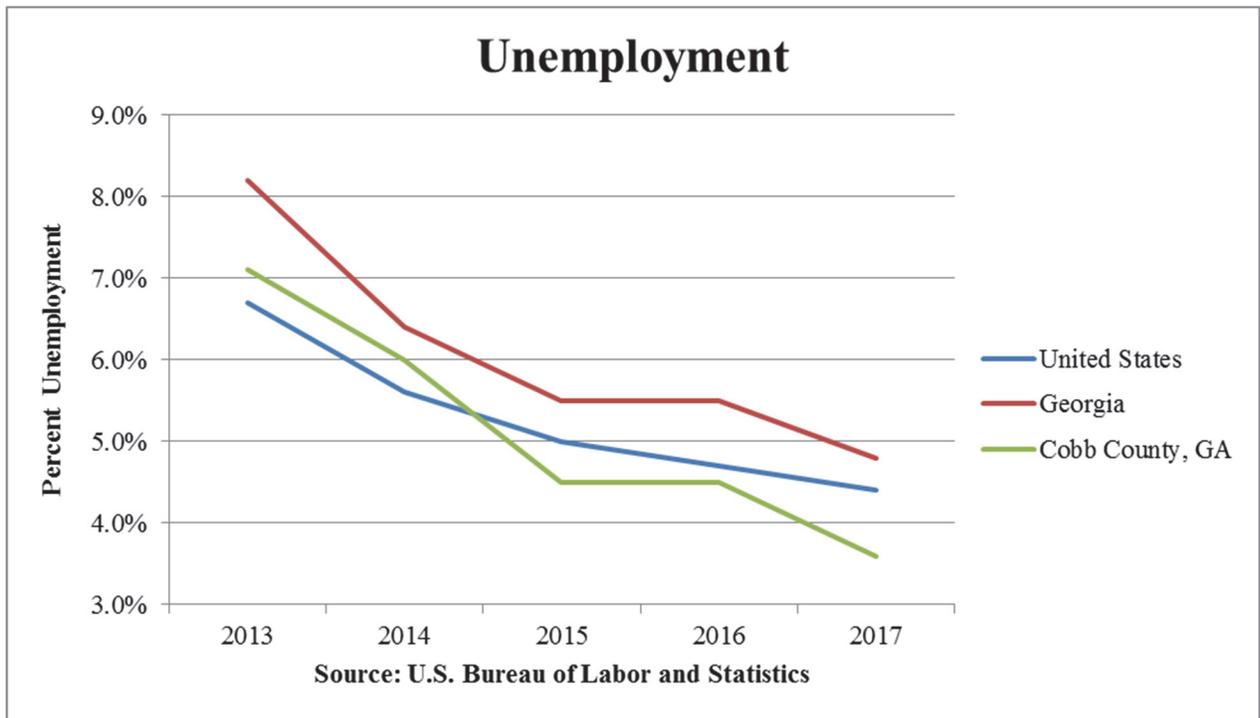
Current Economic Environment

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 15 percent of CCMWA's annual revenue, but Paulding is now working to become essentially independent of

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 significantly lower 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 has resulted in decreased consumer demand. During most of 2017, CCMWA’s service area was under a Level 2 drought response due to drought conditions that occurred in late 2016 and continued into the following year. The drought response, along with increased rainfall throughout the year, resulted in an average demand of 81.4 million gallons per day (MGD) for 2017. For the 2018 budget, CCMWA decreased its projected average water sales from 81.0 million gallons per day (MGD) as projected in 2017 to 80.7 MGD for 2018. This projection assumes that CCMWA’s service area will receive adequate rainfall during 2018 and water demands will return to pre-drought levels. Management plans to reevaluate long-term water sales forecasts during the 2019 budgeting process and adjust the capital improvement program accordingly. Reduced water sales have less financial impact on

CCMWA than on utilities with a higher debt ratio, because CCMWA is not highly leveraged. 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 September 2017, the U.S. District Court for the Northern District of Georgia agreed that USACE had unreasonably delayed making a decision regarding reallocation of Allatoona, and ordered USACE to complete a reallocation study and render a decision within a specified time yet to be determined between the parties to the case.

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. CCMWA and USACE are currently negotiating terms of a mediation agreement in an effort to settle the case, and the Court has issued a stay for the negotiation.

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.

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. Reduced capital spending, particularly on projects previously

anticipated to meet a growing need for water in Paulding County, will also offset the revenue loss when Paulding County begins operating their own system.

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. During development of the 2018 budget, this rate program was revised to a 2 percent annual rate increase through 2020. 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 2022:

| Year | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Projected Water Demand (MGD) | 80.70 | 81.51 | 75.00 | 73.00 | 73.73 |
| Anticipated Rate Increase | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Revenues | \$ 90.7 | \$ 93.6 | \$ 87.4 | \$ 86.2 | \$ 88.7 |
| Expenses (Without Depreciation) | 31.5 | 32.6 | 32.8 | 33.8 | 35.2 |
| Net Income | 33.9 | 34.8 | 27.0 | 23.5 | 23.2 |
| Total CIP Spending | 49.2 | 60.4 | 67.9 | 47.1 | 33.6 |
| Ending Cash Balance | <u>\$ 184.0</u> | <u>\$ 175.5</u> | <u>\$153.0</u> | <u>\$ 150.0</u> | <u>\$166.0</u> |
| Targeted Minimum Ending Cash Balance | <u>\$ 47.9</u> | <u>\$ 43.6</u> | <u>\$ 39.0</u> | <u>\$ 43.7</u> | <u>\$ 48.8</u> |

All Dollar Figures are in Millions

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 2022. 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 1) in 2015. The project has a total budget of \$79.8 million and the three-year construction schedule

began in late 2017. CCMWA will also continue replacing transmission system water mains, defined as Aged Pipe Replacement (APR) projects, during the 2018-2022 timeframe. These projects were identified as part of the Engineering Division's pipe replacement prioritization program and will replace aging pre-stressed concrete cylinder pipe with ductile iron pipe. The first three APR projects have a total budget of \$16.9 million and will be completed in the 2018-2019 timeframe. Total Capital Improvement Program spending is estimated at \$49.2 million in 2018, with total capital spending for 2018 through 2022 totaling almost \$258 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.

A significant challenge to CCMWA's ongoing success is that approximately one-third of its workforce is currently eligible for retirement. To address this challenge, through the Workforce Development Initiative outlined in the 2016 Strategic Plan, a program of succession planning, leadership and management training, individual development plans, and updating and alignment of all Standard Operating Procedures was implemented in 2017, and will be continuing into the future.

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 laid a strong foundation for CCMWA to meet 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.

While the future is bright, it will not be without challenges that will require change. Battles over water rights will continue for the foreseeable future. Threats to 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

Allison C. Clements
Director of Finance

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

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
- Two members from unincorporated Cobb County



