

*ANDERSON COUNTY WATER AUTHORITY
Clinton, Tennessee*

*COMPREHENSIVE ANNUAL
FINANCIAL REPORT*

*For the Year Ended June 30, 2009
and the Period of Inception
July 16, 2007 to June 30, 2008*

*ANDERSON COUNTY WATER AUTHORITY
Clinton, Tennessee*

*COMPREHENSIVE ANNUAL
FINANCIAL REPORT
June 30, 2009 and 2008*

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June 30, 2009 and 2008*

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INTRODUCTORY SECTION

ANDERSON COUNTY WATER AUTHORITY
ROSTER OF AUTHORITY OFFICIALS AND OTHERS
June 30, 2009

<u>Board of Commissioners</u>	<u>Expiration of Term</u>
Jack Shelton, Chairman	September 30, 2011
Zenith R. Rose, Vice Chairman	September 30, 2011
Duane Stooksbury, Secretary-Treasurer	September 30, 2010
Jack D. Hill	September 30, 2012
Bedford Hatmaker	September 30, 2009

Management

Larry Clowers, General Manager

George Horton, Assistant Manager

Independent Auditor

John Sutton, CPA
Bacon, Howard and Company, CPA's
Knoxville, Tennessee

Accountant

David Carr, CPA
WLC CPAs, PC
Oak Ridge, Tennessee

Bond Counsel

Bass, Berry and Sims, PLC
Attorneys at Law
Nashville, Tennessee

General Counsel

C. Coulter Gilbert, Esquire
Kennerly, Montgomery & Finley, PLLC
Knoxville, Tennessee

Consulting Engineer

Robert G. Campbell
Robert B. Campbell & Associates, LP
Knoxville, Tennessee

FINANCIAL SECTION



John W. Bacon, CPA

Calvin C. Howard, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Anderson County Water Authority
Clinton, Tennessee

We have audited the accompanying balance sheets of Anderson County Water Authority (the Authority) as of June 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the year ended June 30, 2009 and for the period from inception July 16, 2007 to June 30, 2008. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Anderson County Water Authority as of June 30, 2009 and 2008, and changes in financial position and cash flows for the year and initial period then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 22, 2009, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Commissioners
Anderson County Water Authority
Page Two

Management's Discussion and Analysis on pages 4 through 15, and the Schedule of Employer Pension Contributions on page 49 and the Schedule of Employer Pension Funding Progress on page 50 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory, supplementary and statistical sections 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 supplementary section has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on them.

Bacon Howard and Company

Knoxville, Tennessee
December 22, 2009



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of Anderson County Water Authority's (the Authority) financial condition and results of operations for the year ending June 30, 2009 and the period of inception from July 16, 2007 to June 30, 2008. This information should be read in conjunction with the accompanying financial statements.

The Authority was created on July 16, 2007, by the Anderson County Commission and significant operations began on January 1, 2009. On July 10, 2008, the Board of Commissioners for the North Anderson County Utility District (NACUD) and Anderson County Utilities Board (ACUB), a part of Anderson County, entered into a consolidation agreement to merge their operations into the Authority with an effective date of January 1, 2009.

INDEPENDENT AUDIT

The unqualified opinion of our independent auditors, Bacon, Howard and Company, CPAs, is included in this report on pages 2 and 3.

FINANCIAL HIGHLIGHTS

Management believes the Authority's financial position is strong and results of operations continues to improve.

The Authority maintained good debt service coverage and was in compliance with all debt covenants. The following are key financial highlights:

- The Authority sold 312 million gallons of water in 2009, which is the first six months of the Authority's operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL HIGHLIGHTS (Continued)

- Total assets at June 30, 2009 and 2008 were \$20,565,569 and \$14,823, and exceeded liabilities (net assets) by \$16,041,347 and \$14,823, respectively. Of the total net assets, \$2,630,990 and \$14,823 were unrestricted and were available to support short-term operations for 2009 and 2008. Net assets increased in 2009 by \$16,026,524. This increase was due to the consolidation of North Anderson County Utility District (NACUD) and Anderson County Utilities Board (ACUB), a part of Anderson County, operations resulting in \$16,402,621 in capital contributions.
- Operating revenues were \$2,324,329 for the six months of merged activity during 2009.
- Operating expenses before depreciation were \$2,146,187 for 2009.
- Operating income (loss) was \$(258,205) and \$(5,200) for 2009 and 2008.
- The ratios of operating income (loss) to total operating revenues were (11.1)% for 2009.
- Debt service coverage was 80% for 2009.
- Cash capital contributions for 2009 and 2008 were \$2,988,916 and \$20,000, respectively. Noncash contributions were \$13,413,705 in 2009.

OVERVIEW OF THE ANNUAL FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's budget, bond resolutions and other management information were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF THE ANNUAL FINANCIAL STATEMENTS (Continued)

The financial statements include a balance sheet; a statement of revenues, expenses and changes in net assets; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the Authority on a full accrual basis of accounting. While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs.

The statement of cash flows presents cash receipt and cash disbursement information and changes in cash and cash equivalents resulting from operational, financing and investing activities.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The supplementary information provides information on debt service requirements, insurance coverage and schedule of water rates and statistics.

The internal control and compliance section includes the auditor's report on the Authority's internal controls and compliance. Also included is the auditor's schedule of audit findings and recommendations.

SUMMARY OF ORGANIZATION AND BUSINESS

The Authority was created under the authority of the Tennessee General Assembly Private Act No. 40 and approved by the Anderson County Commission on July 16, 2007. The Authority began significant operations on January 1, 2009. The purpose of the Authority is to "acquire, construct, improve, extend, operate, and maintain a water system" in the unincorporated areas of Anderson County. The Authority serves approximately 8,990 water customers and 1,089 wastewater customers in Anderson County. The Authority's primary source of water is drawn from the Clinch River that forms Norris and Melton Hill lakes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

SUMMARY OF ORGANIZATION AND BUSINESS (Continued)

The Authority is governed by a Board of Commissioners composed of five citizens who live or own real estate within the Authority. All Board members are appointed by the Anderson County Mayor for a term of four years.

The Authority's main capital assets consist of approximately 420 miles of water lines, two water treatment plants, one office building and related maintenance facility and 16 water reservoir tanks.