James Scott
Chairman



Dan Buyers
Vice Chairman



Charlie Crowder
Secretary



A. Max Bacon
Member



James Balli
Member

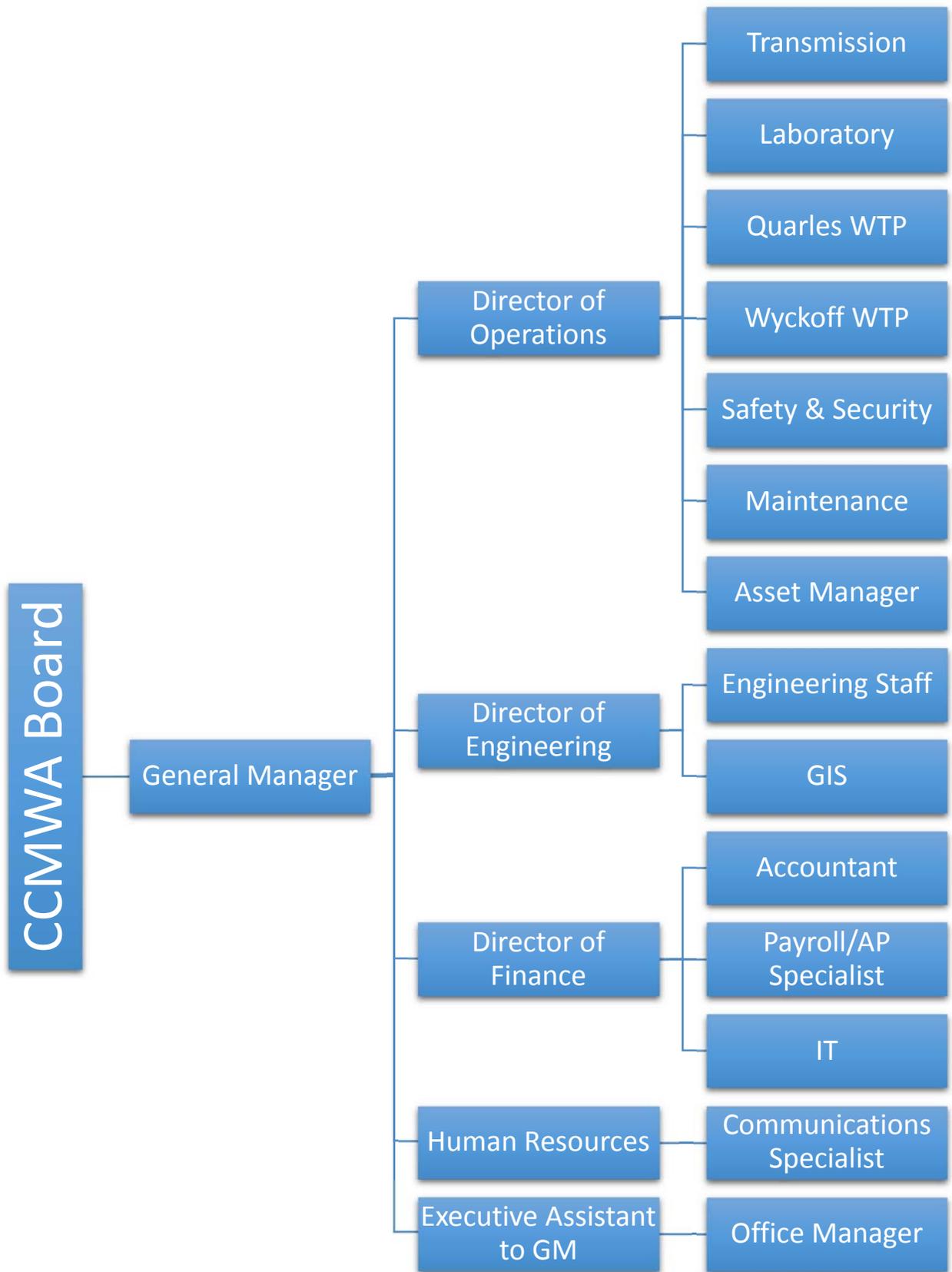


Mike Boyce
Member



Griffin Chalfant
Member

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





Government Finance Officers Association

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

Presented to

**Cobb County-Marietta
Water Authority, Georgia**

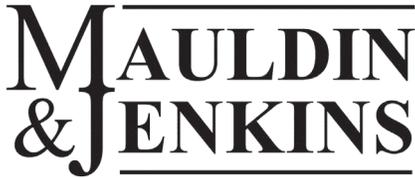
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2016

Christopher P. Morill

Executive Director/CEO

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the **Cobb County-Marietta Water Authority** (the "Authority"), as of and for the year ended December 31, 2017, 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, 2017, 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 April 2, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's 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
April 2, 2018

COBB COUNTY-MARIETTA WATER AUTHORITY
Management's Discussion and Analysis
Fiscal Year Ended December 31, 2017

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, 2017. 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:

- Operating revenue decreased 3.4% from \$89.7 million in 2016 to \$86.6 million in 2017, a decrease of \$3.1 million. Gallons sold decreased 6.0% from 31.5 billion gallons sold in 2016 to 29.6 billion gallons sold in 2017.
- Operating expenses remained steady at \$46.1 million in 2017, a \$130,000 decrease from 2016 operating expenses of \$46.2 million.
- Operating income for 2017 was \$40.5 million, compared to \$43.4 million in 2016, representing a decrease of \$2.9 million or 6.8%.
- Interest income increased 9.4% from \$1.6 million in 2016 to \$1.7 million in 2017, an increase of \$146,000.
- Revenue bond debt decreased from \$76.3 million in 2016 to \$69.7 million in 2017, representing a decrease of \$6.6 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's AAA bond rating was reaffirmed by Fitch in 2017.
- CCMWA's pension fund net investment return was 16.8% for 2017 as compared to an actuarially presumed net investment return of 7.25%. As of December 31, 2016, CCMWA reported a \$1.5 million net pension liability; however, as of December 31, 2017, CCMWA reports a \$1.5 million net pension asset.
- Total net position increased from \$552.7 million in 2016 to \$592.1 million in 2017, an increase of 7.1% or \$39.4 million.
- At December 31, 2017, the Authority reported an unrestricted net position of \$181.5 million, compared to \$170.5 million in 2016, which is an increase of \$11.0 million over prior year.

COBB COUNTY-MARIETTA WATER AUTHORITY
Management's Discussion and Analysis
Fiscal Year Ended December 31, 2017

Authority Highlights

Highlights for 2017

Construction in Progress:

Projects awarded for design in 2017:

- Wyckoff 42-Inch Finished Water Main – Aged Pipe Replacement
- Mableton Parkway 36-Inch Water Main – Aged Pipe Replacement
- Highway 41 Parallel 20-Inch Water Main – Aged Pipe Replacement

Projects awarded for construction in 2017:

- Quarles Water Treatment Plant 1 Replacement

Projects completed in 2017:

- Dallas Highway Parallel Water Main
- Highway 41, Phase 4 Water Main
- Southwest Connector Water Main, East Cobb Phase (*substantially complete*)
- Wyckoff Filter Building Rehabilitation and Electrical Improvements (*substantially complete*)

Other Items:

- Cobb County-Marietta Water Authority's average daily demand decreased 5.5% from 86.30 million gallons per day (MGD) in 2016 to 81.55 MGD in 2017, due primarily to increased rainfall. Rainfall increased 61.3% in CCMWA's service area during 2017, an increase of 19 inches over the prior year.
- The Capital Improvement Plan (CIP) and Financial Model were analyzed and revised to reflect asset renewal and replacement needs over the next 10 years, reduced demand projections and anticipated regulatory requirements. The total value of the revised CIP is \$258.2 million for the 5-year period, 2018 through 2022.
- The Authority's Finance Division was awarded the Distinguished Budget Presentation Award for its 2017 budget document and the Certificate of Achievement for Excellence in Financial Reporting for its 2016 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 of less than \$2.0 million.
- The Authority continued to focus on initiatives outlined in its 5-year Strategic Plan. The Strategic Plan was implemented 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 25,700 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 2017. Both plants received an achievement award for ranking in the 90th percentile, with the Wyckoff Division receiving a score of 95.70% and the Quarles Division receiving a score of 97.12%. Both plants also received the GAWP Platinum Award in 2017, recognizing 9 consecutive years of full compliance with all water quality, monitoring, and reporting requirements.
- The Transmission Division continued planned programs of pipeline easement clearing and valve maintenance, resulting in approximately 6 miles of pipeline easement cleared for improved access for inspection and maintenance activities, and 277 valves exercised and maintained as required to ensure operability.
- The Transmission Division received and reviewed approximately 28,000 pipeline location inquiries through the Utilities Protection Center. The division responded to 2,825 of the inquiries by providing field locations of Authority facilities.
- The Authority revised its outlook for proposed rate increases over the period covering 2018 – 2020. As a result of realized cost controls and operational efficiencies, CCMWA reduced its planned rate increases from 3% per year to 2% per year.

COBB COUNTY-MARIETTA WATER AUTHORITY
Management's Discussion and Analysis
Fiscal Year Ended December 31, 2017

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, 2017

Financial Analysis of the Authority

The Statements of Net Position for 2016 and 2017 are summarized in a Condensed Statement of Net Position. (See Table I). The Authority's net position increased by 7.1% in 2017 compared to 2016, due primarily to reserving net income in anticipation of investment in future capital projects.

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

| | 2017 | 2016 |
|-----------------------------------|----------------|----------------|
| <u>Assets:</u> | | |
| Current and Other Assets | \$190.7 | \$180.9 |
| Capital Assets | <u>480.1</u> | <u>462.1</u> |
| Total Assets | <u>670.8</u> | <u>643.0</u> |
| <u>Deferred Outflows</u> | <u>0.9</u> | <u>2.8</u> |
| <u>Liabilities:</u> | | |
| Long-Term Debt Outstanding | 64.9 | 73.3 |
| Other Liabilities | <u>13.3</u> | <u>19.7</u> |
| Total Liabilities | <u>78.2</u> | <u>93.0</u> |
| <u>Deferred Inflows</u> | <u>1.4</u> | <u>0.1</u> |
| <u>Net Position:</u> | | |
| Invested in Capital Assets | 409.4 | 381.0 |
| Restricted | 1.2 | 1.1 |
| Unrestricted | <u>181.5</u> | <u>170.5</u> |
| Total Net Position | <u>\$592.1</u> | <u>\$552.7</u> |

The Statements of Revenues, Expenses and Changes in Net Position for 2017 and 2016 are summarized in a Condensed Statement of Changes in Net Position (See Table II). The Authority achieved an increase in net position of \$39.4 million for the year ended December 31, 2017, which was \$3.3 million less than the \$42.7 million increase achieved for the year ended December 31, 2016.

COBB COUNTY-MARIETTA WATER AUTHORITY
Management's Discussion and Analysis
Fiscal Year Ended December 31, 2017

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

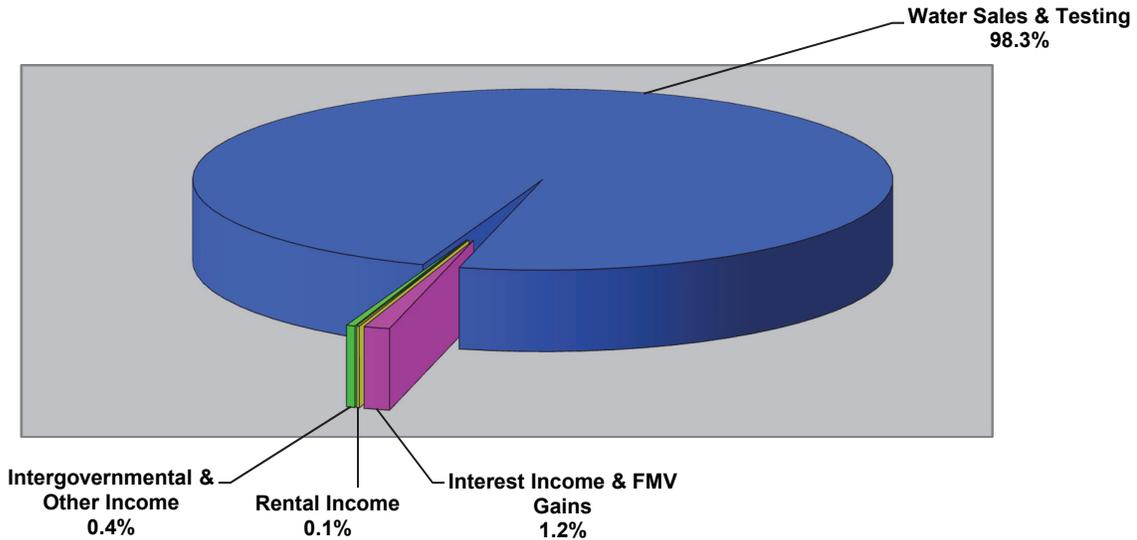
| | 2017 | 2016 |
|--|-----------------------|-----------------------|
| Revenues: | | |
| Operating Revenue | \$86.6 | \$89.7 |
| Interest Income | 1.7 | 1.6 |
| Non-Operating Revenue: | | |
| Intergovernmental Revenues | - | - |
| Rental Income | 0.1 | 0.2 |
| Sales Tax Refunds | - | - |
| Loss on Disposal of Capital Assets | - | - |
| Other Income | 0.3 | - |
| Gain (Loss) on Market Value of Investments | <u>(0.6)</u> | <u>0.3</u> |
| Total Revenue | 88.1 | 91.8 |
| Expenses: | | |
| Operating Expenses: | | |
| General Expenses | 1.6 | 2.1 |
| Administration | 0.8 | 0.8 |
| Administration and Rental Buildings | 0.1 | 0.1 |
| Finance | 0.4 | 0.4 |
| Engineering Division | 1.2 | 1.1 |
| Information Technology | 0.3 | 0.3 |
| Safety and Security | 0.2 | 0.2 |
| Research and Development | 0.9 | 1.4 |
| Hickory Log Creek Division | 0.5 | 0.4 |
| Wyckoff Plant Division | 7.3 | 8.5 |
| Quarles Plant Division | 6.5 | 8.1 |
| Maintenance | 2.5 | - |
| Laboratory | 1.0 | 1.1 |
| Transmission | 1.8 | 1.7 |
| Depreciation | 21.0 | 20.1 |
| Interest Expense | <u>2.6</u> | <u>2.8</u> |
| Total Expenses | 48.7 | 49.1 |
| Increase in Net Position | \$39.4 | \$42.7 |
| Net Position, Beginning of Year | <u>\$552.7</u> | <u>510.0</u> |
| Net Position, End of Year | <u>\$592.1</u> | <u>\$552.7</u> |

COBB COUNTY-MARIETTA WATER AUTHORITY
Management's Discussion and Analysis
Fiscal Year Ended December 31, 2017

Revenues

The Authority's total revenue of \$88.1 million reflects a decrease of \$3.7 million compared to 2016. (See Condensed Statement of Changes in Net Position – Table II). Revenue from Water Sales decreased \$3.1 million in 2017 to \$86.6 million, compared to \$89.7 million from the prior year. Interest Income increased slightly to \$1.7 million in 2017, compared to \$1.6 million in the prior year. The changes in market value of investments in 2017 resulted in a loss of \$640,113, a decrease of \$967,630 compared to the prior year gain of \$327,490.

2017 Total Revenue by Source



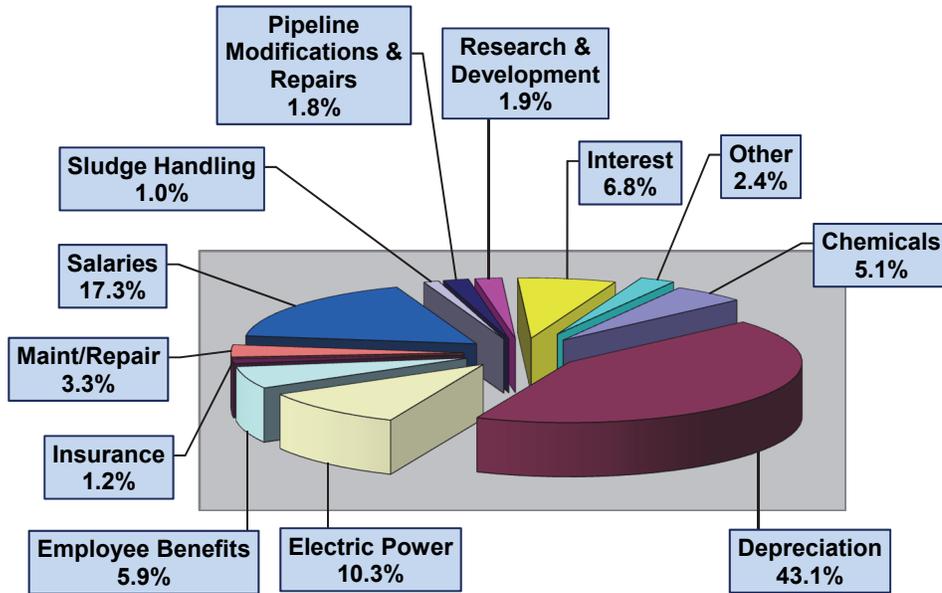
Expenses

The Authority's total expenses for 2017 were \$48.7 million, a decrease of \$352,000 compared to 2016 total expenses (See Condensed Statement of Changes in Net Position – Table II). Depreciation expense increased 4.2% in 2017 to \$21.0 million due to new capital project completions. Salary expenses increased 3.1% year over year to \$8.4 million. Employee benefit costs exclusive of pension expense remained constant in 2017 at \$2.1 million. Electric power expense decreased 7.7% in 2017 to \$5.0 million due to a reduction in provider fuel cost recovery charges. Chemical expense increased 15.8% year over year to \$2.5 million due to price increases and the regeneration of Granular Activated Carbon used in response to raw water quality.

Sludge Handling/Residuals Management expenses were \$511,000, representing a 10.8% decrease in cost year over year due to less turbidity in raw water, resulting in less sludge production. Research and Development expenses were \$905,000, representing a 36% decrease over 2017 due to lower legal costs related to long term water supply litigation. Insurance expenses of \$562,000 increased by 1.6% year over year. Pipeline maintenance and repair expense increased 11.8% year over year to \$856,000 due to increased expenditures on tank maintenance and easement clearing. General maintenance and repair expense remained constant in 2017 at \$1.6 million. Other expenses decreased 22.6% from \$1.5 million in 2016 to \$1.2 million in 2017.

COBB COUNTY-MARIETTA WATER AUTHORITY
Management's Discussion and Analysis
Fiscal Year Ended December 31, 2017

2017 Total Expenses by Source



Capital Assets and Debt Administration

Capital Assets

At the end of 2017, the Authority had \$480.1 million invested in a broad range of capital assets, an \$18 million increase (net of depreciation) over the prior year. During 2017, the Authority invested \$39.2 million in capital assets, but accumulated \$21.0 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, 2017

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

| | 2017 | 2016 |
|--|----------------------|----------------------|
| Land and Easements | \$28,029,722 | \$26,210,982 |
| Buildings | \$24,298,855 | \$24,972,412 |
| Furniture & Fixtures | 14,461 | 14,051 |
| Vehicles | 464,943 | 525,584 |
| Machinery & Equipment | 61,238,978 | 66,971,812 |
| Distribution Lines | 122,028,400 | 96,815,035 |
| Pumping Stations | 15,302,355 | 15,234,824 |
| Treatment Plants | 88,216,273 | 93,661,904 |
| Water Tanks | 4,868,119 | 4,506,092 |
| Water Resources | <u>37,357,125</u> | <u>38,281,340</u> |
| | 353,789,509 | 367,194,036 |
| Construction in Progress | 96,584,948 | 89,099,906 |
| Retainage on Construction Contracts | <u>1,707,265</u> | <u>5,759,064</u> |
| Net Capital Assets | <u>\$480,111,444</u> | <u>\$462,053,006</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 \$64.9 million in outstanding long-term debt at the end of 2017 (See Outstanding Long Term Debt - Table IV). Long-Term debt is comprised of three components in 2017 – 2009 Refunding Revenue Bonds, 2015 Revenue Bonds, 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, 2017