The Authority receives no financial support from Anderson County, Tennessee and has no taxing authority. The Authority's revenues are derived from water charges based upon metered water consumption of customers. The water and wastewater rates are established by the Board of Commissioners.

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information provides key financial data and indicators for management, monitoring, and planning. Net assets may serve over time as a useful indicator of the Authority's financial position.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS (Continued)

Condensed Balance Sheets (In Thousands of Dollars) June 30, 2009 and 2008

	2009	2008
ASSETS		
Current Assets	\$ 3,492	\$ 15
Capital Assets:		
Producing – Net	16,947	-
Construction in Progress	3	-
Other Assets – Net	123	-
TOTAL ASSETS	\$ 20,565	\$ 15
LIABILITIES		
Current Liabilities	\$ 539	\$ -
Bonds Payable – Net of Current Portion	3,985	-
Total Liabilities	4,524	-
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	12,765	-
Restricted for:		
Debt Service	18	-
Capital Activity	627	-
Unrestricted	2,631	15
Total Net Assets	16,041	15
TOTAL LIABILITIES AND NET ASSETS	\$ 20,565	\$ 15

The largest portion of the Authority's net assets reflects its investment in capital assets, less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to repay long-term debt.

The unrestricted net assets may be used to meet the obligations to employees and creditors and provide current operating resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS (Continued)

Condensed Statements of Revenues, Expenses
and Changes in Net Assets
(In Thousands of Dollars)
For The Year Ended June 30, 2009 and the
Period of Inception July 16, 2007 to June 30, 2008

	2009	2008
Operating Revenues		
Water – Net	\$ 1,874	\$ -
Wastewater – Net	339	-
Connection Fees	11	-
Customer Forfeited Discounts	41	-
Other Charges and Fees	59	-
	2,324	-
Operating Expenses		
Water Treatment, Transmission and Distribution	1,403	-
Wastewater Treatment	246	-
Customer Billing and Accounting	119	-
General and Administrative	378	5
Depreciation	436	-
	2,582	5
Operating Income (Loss)	(258)	(5)
Non-Operating Revenues (Expenses)		
Gain (Loss) on Disposal of Capital Assets	10	-
Investment Income	20	-
Interest (Expense)	(148)	-
	(118)	-
Total Non-Operating Revenues (Expenses) – Net	(118)	-
Increase (Decrease) in Net Assets Before Capital Contributions	(376)	(5)
Capital Contributions		
Cash	2,989	20
Non-Cash	13,413	-
	16,402	20
Increase (Decrease) in Net Assets	16,026	15
Net Assets, Beginning of Year	15	-
Net Assets, End of Year	\$ 16,041	\$ 15

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OTHER SELECTED INFORMATION

Selected Data:

	2009	2008
Employees at Year-End	28.5	-
Average Employees	28.5	-
Customers at Year-End:		
Water	8,990	-
Wastewater	1,089	-
Water (Millions of Gallons)		
Treated and Purchased	495	-
Sold	312	-
Per Average Employee:		
Operating Revenues	\$ 81,555	\$ -
Operating Expenses	90,615	-
Realized Rate per 1,000 Gallons of Water Consumed:	6.00	-
Ratio of Operating Revenues to:		
Operating Expenses	.90	-
Operating Expenses – Net of Depreciation	1.08	-
Total Assets	.11	-
Net Assets	.15	-
Debt Related Ratios:		
Long-Term Debt to Net Assets	.28	-
Long-Term Debt to Total Assets	.20	-
Operating Coverage	.80	-

GENERAL TRENDS AND SIGNIFICANT EVENTS

Customer growth in the Authority has remained strong over the last several years, especially in the eastern area of the district primarily in the Andersonville and Bethel area near I-75.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL CONDITION

The Authority's financial condition remained strong at year-end with adequate current assets and a reasonable level of unrestricted net assets. The current financial condition, staff capabilities, operating plans and upgrade plans to meet future water quality requirements are well balanced and under control.

Accounts receivable, at year-end 2009 was \$520,722. At 2009 year-end, 70% of accounts receivable were current within 30 days. The Authority's provision for bad debt expense was \$72,501 for 2009.

RESULTS OF OPERATIONS

Operating Revenues

Revenues from operations fall into three general categories: water and wastewater service and ancillary charges. Ancillary charges include connection fees, account set up and customer forfeited discounts, and charges for miscellaneous billed services. The Authority has two classes of customers based upon the former NACUD and ACUB territories. Over a period of several years and customer rate adjustments, the Authority will merge the two classes of customers into one.

There was no increase in water rates during 2009.

The average realized rate from water sales was \$6.00 per thousand gallons in 2009.

Capital Contributions

The Authority collects water connection fees in order to ensure that current customers do not bear the burden of growth. These fees are paid by new customers and represent the cost of water capacity of the new customer. These fees are paid at the time a new water customer is connected to the system. In addition, the Authority accepts new water lines that are donated by residential and commercial real estate developers.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

RESULTS OF OPERATIONS (Continued)

Capital Contributions (Continued)

Capital contributions due to the consolidation of ACUB and NACUD during 2009 and 2008, consisted of the following:

	<u>2009</u>	<u>2008</u>
Cash:		
ACUB – Anderson County	\$ 1,437,941	\$ 10,000
NACUD	<u>1,550,975</u>	<u>10,000</u>
Total Cash	<u>2,988,916</u>	<u>20,000</u>
Non-Cash:		
ACUB – Anderson County	10,249,683	-
NACUD	<u>3,164,022</u>	<u>-</u>
Total Non-Cash	<u>13,413,705</u>	<u>-</u>
Total	<u>\$ 16,402,621</u>	<u>\$ 20,000</u>

Expenses

Operating expenses, excluding depreciation, increased by \$2,577,334 in 2009 and \$5,200 in 2008. This was a result of the consolidation of ACUB and NACUB.

During 2009, the Authority incurred the following additional estimated expenses related to the consolidation and merger of the two districts.