Table IV
Outstanding Long-Term Debt

| | 2017 | 2016 |
|--|---------------------|---------------------|
| Revenue Bonds Payable - Principal | \$65,165,000 | \$71,025,000 |
| Unamortized Premium | 4,560,480 | 5,276,219 |
| Less Current Bonds Payable | <u>(6,085,000)</u> | <u>(5,860,000)</u> |
| Total Revenue Bonds, Long Term | <u>63,640,480</u> | <u>70,441,219</u> |
| Net Pension Liability | - | 1,521,691 |
| Compensated Absences Payable | 2,017,244 | 1,993,619 |
| Less Current Compensated Absences Payable | <u>(728,053)</u> | <u>(681,402)</u> |
| Total Outstanding Long-Term Debt | <u>\$64,929,671</u> | <u>\$73,275,127</u> |

Looking forward to 2018

Water Sales and Testing:

- Production forecast – 80.7 MGD
- In-county rate \$2.93/1000 gallons; out-of-county rate \$3.24/1000 gallons

Construction in Progress:

Projects scheduled to begin design:

- West Side Loop Section 2, 36-Inch Water Main – Aged Pipe Replacement
- Quarles Plant 2 SCADA (Supervisory Control And Data Acquisition) Replacement
- Pete Shaw Tank 2

Projects scheduled to begin construction:

- Wyckoff 42-Inch Finished Water Main – Aged Pipe Replacement
- Mableton Parkway 36-Inch Water Main – Aged Pipe Replacement
- Highway 41 Parallel 20-Inch Water Main – Aged Pipe Replacement

Projects scheduled to continue construction:

- Quarles Water Treatment Plant 1 Replacement

Projects scheduled for completion:

- Sixty (60) small Asset Renewal and Replacement projects or purchases scheduled for design, construction and completion at a cost of \$6.5 million.

The Authority's entire Capital Improvement Program in 2018 is budgeted to expend \$49.2 million, inclusive of Asset Renewal and Replacement projects and a \$4.5 million general contingency. The Authority plans to fund all 2018 capital improvements with cash.

COBB COUNTY-MARIETTA WATER AUTHORITY
Management's Discussion and Analysis
Fiscal Year Ended December 31, 2017

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 a slight reduction in water sales for 2018. Capital and financial planning have been revised accordingly, with sales for 2018 planned to average 80.7 MGD vs. 81.0 MGD planned for 2017.
- 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 water treatment chemicals and advanced treatment technologies. O&M costs should not increase significantly in 2018, as no additional treatment techniques are planned and source water quality is not anticipated to significantly degrade.
- The Engineering Division utilized its pipe replacement prioritization program to identify and prioritize pipe replacements in the transmission system during its 2017 review of needed capital improvements. The results were utilized in the formation of CCMWA's Capital Improvement Program for 2018-2022 to ensure timely replacement of aged pipelines.
- At the end of 2017, CCMWA's water supply contract with Douglasville-Douglas County Water & Sewer Authority (DDCWSA) expired and new contract terms were negotiated. DDCWSA operates its own water treatment and transmission system and has purchased water from CCMWA only on an as-needed, secondary basis. The new contract terms include a base infrastructure charge and a variable delivery charge, designed to recognize and compensate CCMWA for investments in infrastructure to serve DDCWSA as a non-sole-source customer. The effective total rate for DDCWSA will be equal to CCMWA's current in-county sole-source rate.
- 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 13.8% of the Authority's water sales revenue in 2017, and this revenue stream is expected to effectively end by the end of 2018. The Authority has revised its Capital Improvement Plan to eliminate future capital improvement expenditures intended to solely or primarily benefit Paulding County. CCMWA plans to negotiate new contract terms with Paulding County during 2018, with the same structure as the contract between CCMWA and DDCWSA.

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, 2017

| ASSETS | |
|---|---------------|
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 55,307,787 |
| Receivables: | |
| Accounts | 6,399,962 |
| Intergovernmental receivable | 77,249 |
| Accrued interest receivable | 424,877 |
| Other | 1,685,598 |
| Investments | 122,035,316 |
| Restricted cash and cash equivalents | 1,658,144 |
| Inventory | 1,572,528 |
| Prepays | 391 |
| | <hr/> |
| Total current assets | 189,161,852 |
| | <hr/> |
| NON-CURRENT ASSETS | |
| Capital assets: | |
| Land | 28,029,722 |
| Buildings | 28,483,344 |
| Utility plant & distribution lines | 452,277,215 |
| Furniture and fixtures | 142,215 |
| Machinery and equipment | 98,982,521 |
| Vehicles | 2,128,396 |
| Construction in progress | 98,292,213 |
| | <hr/> |
| | 708,335,626 |
| Less accumulated depreciation | 228,224,182 |
| | <hr/> |
| Total capital assets, net of accumulated depreciation | 480,111,444 |
| | <hr/> |
| Net pension asset | 1,541,721 |
| | <hr/> |
| Total assets | 670,815,017 |
| | <hr/> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred charges on refunding | 713,734 |
| Pension related items | 207,650 |
| | <hr/> |
| Total deferred outflows of resources | 921,384 |
| | <hr/> |

See Notes to Financial Statements.

| LIABILITIES | |
|--|---------------------------|
| CURRENT LIABILITIES | |
| Payable from current assets: | |
| Accounts payable | \$ 3,761,408 |
| Accrued expenses and other liabilities | 497,441 |
| Retainage payable | 1,707,264 |
| Compensated absences payable | 728,053 |
| | <u>6,694,166</u> |
| Payable from restricted assets: | |
| Revenue bonds payable | 6,085,000 |
| Accrued interest payable | 468,811 |
| | <u>6,553,811</u> |
| Total current liabilities | <u>13,247,977</u> |
| LONG-TERM LIABILITIES | |
| Compensated absences payable | 1,289,191 |
| Revenue bonds payable, net | 63,640,480 |
| | <u>64,929,671</u> |
| Total long-term liabilities | <u>64,929,671</u> |
| Total liabilities | <u>78,177,648</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Pension related items | <u>1,444,392</u> |
| NET POSITION | |
| Net investment in capital assets | 409,392,434 |
| Restricted for debt service | 1,189,333 |
| Unrestricted | 181,532,594 |
| | <u>181,532,594</u> |
| Total net position | <u>\$ 592,114,361</u> |

COBB COUNTY-MARIETTA WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2017

Operating revenues:

Charges for services:

| | |
|--------------------------|-------------------|
| Water sales and testing | \$ 86,582,223 |
| Total operating revenues | <u>86,582,223</u> |

Operating expenses:

| | |
|-------------------------------------|-------------------|
| General expenses | 1,597,141 |
| Administration | 794,575 |
| Administration and rental buildings | 122,393 |
| Finance | 407,661 |
| Engineering division | 1,178,530 |
| Information technology | 279,703 |
| Safety and security | 230,688 |
| Research and development | 905,015 |
| Hickory Log Creek division | 438,619 |
| Wyckoff Plant division | 7,336,272 |
| Quarles Plant division | 6,449,373 |
| Maintenance | 2,516,400 |
| Laboratory | 1,035,550 |
| Transmission | 1,825,471 |
| Depreciation | 20,976,444 |
| Total operating expenses | <u>46,093,835</u> |

| | |
|------------------|-------------------|
| Operating income | <u>40,488,388</u> |
|------------------|-------------------|

Non-operating revenues (expenses):

| | |
|---|--------------------|
| Interest income | 1,699,327 |
| Net decrease in the fair value of investments | (640,113) |
| Interest expense and fiscal charges | (2,610,302) |
| Rental income | 96,394 |
| Gain on disposal of capital assets | 13,865 |
| Other income | 342,660 |
| Total non-operating revenues (expenses), net | <u>(1,098,169)</u> |

| | |
|------------------------|------------|
| Change in net position | 39,390,219 |
|------------------------|------------|

| | |
|--|--------------------|
| Net position, beginning of year | <u>552,724,142</u> |
|--|--------------------|

| | |
|----------------------------------|------------------------------|
| Net position, end of year | <u><u>\$ 592,114,361</u></u> |
|----------------------------------|------------------------------|

See Notes to Financial Statements.