	<u>2009</u>
Legal and Professional	\$ 57,000
Computer Software and Consulting	42,000
Salaries and Benefits for Overtime	93,000
Materials and Supplies	109,000
Property and Casualty Insurance	<u>58,000</u>
Total	<u>\$ 359,000</u>

A majority of these additional costs are not expected in succeeding years.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CAPITAL ASSETS

The Authority is improving its water distribution and storage system in order to reduce water line loss and provide adequate capacity for future customer growth.

During 2009, the Authority increased its capital assets before depreciation by \$751,539. This increase is due to the following:

	<u>2009</u>
New River Line Extension Project	\$ 408,101
Norris Booster – Vowell Mt.	101,132
Other Water Line Improvements	108,172
Water Plant Improvements	75,721
Vehicles and Equipment	50,225
Office Furniture and Equipment	<u>8,188</u>
Total	<u>\$ 751,539</u>

During 2009, the Authority started preliminary site selection and design work on a new office building to be located in Clinton, Tennessee. At year-end 2009, the Authority had incurred \$2,975 in costs related to this project. The Authority projects an estimated cost for the land and new office building to approximate \$600,000 and should be completed by May 31, 2010.

The Authority's capital asset activity for 2009 is described in Notes 4 and 5 to the financial statements

DEBT

At June 30, 2009, the Authority had \$4,185,233 in bonds payable.

During 2009, the Authority issued \$4,900,000 Series 2008 Revenue Term Bonds to retire \$4,316,835 in debt assumed from the consolidation and to provide financing for the construction of a new office building.

At June 30, 2009, the Authority had \$148,657 in interest expense for the year ending June 30, 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

DEBT (Continued)

The long-term debt to total assets ratio was .20 in 2009.

During 2009, the Authority incurred approximately \$350,000 in additional operating expenses due to the merger and resulted in debt service coverage ratio of .80. If the \$350,000 in additional merger related expenses had not been incurred, the debt service ratio for 2009 would have approximated 2.23.

More detailed information about the Authority's debt is described in Notes 9 and 10 to the financial statements.

ECONOMIC FACTORS AND FISCAL YEAR 2010

- With the slowing of the economy the Authority does not anticipate any significant customer growth in the 2010 fiscal year. There are no plans for a rate increase this year.
- The current recession has caused labor rates to soften and the Authority is considering replacing some of the older, smaller water lines. This will be done if favorable bids are received and will be financed by cash flows from current operations.
- Number of customers is projected to remain stable during 2010.
- Health insurance premiums are projected to increase by 5% in 2010.
- FY 2010 Budget:

Revenues	\$	4,628,000
Expenses		<u>4,628,000</u>
Income	\$	<u><u>-</u></u>

- No salary rate increases for employees during 2010.
- Completion of the new office building during FY 2010 with an estimated cost of \$600,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONTACTING THE AUTHORITY

This comprehensive annual financial report (CAFR) is designed to provide our customers, creditors and regulatory agencies with a general overview of the Authority's finances. If you have any questions about this report or need additional information, you may contact the Authority:

Mr. Larry Clowers, General Manager
Anderson County Water Authority
P.O. Box 70
Clinton, TN 37716
865-457-3033



Larry Clowers, General Manager
Clinton, Tennessee
December 22, 2009

**BASIC
FINANCIAL
STATEMENTS**

ANDERSON COUNTY WATER AUTHORITY

BALANCE SHEETS

June 30, 2009 and 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and Cash Equivalents	\$ 2,105,050	\$ 14,823
Cash and Cash Equivalents – Restricted	61,862	-
Investments, at Fair Value	200,116	-
Investments, at Fair Value – Restricted	599,995	-
Accounts Receivable – Customers (Net of Allowance for Uncollectible Accounts of \$152,452 for 2009.)	502,775	-
Accounts Receivable – Wholesale Customers	17,947	-
Accrued Interest Receivable	3,869	-
	<u>3,491,614</u>	<u>14,823</u>
Total Current Assets		
	<u>3,491,614</u>	<u>14,823</u>
Non-Current Assets		
Capital Assets – Net	16,950,398	-
Bond Issuance Costs – Net	123,057	-
Utility Deposits	500	-
	<u>17,073,955</u>	<u>-</u>
Total Non-Current Assets		
	<u>17,073,955</u>	<u>-</u>
 TOTAL ASSETS	 \$ <u><u>20,565,569</u></u>	 \$ <u><u>14,823</u></u>

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS

	2009	2008
Current Liabilities		
Accounts Payable	\$ 83,665	\$ -
Accrued Liabilities	47,306	-
Accrued Bond Interest Payable	16,665	-
Compensated Absences Payable	38,191	-
Customer Deposits	153,162	-
Bonds Payable – Current Portion	200,000	-
Total Current Liabilities	538,989	-
Non-Current Liabilities		
Bonds Payable – Net of Current Portion	3,985,233	-
Total Liabilities	4,524,222	-
Net Assets		
Invested in Capital Assets – Net of Related Debt	12,765,165	-
Restricted:		
Debt Service	17,862	-
Capital Activity	627,330	-
Unrestricted	2,630,990	14,823
Total Net Assets	16,041,347	14,823
TOTAL LIABILITIES AND NET ASSETS	\$ 20,565,569	\$ 14,823

ANDERSON COUNTY WATER AUTHORITY

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS**

*For The Year Ended June 30, 2009 and the
Period of Inception July 16, 2007 to June 30, 2008*

	2009	2008
Operating Revenues		
Water – Net	\$ 1,873,956	\$ -
Wastewater – Net	339,171	-
Connection Fees	11,201	-
Customer Forfeited Discounts	41,300	-
Other Charges and Fees	58,701	-
Total Operating Revenues	<u>2,324,329</u>	<u>-</u>
Operating Expenses		
Water Treatment, Transmission, and Distribution	1,402,607	-
Wastewater Treatment	246,428	-
Customer Billing and Accounting	119,442	-
General and Administrative	377,710	5,200
Depreciation	436,347	-
Total Operating Expenses	<u>2,582,534</u>	<u>5,200</u>
Operating Income (Loss)	<u>(258,205)</u>	<u>(5,200)</u>
Non-Operating Revenues (Expenses)		
Gain (Loss) on Disposal of Capital Assets	10,281	-
Investment Income	20,484	23
Interest (Expense)	(148,657)	-
Total Non-Operating Revenues (Expenses) – Net	<u>(117,892)</u>	<u>23</u>
Increase (Decrease) in Net Assets Before Capital Contributions	<u>(376,097)</u>	<u>(5,177)</u>
Capital Contributions		
Cash	2,988,916	20,000
Non-Cash	13,413,705	-
Total Capital Contributions	<u>16,402,621</u>	<u>20,000</u>
Increase (Decrease) in Net Assets	16,026,524	14,823
Net Assets, Beginning of Year	<u>14,823</u>	<u>-</u>
Net Assets, End of Year	<u>\$ 16,041,347</u>	<u>\$ 14,823</u>

The accompanying notes are an integral part of these financial statements.