COBB COUNTY-MARIETTA WATER AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|---------------|
| Receipts from customers and users | \$ 86,827,002 |
| Payments for goods and services | (20,421,707) |
| Payments to employees | (9,259,292) |
| Net cash provided by operating activities | 57,146,003 |

CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|--|---------|
| Rent payments received | 96,394 |
| Other miscellaneous non-operating receipts | 342,660 |
| Net cash provided by noncapital financing activities | 439,054 |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|--------------|
| Payments for purchases and construction of capital assets | (43,271,612) |
| Proceeds from sale of capital assets | 198,795 |
| Principal payments on long-term borrowings | (5,860,000) |
| Interest paid on long-term borrowings | (3,041,240) |
| Net cash used in capital and related financing activities | (51,974,057) |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|--------------|
| Purchases of investments | (54,578,418) |
| Proceeds from sales of investments | 53,040,094 |
| Interest received | 1,612,058 |
| Net cash provided by investing activities | 73,734 |

| | |
|---|-----------|
| Net increase in cash and cash equivalents | 5,684,734 |
|---|-----------|

Cash and cash equivalents:

| | |
|-------------------|---------------|
| Beginning of year | 51,281,197 |
| End of year | \$ 56,965,931 |

Classified as:

| | |
|--------------------------------------|---------------|
| Cash and cash equivalents | \$ 55,307,787 |
| Restricted cash and cash equivalents | 1,658,144 |
| | \$ 56,965,931 |

Continued

COBB COUNTY-MARIETTA WATER AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

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

| | | |
|--|-----------|-------------------|
| Operating income | \$ | 40,488,388 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Depreciation expense | | 20,976,444 |
| Changes in assets and liabilities: | | |
| Decrease in customer accounts receivable | | 281,489 |
| Increase in other receivables | | (1,685,598) |
| Increase in intergovernmental receivable | | (36,710) |
| Increase in inventory | | (156,477) |
| Increase in prepaid items | | (391) |
| Increase in net pension asset | | (1,541,721) |
| Decrease in deferred outflows of resources - pension items | | 1,580,212 |
| Decrease in accounts payable | | (1,887,539) |
| Increase in compensated absences | | 23,625 |
| Decrease in accrued expenses and other liabilities | | (725,800) |
| Decrease in net pension liability | | (1,521,691) |
| Increase in deferred inflows of resources - pension items | | 1,351,772 |
| Net cash provided by operating activities | <u>\$</u> | <u>57,146,003</u> |

NONCASH INVESTING ACTIVITIES

| | | |
|---------------------------------------|----|------------------|
| Decrease in fair value of investments | \$ | <u>(640,113)</u> |
|---------------------------------------|----|------------------|

See Notes to Financial Statements.

COBB COUNTY-MARIETTA WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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) four 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 four 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 two members 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

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

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, 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

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:

| <u>Capital Asset Class</u> | <u>Threshold</u> | <u>Estimated Useful Life</u> |
|---|-------------------------|-------------------------------------|
| 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, 2017 the Authority did not capitalize any interest.

NOTES TO FINANCIAL STATEMENTS

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 time off.

Pensions:

For purposes of measuring the net pension asset, 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, 2017, are summarized as follows:

As reported in the Statement of Net Position

| | |
|--------------------------------------|-----------------------|
| Cash and cash equivalents | \$ 55,307,787 |
| Investments | 122,035,316 |
| Restricted: | |
| Cash and cash equivalents | 1,658,144 |
| | <u>\$ 179,001,247</u> |
| Deposits with financial institutions | \$ 74,841,021 |
| Georgia Fund 1 | 4,862,700 |
| U.S. Government Agency Securities | 79,436,326 |
| U.S. Treasury Notes | 18,860,860 |
| State of Georgia Obligations | 1,000,340 |
| | <u>\$ 179,001,247</u> |

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, 2017, the Authority did not have any deposits which were uninsured or under collateralized, as defined by State statutes.

Credit risk. State statutes authorize the Authority to invest in 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, 2017, the Authority held the following investments:

| Investment | Weighted Average Maturity (Years) | Credit Rating | Balance |
|--|--------------------------------------|------------------|-----------------------|
| Certificates of Deposit | 1.49 | (a) | \$ 22,737,790 |
| United States Treasury Notes | 1.58 | AA+ | 18,860,860 |
| United States Government Agency Securities | 1.74 | AA+ | 79,436,326 |
| Georgia Fund 1 | .02 | AAAf | 4,862,700 |
| State of Georgia Obligations | .09 | AAA | 1,000,340 |
| | | | <u>\$ 126,898,016</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, 2017:

| Investment | Level 1 | Level 2 | Fair Value |
|--|----------------------|----------------------|-----------------------|
| United States Treasury Notes | \$ 18,860,860 | \$ - | \$ 18,860,860 |
| United States Government Agency Securities | 28,398,486 | 51,037,840 | 79,436,326 |
| State of Georgia Obligations | - | 1,000,340 | 1,000,340 |
| | <u>\$ 47,259,346</u> | <u>\$ 52,038,180</u> | <u>99,297,526</u> |
| Total investments measured at fair value | | | |
| Investments not subject to level disclosure: | | | |
| Georgia Fund 1 | | | <u>4,862,700</u> |
| Investments carried at cost: | | | |
| Certificates of Deposit | | | <u>22,737,790</u> |
| Total Investments | | | <u>\$ 126,898,016</u> |

NOTES TO FINANCIAL STATEMENTS

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 option-adjusted and present value of expected future cash flow models.

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, 2017:

| | |
|-------------------|---------------------|
| Receivables: | |
| Accounts | \$ 6,399,962 |
| Intergovernmental | 77,249 |
| Accrued interest | 424,877 |
| Other | 1,685,598 |
| Total receivables | <u>\$ 8,587,686</u> |

Intergovernmental receivables consisted of \$77,249 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, 2017 is as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Transfers</u> | <u>Ending Balance</u> |
|---|------------------------------|----------------------|---------------------|---------------------|---------------------------|
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 26,210,982 | \$ - | \$ (156,600) | \$ 1,975,340 | \$ 28,029,722 |
| Construction in progress | 94,858,970 | 39,219,812 | - | (35,786,569) | 98,292,213 |
| Total | <u>121,069,952</u> | <u>39,219,812</u> | <u>(156,600)</u> | <u>(33,811,229)</u> | <u>126,321,935</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings | 28,468,091 | - | - | 15,253 | 28,483,344 |
| Utility plants/distribution lines | 419,875,686 | - | (58,080) | 32,459,609 | 452,277,215 |
| Machinery and equipment | 97,818,241 | - | (76,092) | 1,240,372 | 98,982,521 |
| Furniture and fixtures | 135,165 | - | - | 7,050 | 142,215 |
| Vehicles | 2,109,752 | - | (70,301) | 88,945 | 2,128,396 |
| Total | <u>548,406,935</u> | <u>-</u> | <u>(204,473)</u> | <u>33,811,229</u> | <u>582,013,691</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings | (3,495,679) | (688,810) | - | - | (4,184,489) |
| Utility plants/distribution lines | (171,376,491) | (13,158,202) | 29,750 | - | (184,504,943) |
| Machinery and equipment | (30,846,429) | (6,973,206) | 76,092 | - | (37,743,543) |
| Furniture and fixtures | (121,114) | (6,640) | - | - | (127,754) |
| Vehicles | (1,584,168) | (149,586) | 70,301 | - | (1,663,453) |
| Total | <u>(207,423,881)</u> | <u>(20,976,444)</u> | <u>176,143</u> | <u>-</u> | <u>(228,224,182)</u> |
| Total capital assets, being depreciated, net | <u>340,983,054</u> | <u>(20,976,444)</u> | <u>(28,330)</u> | <u>33,811,229</u> | <u>353,789,509</u> |
| Total capital assets, net | <u>\$ 462,053,006</u> | <u>\$ 18,243,368</u> | <u>\$ (184,930)</u> | <u>\$ -</u> | <u>\$ 480,111,444</u> |

NOTE 5. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2017 is as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--------------------------------|------------------------------|---------------------|------------------------|---------------------------|--------------------------------|
| Series 2009 Revenue bonds | \$ 25,245,000 | \$ - | \$ (4,680,000) | \$ 20,565,000 | \$ 4,870,000 |
| Series 2015 Revenue bonds | 45,780,000 | - | (1,180,000) | 44,600,000 | 1,215,000 |
| Plus unamortized premium | 5,276,219 | - | (715,739) | 4,560,480 | - |
| Revenue bonds, net | <u>76,301,219</u> | <u>-</u> | <u>(6,575,739)</u> | <u>69,725,480</u> | <u>6,085,000</u> |
| Net pension liability (asset) | 1,521,691 | 3,185,217 | (6,248,629) | (1,541,721) | - |
| Compensated absences | <u>1,993,619</u> | <u>1,049,322</u> | <u>(1,025,697)</u> | <u>2,017,244</u> | <u>728,053</u> |
| Total long-term liabilities | <u>\$ 79,816,529</u> | <u>\$ 4,234,539</u> | <u>\$ (13,850,065)</u> | <u>\$ 70,201,003</u> | <u>\$ 6,813,053</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> |
|---------------------------------|----------------------|----------------------|----------------------|
| 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 | 1,435,000 | 1,698,125 | 3,133,125 |
| 2023-2027 | 8,320,000 | 7,355,825 | 15,675,825 |
| 2028-2032 | 10,305,000 | 5,376,081 | 15,681,081 |
| 2033-2037 | 12,400,000 | 3,277,856 | 15,677,856 |
| 2038-2042 | 6,920,000 | 652,375 | 7,572,375 |
| Total | <u>\$ 65,165,000</u> | <u>\$ 28,160,964</u> | <u>\$ 93,325,964</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

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. Separately issued financial statements for the Retirement Plan can be obtained by contacting the Authority's management at 1170 Atlanta Industrial Drive, Marietta, GA 30066.