ANDERSON COUNTY WATER AUTHORITY

*STATEMENTS OF CASH FLOWS
For The Year Ended June 30, 2009 and the
Period of Inception July 16, 2007 to June 30, 2008*

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities		
Receipts from Customers and Users	\$ 2,222,601	\$ -
Payments to Employees	(904,325)	-
Payments to Suppliers	<u>(1,248,669)</u>	<u>(5,200)</u>
Net Cash Provided (Used) by Operating Activities	<u>69,607</u>	<u>(5,200)</u>
Cash Flows from Capital and Related Financing Activities		
Capital Contributions by NACUD and ACUB due to Merger	2,988,916	20,000
Acquisition and Construction of Capital Assets	(52,592)	-
Interest Paid on Revenue Bonds	(95,729)	-
Accrued Interest Paid on Defeased Bonds	(15,875)	-
Principal Paid on Revenue Bonds and Notes	(1,386,835)	-
Proceeds from Sale and Disposal of Capital Assets	12,000	-
Proceeds from Bond Issues	4,900,000	-
Deposits with Escrow Agent for Defeasance of Bonds	(3,355,507)	-
Payment of Bond Issuance Costs	<u>(128,400)</u>	<u>-</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>2,865,978</u>	<u>20,000</u>
Cash Flows from Investing Activities		
Interest Received on Investments	16,620	23
Purchase of Investments	<u>(800,116)</u>	<u>-</u>
Net Cash Provided (Used) by Investing Activities	<u>(783,496)</u>	<u>23</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,152,089	14,823
Cash and Cash Equivalents, Beginning of Year	<u>14,823</u>	<u>-</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,166,912</u>	<u>\$ 14,823</u>

The accompanying notes are an integral part of these financial statements.

ANDERSON COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS (Continued)

*For The Year Ended June 30, 2009 and the
Period of Inception July 16, 2007 to June 30, 2008*

	<u>2009</u>	<u>2008</u>
Cash and Cash Equivalents at End of Year		
Consist of:		
Unrestricted Cash and Cash Equivalents	\$ 2,105,050	\$ 14,823
Restricted Cash and Cash Equivalents	<u>61,862</u>	<u>-</u>
Total	<u>\$ 2,166,912</u>	<u>\$ 14,823</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income (Loss)	\$ (258,205)	\$ (5,200)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	436,347	-
Bad Debt Expense	72,501	-
Changes in:		
Accounts Receivable, Net of Charge Offs	(115,886)	-
Inventory	109,760	-
Prepaid Expenses	71,020	-
Accounts Payable	(214,273)	-
Accrued Liabilities	(21,940)	-
Customer Deposits	<u>(9,717)</u>	<u>-</u>
Net Cash Provided by Operating Activities	<u>\$ 69,607</u>	<u>\$ (5,200)</u>
 Noncash Investing, Capital and Related Financing Activities		
Amortization of Bond Issuance Costs	\$ 5,343	\$ -
Amortization of Cost of Defeasance	30,920	-
Non-Cash Contributed Capital Due to Merger	13,413,705	-

The accompanying notes are an integral part of these financial statements.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Anderson County Water Authority (the Authority) was created on July 16, 2007 by the Anderson County Commission under the authority of the Tennessee State Legislature Private Act No. 40 (House Bill No. 2388 and Senate Bill No. 2362) passed on May 7, 2007 and signed by the Governor on May 21, 2007.

On July 10, 2008, the Board of Commissioners for the North Anderson County Utility District (NACUD) and Anderson County Utilities Board (ACUB), a part of Anderson County, entered into a consolidation agreement to merge NACUD and ACUB into the Authority with an effective date of January 1, 2009.

The Authority's Board of Commissioners serve staggered four-year terms. The Anderson County Mayor appoints five commissioners. Therefore, the Authority is considered a related organization of Anderson County as defined in Governmental Accounting Standards Board Statement No. 14 paragraph 68. However, Anderson County does not have any fiscal or budgetary control over the Authority. In addition, Anderson County does not approve or pledge assets to secure the debts of the Authority. The operations of the Authority are funded by water and wastewater rates established by the Authority's Board of Commissioners.

A summary of the major accounting policies of the Authority are presented as follows:

A. Basis of Accounting and Presentation

The Authority's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority applies only GASB pronouncements issued after November 30, 1989.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2009 and 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Accounting and Presentation (Continued)

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted components.

B. Budgeting

The Authority adopts a flexible annual operating budget. The budget is adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The Authority's budget is not legally binding.

Management submits a proposed budget to the Authority's Board of Commissioners prior to the July Board meeting. A budget is adopted by resolution prior to July 1.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2009 and 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash Equivalents, Deposits and Investments

Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, interest in State Treasurer's Investment Pool, certificates of deposit, and debt security investments with a maturity at purchase of three months or less.

Investments are reported at their fair value. Fair value is based upon quoted market prices. Realized gains and (losses) from the sale of investments are calculated separately from the change in the fair value. Realized gains or (losses) in the current period include unrealized amounts from prior periods.

D. Restricted Assets

Restricted assets represent cash and investments maintained in accordance with bond resolutions, loan agreements, grant awards and other resolutions and formal actions of the Authority or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the system. Restricted assets are generally not available for current operating expenses.