Plan membership. The Retirement Plan covers all full-time employees who are employed by and receive compensation from the Authority. At December 31, 2017, Retirement Plan membership consisted of the following:

| | |
|---|------------|
| Inactive participants currently receiving benefits | 50 |
| Inactive participants entitled to, but not receiving benefits | 8 |
| Active plan members | 107 |
| Total | <u>165</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 five (5) 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

NOTE 6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Description (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, 2017, the Authority's contribution rate was 11.53% of annual payroll.

Net Pension Liability of the Authority

The Authority's net pension liability was measured as of December 31, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 3.5% |
| 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 Mortality for Healthy Lives with fully generational using 1/2 of scale MP-2016 (for healthy annuitants) and the RP-2014 Mortality for Disabled Lives with fully generational using 1/2 of scale MP-2016 (for disabled lives).

The actuarial assumptions used in the December 31, 2017 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, 2017 are:

| <u>Asset Class</u> | <u>Target Allocation Percentage</u> | <u>Long-term Expected Real Rate of Return</u> |
|-----------------------|-------------------------------------|---|
| Domestic Equity | | |
| Large Cap | 45% | 6% |
| Mid Cap | 6% | 7% |
| Small Cap | 6% | 7% |
| International Equity | | |
| Large Cap | 6% | 8% |
| Emerging Markets | 2% | 7% |
| Real Estate | 2% | 6% |
| Domestic Fixed Income | 32% | 5% |
| Cash (T-bills) | 1% | 3% |

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)

Net Pension Liability of the Authority (Continued)

Changes in the Net Pension Liability of the Authority. The changes in the components of the net pension liability (asset) of the Authority for the year ended December 31, 2017 were as follows:

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
|--|-----------------------------------|---------------------------------------|--|
| Balances at 12/31/16 | \$ 33,499,666 | \$ 31,977,975 | \$ 1,521,691 |
| Changes for the year: | | | |
| Service cost | 716,431 | - | 716,431 |
| Interest | 2,442,341 | - | 2,442,341 |
| Differences between expected and actual experience | 26,445 | - | 26,445 |
| Contributions—employer | - | 891,500 | (891,500) |
| Net investment income | - | 5,357,129 | (5,357,129) |
| Benefit payments, including refunds of employee contribution | (1,076,086) | (1,076,086) | - |
| Net changes | <u>2,109,131</u> | <u>5,172,543</u> | <u>(3,063,412)</u> |
| Balances at 12/31/17 | <u>\$ 35,608,797</u> | <u>\$ 37,150,518</u> | <u>\$ (1,541,721)</u> |

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 (asset) of the Authority, calculated using the discount rate of 7.25 percent, as well as what the Authority's net pension liability (asset) 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:

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|------------------------|-------------------------------------|------------------------|
| Authority's net pension liability (asset) | \$ 2,502,580 | \$ (1,541,721) | \$ (4,987,630) |

NOTES TO FINANCIAL STATEMENTS

NOTE 6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Net Pension Liability of the Authority (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, 2017 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, 2017, the Authority recognized pension expense of \$760,072. At December 31, 2017, 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 | \$ - | \$ 1,372,562 |
| Differences between expected and actual experience | 136,395 | 71,830 |
| Changes in assumptions | 71,255 | - |
| Total | \$ 207,650 | \$ 1,444,392 |

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: | |
|---------------------------------|----------------|
| 2018 | \$ (86,872) |
| 2019 | (86,872) |
| 2020 | (506,835) |
| 2021 | (570,089) |
| 2022 | 13,926 |
| Total | \$ (1,236,742) |

NOTES TO FINANCIAL STATEMENTS

NOTE 7. COMMITMENTS AND CONTINGENCIES

Contractual Commitments:

For the year ended December 31, 2017, contractual commitments on uncompleted contracts were \$74,410,156.

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

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, 2017, revenues from Cobb County amounted to \$56,850,185 or 65.7% 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, 2017, revenues from Paulding County amounted to \$12,991,248 or 15% 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 by the end of 2018.

REQUIRED SUPPLEMENTARY INFORMATION

COBB COUNTY-MARIETTA WATER AUTHORITY

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Total pension liability | | | | |
| Service cost | \$ 716,431 | \$ 620,318 | \$ 613,728 | \$ 563,408 |
| Interest on total pension liability | 2,442,341 | 2,352,652 | 2,220,010 | 1,981,839 |
| Differences between expected and actual experience | 26,445 | 168,602 | (130,274) | (102,464) |
| Changes in assumptions | - | 105,001 | - | 1,557,332 |
| Changes in benefit terms | - | - | (3,926) | - |
| Benefit payments | (1,076,086) | (972,975) | (903,430) | (847,216) |
| Net change in total pension liability | <u>2,109,131</u> | <u>2,273,598</u> | <u>1,796,108</u> | <u>3,152,899</u> |
| Total pension liability - beginning | <u>33,499,666</u> | <u>31,226,068</u> | <u>29,429,960</u> | <u>26,277,061</u> |
| Total pension liability - ending (a) | <u><u>\$ 35,608,797</u></u> | <u><u>\$ 33,499,666</u></u> | <u><u>\$ 31,226,068</u></u> | <u><u>\$ 29,429,960</u></u> |
| Plan fiduciary net position | | | | |
| Contributions - employer | \$ 891,500 | \$ 881,500 | \$ 855,000 | \$ 840,000 |
| Net investment income | 5,357,129 | 1,887,368 | 154,130 | 2,252,513 |
| Benefit payments | (1,076,086) | (972,975) | (903,430) | (847,216) |
| Net change in plan fiduciary net position | <u>5,172,543</u> | <u>1,795,893</u> | <u>105,700</u> | <u>2,245,297</u> |
| Plan fiduciary net position - beginning | <u>31,977,975</u> | <u>30,182,082</u> | <u>30,076,382</u> | <u>27,831,085</u> |
| Plan fiduciary net position - ending (b) | <u><u>\$ 37,150,518</u></u> | <u><u>\$ 31,977,975</u></u> | <u><u>\$ 30,182,082</u></u> | <u><u>\$ 30,076,382</u></u> |
| Authority's net pension liability (asset) - ending (a) - (b) | <u><u>\$ (1,541,721)</u></u> | <u><u>\$ 1,521,691</u></u> | <u><u>\$ 1,043,986</u></u> | <u><u>\$ (646,422)</u></u> |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | 104.3% | 95.5% | 96.7% | 102.2% |
| Covered-employee payroll | \$ 7,729,785 | \$ 7,271,634 | \$ 7,179,574 | \$ 6,899,710 |
| Net pension liability (asset) as a percentage of covered-employee payroll | -19.9% | 20.9% | 14.5% | -9.4% |

| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ 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>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|---------------------|--------------------|--------------------|---------------------|--------------------|
| Actuarially determined contribution | \$ 752,109 | \$ 866,779 | \$ 769,650 | \$ 739,780 | \$ 740,481 |
| Contributions in relation to the actuarially determined contribution | <u>891,500</u> | <u>881,500</u> | <u>855,000</u> | <u>840,000</u> | <u>800,000</u> |
| Contribution deficiency (excess) | <u>\$ (139,391)</u> | <u>\$ (14,721)</u> | <u>\$ (85,350)</u> | <u>\$ (100,220)</u> | <u>\$ (59,519)</u> |
| Covered employee payroll | \$ 7,729,785 | \$ 7,271,634 | \$ 7,179,574 | \$ 6,899,710 | \$ 6,469,029 |
| Contributions as a percentage of covered-employee payroll | 11.53% | 12.12% | 11.91% | 12.17% | 12.37% |
| | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| Actuarially determined contribution | \$ 747,005 | \$ 713,203 | \$ 692,355 | \$ 752,390 | \$ 605,230 |
| Contributions in relation to the actuarially determined contribution | <u>740,000</u> | <u>740,000</u> | <u>740,000</u> | <u>700,000</u> | <u>475,000</u> |
| Contribution deficiency (excess) | <u>\$ 7,005</u> | <u>\$ (26,797)</u> | <u>\$ (47,645)</u> | <u>\$ 52,390</u> | <u>\$ 130,230</u> |
| Covered employee payroll | \$ 6,159,167 | \$ 5,717,773 | \$ 5,641,194 | \$ 5,132,691 | \$ 5,121,170 |
| Contributions as a percentage of covered-employee payroll | 12.01% | 12.94% | 13.12% | 13.67% | 9.28% |

Notes to the Schedule:

(1) Actuarial Assumptions

| | |
|---------------------------------------|---|
| Valuation Date | January 1, 2017 |
| Cost Method | Entry Age Normal |
| Actuarial Asset Valuation Method | The difference in the expected return and the actual return are spread evenly over five (5) years, adjusted if necessary to within 20% of Market Value. |
| Assumed Rate of Return on Investments | 7.25% compounded annually net of investment expenses |
| Projected Salary Increases | 4.75% compounded annually |
| Cost-of-living Adjustment | Liabilities are loaded 5.0% to account for future ad hoc COLAs |
| Amortization Method | Closed level percentage of pay |
| Remaining Amortization Period | 12 years (closed) |

STATISTICAL SECTION

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.

| | |
|-------------------------------|---------------------------------|
| Financial Trends | <u>Page</u> 37 |
|-------------------------------|---------------------------------|

These schedules contain trend information to help the reader understand how the Authority’s financial performance and well-being have changed over time.

| | |
|-------------------------------|-----------|
| Revenue Capacity | 42 |
|-------------------------------|-----------|

These schedules contain information to help the reader assess the Authority’s most significant revenue source – water sales and testing revenues.

| | |
|----------------------------|-----------|
| Debt Capacity | 46 |
|----------------------------|-----------|

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.

| | |
|---|-----------|
| Demographic and Economic Information | 48 |
|---|-----------|

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority’s financial activities take place.

| | |
|------------------------------------|-----------|
| Operating Information | 50 |
|------------------------------------|-----------|

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

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Net Investment in Capital Assets | \$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 | \$409,392,434 |
| Restricted for Debt Service | 685,767 | 568,204 | 605,479 | 636,358 | 664,646 | 695,480 | 1,132,336 | 1,107,667 | 1,151,833 | 1,189,333 |
| Unrestricted | 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 | 181,532,594 |
| Total Net Position | <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> | <u>\$592,114,361</u> |

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

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

Unaudited

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Operating Revenues | \$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 | \$86,582,223 |
| Operating Expenses | 27,445,170 | 30,802,469 | 32,790,707 | 37,275,388 | 38,673,588 | 40,152,408 | 44,474,605 | 45,099,147 | 46,224,169 | 46,093,835 |
| Operating Income | 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 | 40,488,388 |
| Non-Operating Revenue (Expense) | 501,293 | (470,156) | (1,604,979) | (1,426,380) | (2,274,488) | (7,008,314) | 3,334,385 | (1,333,152) | (661,803) | (1,098,169) |
| Change in Net Position | 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 | 39,390,219 |
| Net Position - Beginning | 292,981,186 | 307,838,036 | 330,269,243 | 358,047,976 | 386,439,173 | 419,854,318 | 442,008,262 | 476,030,582 | 509,954,650 | 552,724,142 |
| Net Position - Ending | \$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 | \$592,114,361 |

*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 (\$489,279) 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> |
|--------------------|--|---------------|
| 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 |
| 2017 | 86,582,223 | 86,582,223 |

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

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

Unaudited

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| General & Administration (1) | \$ 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 | \$ 3,432,161 |
| Engineering Division | 692,811 | 868,783 | 962,571 | 955,659 | 977,919 | 1,082,671 | 1,047,869 | 1,095,825 | 1,137,137 | 1,178,530 |
| Research & Development | 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 | 905,015 |
| Hickory Log Creek Reservoir | 212,212 | 305,215 | 321,358 | 374,219 | 315,974 | 314,081 | 344,821 | 407,793 | 409,310 | 438,619 |
| Wyckoff Treatment Division | 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 | 7,336,272 (2) |
| Quarles Treatment Division | 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 | 6,449,373 (2) |
| Maintenance | - | - | - | - | - | - | - | - | - | 2,516,400 (2) |
| Laboratory Division | 854,147 | 911,751 | 976,776 | 950,287 | 958,795 | 974,934 | 1,010,305 | 1,038,148 | 1,038,546 | 1,035,550 |
| Transmission Division | 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 | 1,825,471 |
| Depreciation | 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 | 20,976,444 |
| | <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> | <u>\$ 46,093,835</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.

(2) In 2017, the Authority created the Maintenance Division through reclassification of current employees from the Quarles and Wyckoff Divisions.

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

Unaudited

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|-------------------|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|
| Interest Income | \$ 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 | \$ 1,699,327 |
| Gain (Loss) on Fair Value of Investments (1) | - | 77,247 | - | 940,425 | 20,213 | (4,716,259) | 3,316,553 | 648,014 | 327,490 | (640,113) |
| Interest Expense & Fiscal Charges | (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) | (2,610,302) |
| Intergovernmental | 204,665 | 246,990 | - | 244,658 | - | - | 377,117 | - | - | - |
| Rental Income | 4,733 | 4,735 | 71,643 | 109,865 | 127,247 | 116,764 | 119,904 | 142,511 | 177,238 | 96,394 |
| Gain (Loss) on Disposal of Capital Assets | (660,908) | - | (539,659) | (635,909) | (69,235) | - | - | (74,684) | 37,303 | 13,865 |
| Other Income (Expense) | - | - | - | - | - | - | 1,547,686 (2) | 81,182 | 74,815 | 342,660 |
| Total Non-Operating Revenues (Expenses), Net | \$ 501,293 | \$ (470,156) | \$ (1,604,979) | \$ (1,426,380) | \$ (2,274,488) | \$ (7,008,314) | \$ 3,334,385 | \$ (1,333,152) | \$ (661,803) | \$ (1,098,169) |

(1) The gain (loss) reported on the fair 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.

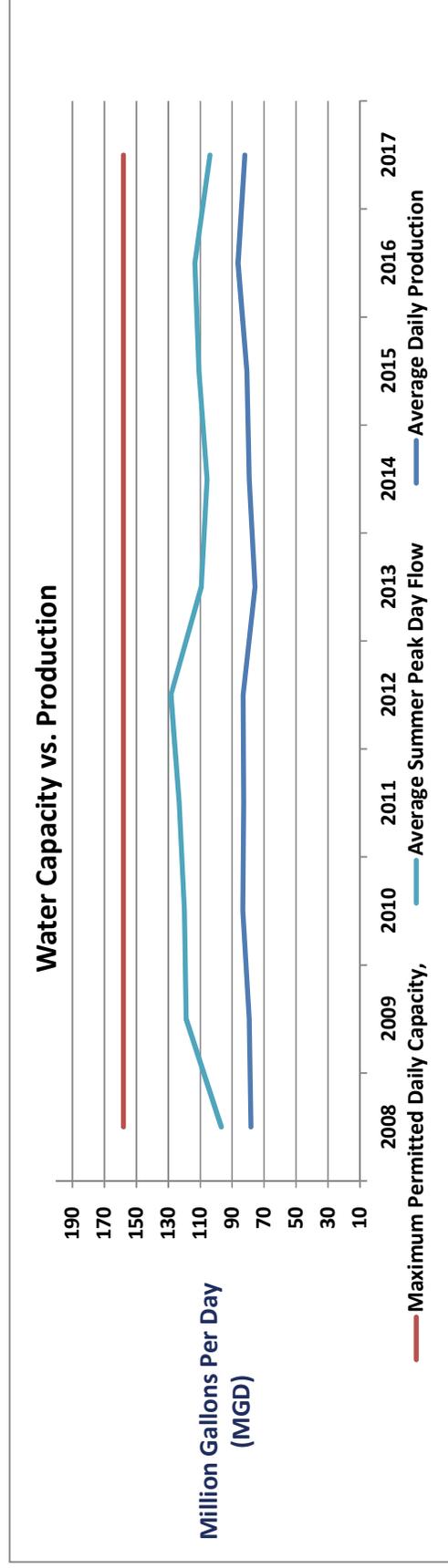
*Source: Cobb County-Marietta Water Authority historical financial records

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

Unaudited

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Maximum Permitted Daily Capacity, MGD of Water Treatment Plants (WTPs): | | | | | | | | | | |
| 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 | 78 | 79 | 83 | 83 | 83 | 76 | 79 | 81 | 86 | 82 |
| Percent of Capacity Used | 49.51 | 50.27 | 52.72 | 52.46 | 52.60 | 47.94 | 50.25 | 51.15 | 54.65 | 51.90 |
| Average Summer Peak Day Flow | 97 | 119 | 120 | 123 | 128 | 109 | 106 | 111 | 113 | 104 |
| Percent of Capacity Used | 61.28 | 75.16 | 75.84 | 77.95 | 81.23 | 69.18 | 66.88 | 70.19 | 71.75 | 65.82 |

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



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

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|------|------|------|------|------|------|------|------|------|------|
| Wholesale Water Customers | | | | | | | | | | |
| In-County Governmental Customers | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| In-County Industrial/Private Customers | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Out-of-County Governmental Customers (1) | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Out-of-County Industrial/Private Customers | - | - | - | - | - | - | - | - | - | - |
| | 13 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 |

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

(1) Although six out-of-county governmental customers are listed, one of those customers, Fulton County, has not purchased water in over 10 years.