E. Receivables and Revenues

Revenues are billed monthly to customers on a cyclical meter reading basis. Unbilled revenues are accrued for estimated usage from the last meter reading date to year-end.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Authority provides for estimated uncollectible receivables through a reduction (expense) of gross water revenues and a credit to an allowance based on its assessment of the current status of individual accounts and historical write-off experience. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2009 and 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Receivables and Revenues (Continued)

Operating revenues consist of net water and wastewater revenues, forfeited discounts, inspection fees and various service fees. Connection (tap) fees are recorded as revenue to the extent of expenses incurred in connecting a customer to the system. Connection fees in excess of costs, if any, are recorded as cash capital contributions.

Non-operating revenue consists of investment income and gains (losses) on the sale or disposal of capital assets. Investment income is interest earned and the change in unrealized gains and losses on the fair value of marketable debt securities.

F. Expenses

Operating expenses consist of the cost of water treatment, storage and distribution. Other operating expenses include customer billing, collections, administrative and general and depreciation on capital assets.

Non-operating expenses consist of interest on long-term liabilities and loss on the disposal or impairment of capital assets.

G. Inventories

Material and supply inventories are stated at the lower of cost (first in, first out method) or market. Incidental supplies and chemicals are not included in inventory.

H. Capital Assets

Property, plant and equipment in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to fair market value.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2009 and 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets (Continued)

Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment are expensed as incurred.

Interest is not capitalized on project costs funded by contributed capital, such as grants, gifts and impact fees. Interest costs of tax-exempt borrowings are capitalized net of related investment earnings on the proceeds. Depreciation is not recorded until the assets are actually put into use.

The Authority defines a capital asset as an asset with an initial individual cost, or a project with a cumulative cost of more than \$1,000 and an estimated useful life in excess of one year.

Capital assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Water and Wastewater Treatment Plants	40-50
Transmission and Distribution Lines	40-50
Meters	10-15
Vehicles	5-10
Machinery and Equipment	5-20
Buildings and Improvements	15-40
Office Furniture and Equipment	5-10

I. Long-Term Obligations and Costs

Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts, issuance costs, and gains or losses on advance refundings and defeasances after June 30, 1994, are deferred and amortized over the life of the bonds.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2009 and 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensation Absences

Accumulated vacation eligible to be paid to employees at termination is recorded as an expense and liability as the benefits are earned. The Authority has assumed a first-in, first-out method of using accumulated compensated time and the related liability has been recorded as a liability in the financial statements.

K. Contributions

Contributions are recognized in the statement of revenues, expenses and changes in net assets when earned. Contributions include developer contributed utility systems, capacity and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

L. Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital activity and debt service consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted consists of all other net assets not included in the above categories.

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

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2009 and 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

NOTE 2: CONSOLIDATION AND MERGER

On January 1, 2009, the operations of NACUD and ACUB were consolidated and merged with the Authority as described in Note 1. The Authority recorded this transaction in accordance with the Accounting Principles Board (APB) Opinion No. 16, *Business Combinations*, using the pooling of interest method. Since no consideration was given, the Authority assumed all the territory, customers, assets, liabilities, and equity of NACUD and ACUB at net book value.

The Authority's Board of Commissioners were appointed by the Anderson County Mayor and consist of three former ACUB and two former NACUD commissioners. The former ACUB general manager was appointed as the Authority's general manager.

The accompanying balance sheet represents the assumption of all assets, liabilities, and equity as of January 1, 2009:

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2009 and 2008

NOTE 2: CONSOLIDATION AND MERGER (Continued)

Balance Sheet	NACUD	ACUB	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,550,975	\$ 1,431,200	\$ 2,982,175
Accounts Receivable – Net	184,734	255,545	440,279
Prepaid Expenses	34,362	36,658	71,020
Inventory – Supplies	109,760	-	109,760
Total Current Assets	<u>1,879,831</u>	<u>1,723,403</u>	<u>3,603,234</u>
Non-Current Assets:			
Capital Assets – Net	5,898,095	11,288,682	17,186,777
Bond Issuance Costs – Net	61,901	-	61,901
Utility Deposits	500	-	500
Total Non-Current Assets	<u>5,960,496</u>	<u>11,288,682</u>	<u>17,249,178</u>
TOTAL ASSETS	\$ <u>7,840,327</u>	\$ <u>13,012,085</u>	\$ <u>20,852,412</u>
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts Payable	\$ 65,922	\$ 107,101	\$ 173,023
Accrued Liabilities	37,112	33,267	70,379
Customer Deposits	114,671	48,208	162,879
Total Current Liabilities	217,705	188,576	406,281
Non-Current Liabilities:			
Bonds Payable	2,907,625	1,142,625	4,050,250
Total Liabilities	3,125,330	1,331,201	4,456,531
Net Assets	<u>4,714,997</u>	<u>11,680,884</u>	<u>16,395,881</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>7,840,327</u>	\$ <u>13,012,085</u>	\$ <u>20,852,412</u>

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2009 and 2008

NOTE 3: DEPOSITS AND INVESTMENTS

Tennessee Code Annotated (TCA) Section 7-82-108 and bond covenants restrict the types of depositories and investment securities available to the Authority. State statutes and bond indentures limit depositories to state or national banks, or credit unions located in the United States. The types of deposits and investments permitted are certificates of deposit, repurchase agreements in governmental obligations, money market accounts, state local government investment pool (SLGIP), obligations of the U.S. Government and federal agency debt securities.

At June 30, 2009 and 2008, the Authority had the following deposits and investments:

	<u>2009</u>	<u>2008</u>
Deposits:		
Demand Deposits	\$ 2,166,912	\$ 14,823
Certificates of Deposit	200,116	-
	<u>2,367,028</u>	<u>14,823</u>
Investments:		
Federal Agency Securities	599,995	-
	<u>599,995</u>	<u>-</u>
Total	\$ <u>2,967,023</u>	\$ <u>14,823</u>

A summary of the deposits on the balance sheets at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Current Assets:		
Cash and Cash Equivalents	\$ 2,105,050	\$ 14,823
Cash and Cash Equivalents – Restricted	61,862	-
Investments – Certificate of Deposit	200,116	-
	<u>2,367,028</u>	<u>-</u>
Total	\$ <u>2,367,028</u>	\$ <u>14,823</u>

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 3: DEPOSITS AND INVESTMENTS (Continued)

A. Restricted Cash Equivalents

The restricted cash equivalents and investments are for 2008 construction projects and also for required reserves by various covenants of the revenue bonds and are to be used solely for the repayment of debt and capital improvements.