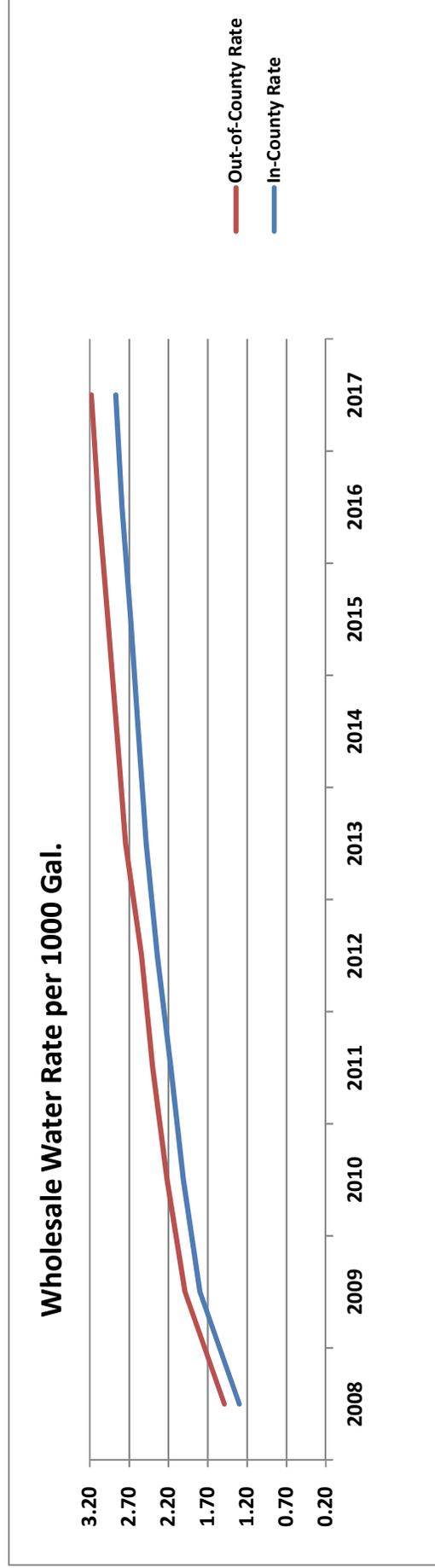
COBB COUNTY-MARIETTA WATER AUTHORITY

WHOLESALE WATER RATES LAST TEN YEARS

Unaudited

| Wholesale Water Price Per Thousand Gallons | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|------|------|------|------|------|------|------|------|------|------|
| Base Charge | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| In-County Rate | 1.30 | 1.80 | 2.01 | 2.17 | 2.34 | 2.48 | 2.58 | 2.68 | 2.79 | 2.87 |
| Out-of-County Rate | 1.49 | 1.99 | 2.22 | 2.40 | 2.54 | 2.75 | 2.86 | 2.97 | 3.09 | 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

| | 2017 | | | 2008 | | |
|--|--------------------------------------|----------------------|------------------------|--------------------------------------|----------------------|------------------------|
| | Demand in Thousands of Gallons | Revenue | Percentage of Sales | Demand in Thousands of Gallons | Revenue | Percentage of Sales |
| Cobb County Water System | 19,808,427 | \$ 56,850,185 | 66.9% | 19,668,865 | \$ 27,929,839 | 55.5% |
| Paulding County (1) | 4,085,298 | 12,991,248 | 13.8% | 3,463,566 | 5,601,687 | 9.8% |
| Marietta Board of Lights and Water | 2,724,174 | 7,818,378 | 9.2% | 2,805,100 | 4,040,060 | 7.9% |
| City of Smyrna | 1,328,715 | 3,813,412 | 4.5% | 1,308,150 | 1,867,401 | 3.7% |
| City of Woodstock | 564,699 | 1,795,743 | 1.9% | 393,464 | 637,444 | 1.1% |
| City of Powder Springs | 491,065 | 1,409,357 | 1.7% | 374,770 | 535,244 | 1.1% |
| City of Austell | 295,580 | 848,315 | 1.0% | 282,124 | 401,717 | 0.8% |
| Lockheed-Martin Corporation | 294,635 | 847,788 | 1.0% | 272,604 | 384,631 | 0.8% |
| Douglasville/Douglas County Water Authority | 2,698 | 8,580 | 0.0% | 7,233 | 10,777 | 0.0% |
| Southern Tech | - | - | 0.0% | 25,112 | 38,470 | 0.1% |
| City of Mountain Park | 14,915 | 47,430 | 0.1% | 15,971 | 25,983 | 0.0% |
| Cherokee County Water & Sewerage Authority | 2,576 | 8,192 | 0.0% | 14,276 | 27,925 | 0.0% |
| | <u>29,612,782</u> | <u>\$ 86,438,628</u> | | <u>28,631,235</u> | <u>\$ 41,501,178</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 by the end of 2018.

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

| Fiscal Year | Senior Lien Revenue Bonds | Georgia Environmental Finance Authority Notes | Total Outstanding Debt | Percentage of Personal Income | Population | Debt per Capita |
|-------------|---------------------------------|--|------------------------------|-------------------------------------|------------|--------------------|
| 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 |
| 2017 | 69,725,480 | - | 69,725,480 | 0.196% | 753,860 | 92.49 |

*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 |
|-------------|--------------------|--------------|---|---------------|------------------------|--------------|--------------|--|----------|--|-------|--|----------------|
| | | | | | | | | | | | | | |
| 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 |
| 2017 | 86,582,223 | 1,512,133 | 25,117,391 | 62,976,965 | 5,860,000 | 3,041,240 | 8,901,240 | | | | | | 7.08 |

*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>2017</u> | | <u>2008</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% | 15,229 | 3.47% |
| Home Depot | Retail | 12,000 | 3.23% | 6,400 | 1.46% |
| Wellstar Health System | Healthcare | 11,596 | 3.12% | 9,276 | 2.11% |
| Kennesaw State University | Education | 5,980 | 1.61% | 3,734 | 0.85% |
| Lockheed Martin | Aircraft/Defense | 5,100 | 1.37% | 6,611 | 1.50% |
| Cobb County Government | Government | 5,086 | 1.37% | 5,775 | 1.31% |
| Publix Super Markets | Retail | 3,619 | 0.97% | 3,062 | 0.70% |
| Brand Energy & Infrastructure Holdings | Retail | 2,803 | 0.75% | - | 0.00% |
| Six Flags Over Georgia | Theme Park | 2,772 | 0.75% | 2,492 | 0.57% |
| Kroger Company | Retail | 2,523 | 0.68% | - | 0.00% |
| Dobbins Air Force Base | Government | - | 0.00% | 12,000 | 2.73% |
| Walmart | Retail | - | 0.00% | 2,840 | 0.65% |

*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

| Fiscal Year | Population (1) | Personal Income (1) | Per Capita Personal Income (1) | County Unemployment Rate (2) |
|--------------------|-----------------------|----------------------------|---------------------------------------|-------------------------------------|
| 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% |
| 2017 | 753,860 | 35,656,700,000 | 47,299 | 3.60% |

| City | Population |
|----------------|-------------------|
| 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

| Division | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Water Treatment & Water Resources | 68 | 66 | 69 | 71 | 72 | 72 | 72 | 71 | 71 | 46 |
| Maintenance (1) | - | - | - | - | - | - | - | - | - | 25 |
| Transmission | 9 | 9 | 9 | 10 | 10 | 11 | 11 | 11 | 11 | 11 |
| Laboratory | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Engineering | 6 | 7 | 8 | 9 | 9 | 9 | 9 | 8 | 8 | 8 |
| Administration & Information Systems | 7 | 9 | 11 | 11 | 11 | 12 | 12 | 12 | 12 | 12 |
| | 100 | 101 | 107 | 110 | 111 | 113 | 113 | 112 | 112 | 112 |

(1) In 2017, the Authority created the Maintenance Division through reclassification of current employees from the Quarles and Wyckoff Divisions (which are included in the Water Treatment & Water Resources category above).

*Source: Cobb County-Marietta Water Authority historical records

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

Unaudited

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Ground Level Tanks: | | | | | | | | | | |
| 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 | - | - | - | - | - | - | - | 4,000 | 4,000 | 4,000 |
| Quarles Washwater | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 |
| | <u>36,100</u> | <u>40,100</u> | <u>40,100</u> | <u>40,100</u> |
| Elevated Tanks: | | | | | | | | | | |
| Wyckoff Washwater | 400 | 400 | 400 | 400 | 400 | 400 | 400 | 400 | 400 | 400 |
| Storage at Water Plants: | | | | | | | | | | |
| Quarles Treatment Division | 8,000 | 8,000 | 8,000 | 14,000 | 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>20,000</u> |
| Total Water Tank Storage Capacity: | <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> | <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

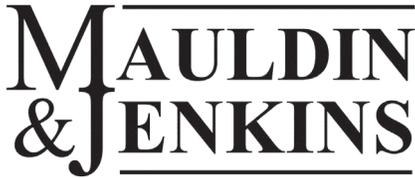
Unaudited

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Raw Water Reservoirs | | | | | | | | | | |
| 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 | 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 |
| | <u>4,306,688</u> | <u>8,634,188</u> |
| Average Daily Flow | | | | | | | | | | |
| Average Daily Production | <u>78,000</u> | <u>79,000</u> | <u>83,000</u> | <u>83,000</u> | <u>83,000</u> | <u>76,000</u> | <u>79,000</u> | <u>81,000</u> | <u>81,000</u> | <u>81,000</u> |
| Number of Days Supply | <u>55</u> | <u>109</u> | <u>104</u> | <u>104</u> | <u>104</u> | <u>114</u> | <u>109</u> | <u>107</u> | <u>107</u> | <u>107</u> |

*Source: Cobb County-Marietta Water Authority historical records

Note: All storage capacity figures expressed in thousands.

COMPLIANCE SECTION



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with 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, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 2, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
April 2, 2018