As of June 30, 2009, the Authority's investments were in the following:

	<u>2009</u>
Federal Agency Securities	
Federal Home Loan Bank Notes – Due 7/2/2009	<u>\$ 599,995</u>

B. Custodial Credit Risk – Deposits

The Authority's deposits, with a carrying amount of \$2,367,028 and \$14,823 at June 30, 2009 and 2008, respectively, were covered by FDIC insurance, pledged investment collateral held in safekeeping by a custodial bank, or by the bank collateral pool administered by the Treasurer of the State of Tennessee. The bank may use one of three different pledged security levels (90, 100 or 105%) depending on the specific bank holding the deposit. Participating banks determine the aggregate balance of their public fund accounts for the Authority. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured and classified as Category 1, under GASB Statement No. 40, for purposes of custodial credit risk disclosure.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 3: DEPOSITS AND INVESTMENTS (Continued)

C. Investments, at Fair Value

The Authority's investments at June 30, 2009, with a carrying amount of \$599,995 are in Federal Agency Securities and held by the Authority or its agent in the Authority's name. As required by GASB Statement No. 31, the carrying value of the investments are presented at fair value.

D. Investment Income

Investment income for 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Interest Income	\$ 20,489	\$ 23
Unrealized Gains (Losses) – Net	<u>(5)</u>	<u>-</u>
Total	<u>\$ 20,484</u>	<u>\$ 23</u>

E. Investment Policies

Custodial Credit Risk: The Authority's investment policy requires that investment securities be registered in the name of Anderson County Water Authority. All safekeeping receipts for investment instruments are held in accounts in the Authority's name and all securities are registered in the Authority's name.

Credit Risk: The Authority's investment policy and state law limits investments in non-federal obligations to issuers that are rated in the two highest rating categories by a nationally recognized rating agency of such obligations.

At June 30, 2009, the Authority's investments in federal agency debt securities had the following ratings by Moody's:

Federal Home Loan Bank Notes	\$ <u>599,995</u>	Aaa
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ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2009 and 2008

NOTE 3: DEPOSITS AND INVESTMENTS (Continued)

F. Investment Policies

Interest Rate Risk: The Authority's Investment Policy limits its holdings to obligations having a final maturity on the date of investment of not to exceed forty-eight (48) months. Investments are made based upon prevailing market conditions with the intent to hold the instrument until maturity. If the performance of the portfolio can be improved upon by the sale of an investment prior to maturity, the policy allows for the implementation of this strategy. The Authority uses the specific identification method to manage interest rate risk.

Concentration of Credit Risk: The Authority's Investment Policy has no limit to its exposure to obligations of federal government and federal agency debt securities as a whole or individually.

The Authority's Investment Policy does not require diversification among authorized investment broker-dealers. Presently, the Authority has selected Morgan Keegan & Company, Inc. as an authorized broker-dealer.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2009 and 2008

NOTE 4: CAPITAL ASSETS

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2009 was as follows:

	<u>Balance 7/1/2008</u>	<u>Consolidating Merger 1/1/2009</u>	<u>Additions and Transfers</u>	<u>Deletions, Retirements and Transfers</u>	<u>Balance 6/30/2009</u>
Capital Assets Not Being Depreciated:					
Land and Easements	\$ -	\$ 200,134	\$ -	\$ -	\$ 200,134
Construction in Progress	-	552,828	2,975	(552,828)	2,975
Total Capital Assets Not Being Depreciated	-	752,962	2,975	(552,828)	203,109
Capital Assets Being Depreciated:					
Mains, Lines and Reservoirs	-	15,002,055	693,126	-	15,695,181
Treatment Plants Buildings and Improvements	-	14,570,527	-	-	14,570,527
Machinery and Equipment	-	245,561	-	-	245,561
Vehicles	-	490,236	50,225	(1,718)	538,743
Office Furniture and Equipment	-	173,178	8,188	-	181,366
Total Capital Assets Being Depreciated	-	30,481,557	751,539	(1,718)	31,231,378

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2009 and 2008

NOTE 4: CAPITAL ASSETS (Continued)

	Balance 7/1/2008	Consolidating Merger 1/1/2009	Additions and Transfers	Deletions, Retirements and Transfers	Balance 6/30/2009
Less Accumulated Depreciation:					
Mains, Lines and Reservoirs	-	6,760,594	201,965	-	6,962,559
Treatment Plants, Buildings and Improvements	-	6,799,273	183,714	-	6,982,987
Machinery and Equipment	-	87,699	16,731	-	104,430
Vehicles	-	283,348	23,635	-	306,983
Office Furniture and Equipment	-	116,828	10,302	-	127,130
	-	14,047,742	436,347	-	14,484,089
Total Accumulated Depreciation	-	14,047,742	436,347	-	14,484,089
Total Capital Assets Being Depreciated – Net	-	16,433,815	315,192	(1,718)	16,747,289
Total Capital Assets	\$ -	\$ 17,186,777	\$ 318,167	\$ (554,546)	\$ 16,950,398

Depreciation Expense was \$436,347 for 2009.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 5: CONSTRUCTION IN PROGRESS

Construction in progress at June 30, 2009 consisted of:

Projects	2009	
	Actual To Date	Remaining Commitment
Office Building	\$ 2,975	\$ -

The Authority is in the preliminary design phase for the construction of a new office building located in Clinton, Tennessee. The Authority has a planned completion date of May 31, 2010.

NOTE 6: GAIN (LOSS) ON DISPOSAL OF CAPITAL ASSETS

The Authority's gain (loss) on disposal of capital assets for 2009 was as follows:

	2009
Sales Proceeds	\$ 12,000
Less: Net Book Value of Capital Asset	(1,719)
Gain (Loss)	\$ 10,281

NOTE 7: DEFERRED CHARGES

In 2009, the Authority incurred bond issuance costs in connection with the Revenue Bond Series 2008 issued on December 30, 2008. At June 30, 2009, the net unamortized bond issuance costs was as follows:

	2009
Revenue Bonds Series 2008	\$ 128,400
Less: Accumulated Amortization	(5,343)
Total	\$ 123,057

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 7: DEFERRED CHARGES (Continued)

The bond issuance costs are amortized over the life of the bonds using the stated interest required method. The amount recorded as part of interest expense was \$5,343 for 2009.

NOTE 8: ACCRUED LIABILITIES

Accrued liabilities at year-end 2009 consisted of the following:

	<u>2009</u>
Sales Taxes Payable	\$ 30,543
Accrued Salaries and Payroll Taxes	<u>16,763</u>
Total	<u>\$ 47,306</u>

NOTE 9: LONG-TERM DEBT

Long-term debt at June 30, 2009, consisted of the following:

A. Revenue Bonds

	<u>2009</u>
Revenue Term Bonds Series 2008 of \$4,900,000 with an interest rate of 4.21%. Semi-annual payments on June 1 and December 1 through June 1, 2026. Principal payments are annually deposited with the bond trustee on June 1, ranging from \$150,000 to \$375,000. Interest is paid semi-annually ranging from \$99,998 to \$7,894.	\$ 4,750,000
Less: Unamortized Deferred Cost of Defeased Bonds	<u>(564,767)</u>
Total	<u>\$ 4,185,233</u>
Current Portion	\$ 200,000
Long-Term	<u>3,985,233</u>
Total	<u>\$ 4,185,233</u>

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2009 and 2008

NOTE 9: LONG-TERM DEBT (Continued)

A. Revenue Bonds (Continued)

The bond holders have a statutory mortgage lien upon the Authority as created by TCA § 7-82-101, and will remain in effect until the bond issue is paid in full. There is a bond covenant, which is effective for the fiscal year ending June 30, 2010, that requires a minimum debt service coverage ratio of 1.2 and for the six month period ended June 30, 2009, the ratio was .80.

B. Activity

The following is a summary of changes in long-term debt for 2009:

	<u>Beginning Balance</u>	<u>Assumed During Merger</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Revenue Bonds and Notes	\$ -	\$ 4,316,835	\$ 4,900,000	\$ (4,466,835)	\$ 4,750,000	\$ 200,000
Less: Deferred Cost of Defeasance	-	-	(595,687)	30,920	(564,767)	-
		<u>4,316,835</u>	<u>4,304,313</u>	<u>(4,435,915)</u>	<u>4,185,233</u>	<u>200,000</u>
Compensated Absences Payable	-	2,549	35,642	-	38,191	38,191
Total	<u>\$ -</u>	<u>\$ 4,319,384</u>	<u>\$ 4,339,955</u>	<u>\$ (4,435,915)</u>	<u>\$ 4,223,424</u>	<u>\$ 238,191</u>

Compensated absences are considered a current liability due to prior years' experience of paying these amounts within the current year.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2009 and 2008

NOTE 9: LONG-TERM DEBT (Continued)

C. Debt Service

The Annual debt service requirements of the bonds payable as of June 30, 2009, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 200,000	\$ 199,976	\$ 399,976
2011	205,000	191,555	396,555
2012	215,000	182,925	397,925
2013	225,000	173,873	398,873
2014	230,000	164,400	394,400
2015 – 2019	1,315,000	667,705	1,982,705
2020 – 2024	1,620,000	365,638	1,985,638
2025 – 2026	740,000	46,942	786,942
Total	\$ <u>4,750,000</u>	\$ <u>1,993,014</u>	\$ <u>6,743,014</u>

The Revenue Term Bonds – Series 2008, require the Authority to make annual principal payments to the bond trustee, Regions Bank, who is responsible for paying the bondholders when the \$4,900,000 bond issue matures on June 1, 2026.

D. Interest Expense

Interest expense for 2009 consisted of the following:

	<u>2009</u>
Interest Paid	\$ 95,729
Amortization of Bond Issuance Costs	5,343
Accrued Interest Payable – Net	16,665
Amortization of Deferred Cost of Defeasance	<u>30,920</u>
Total	\$ <u>148,657</u>

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 9: LONG-TERM DEBT (Continued)

E. Restricted Cash Equivalents – Debt Service

The Authority is required by various bond covenants to maintain the following restricted cash and cash equivalents at June 30, 2009:

	<u>2009</u>
Bond Principal and Interest Payment Fund	\$ <u>34,527</u>

NOTE 10: DEFEASANCE OF DEBT

A. Description of the 2008 Defeasance

On December 31, 2008, the Authority issued \$4,900,000 in Revenue Term Bonds – Series 2008 to provide current refunding and advanced refunding of \$4,316,835 in assumed debt. Of the assumed debt, \$1,236,835 was currently refunded and \$3,080,000 was advanced refunded with defeasance under a refunding trust agreement with Regions Bank. In addition, these revenue bonds were issued to provide approximately \$600,000 in financing for the construction of a new office building.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2009 and 2008

NOTE 10: DEFEASANCE OF DEBT (Continued)

B. Current Refunding

The following currently refunded debt was paid on December 30, 2008 and January 2, 2009:

	<u>2009</u>
Assumed ACUB Debt:	
Water Revenue and Tax Bond – Series 1979 of \$1,400,000	\$ 554,934
Water Revenue and Tax Bond – Series 1982 of \$257,000	162,875
Water Revenue and Tax Bond – Series 1986 of \$105,000	70,658
Water Revenue Bonds – Series 2000 of \$110,000	100,158
General Obligation Loan – Series 2003 of \$350,000	254,000
	<u>1,142,625</u>
Assumed NACUD Debt:	
Rural Development Water Revenue Bonds – Series 2001 of \$103,000	<u>94,210</u>
Total	<u>\$ 1,236,835</u>

The current refunding resulted in a difference between the requisition price and the net carrying amount of the old debt of \$8,306. This amount is being reported in the accompanying financial statements as a part of interest expense in 2009. The Authority increased its original length of debt maturities, therefore it increased its aggregate debt service payments by \$67,797.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 10: DEFEASANCE OF DEBT (Continued)

C. Advanced Refunding

The following advanced refunded debt was considered extinguished:

	<u>2009</u>
Water Revenue and Refunding Bonds – Series 2004 of \$4,395,000 (assumed NACUD debt) with a final (original) maturity on January 1, 2019, and a call date on January 1, 2014. Regions Bank is the paying agent.	\$ <u>3,080,000</u>

The Authority placed \$3,355,507 of funds with the escrow agent (Regions Bank) which was used to purchase State and Local Government Securities (SLGS) for the purpose of generating resources for future debt service payments of \$3,540,450. Future payments consist of annual bond principal maturities of between \$275,000 to \$305,000 on January 1, 2010 through January 1, 2013, and a final principal redemption of \$1,920,000, which requires a call premium of 1%, on the call date of January 1, 2014. As a result, the advanced refunded bonds are considered to be defeased and the liability has been removed from the Authority's balance sheet. The escrowed investment securities exceeded the net carrying amount of the old debt by \$595,687. This amount is being amortized over the original life of the old Series 2004 debt issue through January 1, 2019, using the stated interest required method.

Due to the additional eight years until maturity in 2026, the refunding increased total aggregate debt service payment by \$736,263. In addition, the Authority incurred an economic loss, the difference between the present values of the old and new debt service payments of \$145,899.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2009 and 2008

NOTE 11: NET ASSETS

Net assets represent the difference between assets and liabilities. The net assets at June 30, 2009 and 2008, were as follows:

	<u>2009</u>	<u>2008</u>
Invested in Capital Assets, Net of Related Debt:		
Net Property, Plant and Equipment in Service	\$ 16,950,398	\$ -
Less: Revenue Bonds Payable	<u>(4,185,233)</u>	<u>-</u>
	<u>12,765,165</u>	<u>-</u>
Restricted for Debt Service:		
Restricted Cash and Cash Equivalents	34,527	-
Less: Accrued Interest Payable – Revenue Bonds	<u>(16,665)</u>	<u>-</u>
	<u>17,862</u>	<u>-</u>
Restricted for Capital Activity:		
Restricted Cash and Investments	627,330	-
Less: Accounts Payable for Capital Assets	-	-
Reclassified to Unrestricted	<u>-</u>	<u>-</u>
	<u>627,330</u>	<u>-</u>
Unrestricted	<u>2,630,990</u>	<u>14,823</u>
Total	<u>\$ 16,041,347</u>	<u>\$ 14,823</u>

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2009 and 2008

NOTE 12: CAPITAL CONTRIBUTIONS

A. Cash

During 2009 and 2008, the Authority received cash capital contributions due primarily to the consolidation agreement and merger (see Note 2). During 2009, the Authority received \$6,741 before the merger.

	2009	2008
Anderson County Utilities Board (ACUB)	\$ 1,437,941	\$ 10,000
North Anderson County Utility District (NACUD)	1,550,975	10,000
Total	\$ 2,988,916	\$ 20,000

B. Non-Cash

During 2009, the Authority received non-cash capital contributions due to the consolidation agreement and merger (see Note 2).

	2009
Anderson County Utilities Board (ACUB)	\$ 10,249,683
North Anderson County (NACUB)	3,164,022
Total	\$ 13,413,705

NOTE 13: OPERATING REVENUES – NET

Operating revenues during 2009 consisted of the following:

	Water	Wastewater	Other Charges	Total
Gross Revenues	\$ 1,935,582	\$ 350,046	\$ 111,202	\$ 2,396,830
Less: Provision for Bad Debts	(61,626)	(10,875)	-	(72,501)
Total Operating Revenues - Net	\$ 1,873,956	\$ 339,171	\$ 111,202	\$ 2,324,329

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2009 and 2008

NOTE 14: WHOLESALE WATER SALES

The Authority sells treated water on a month-to-month basis to the Caryville – Jacksboro Utility District (CJUD) and Lake City, Tennessee for \$1.204 per 1,000 gallons. During 2009, the revenue earned under these billings was \$56,421.

NOTE 15: RETIREMENT PLANS

I. Defined Benefit Plan

On January 1, 2009, the Authority established a defined benefit plan through the Tennessee Consolidated Retirement System, (TCRS). All new full-time employees hired after February 28, 2009 are required to participate.

A. Plan Description

Employees of the Authority are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits, as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55.

Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in performance of duty. Members joining the system on or after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute, Title 8, Chapter 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions, such as the Authority, participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to the Authority unless approved by Board of Commissioners.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 15: RETIREMENT PLANS (Continued)

I. Defined Benefit Plan (Continued)

A. Plan Description (Continued)

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the following address:

Tennessee Treasury Department
Consolidated Retirement System
10th Floor, Andrew Jackson State Office Building
Nashville, TN 37243-0230
(615) 741-7063
www.treasury.state.tn.us/tcrs/PS

B. Funding Policy

The Authority requires employees to contribute 5.0 percent of earnable compensation.

The Authority is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2009 was 7.34% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Authority is established and may be amended by the TCRS Board of Trustees.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 15: RETIREMENT PLANS (Continued)

I. Defined Benefit Plan (Continued)

C. Annual Pension Cost

For the year ending June 30, 2009, the Authority's annual pension cost of \$26,593 to TCRS was equal to the Authority's required and actual employer contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5% annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The Authority's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was zero. An actuarial valuation was performed as of July 1, 2007, which established employer contribution rates effective July 1, 2008, which is 7.34% for FY 2009 and 2010.

D. Trend Information

<u>Fiscal Year Ending June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2009	\$ 26,593	100.00%	\$ -

Since the Authority began significant operations on January 1, 2009, only one year of trend information is available.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 15: RETIREMENT PLANS (Continued)

I. Defined Benefit Plan (Continued)

E. Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$-0- and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$-0-. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$-0-, and the ratio of the UAAL to the covered payroll was 0%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
7/01/2007	\$ -	\$ -	\$ -	0%	\$ -	0%

The Authority will report the funded status and funding progress on the next actuarial valuation of July 1, 2009.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2009 and 2008

NOTE 15: RETIREMENT PLANS (Continued)

II. Defined Contribution Plan

The Authority has a non-contributory defined contribution retirement plan called the Anderson County Water Authority Profit Sharing Plan (the Plan) that covers certain full-time employees previously employed by NACUD. The plan is administered by Compupay, Inc. of Franklin, Tennessee. The Authority has the authority to amend the plan's provisions and contribution requirements. Employees must be at least 18 years old and complete six months of continuous service. During 2009, the Authority's contribution rate was 8%. The plan invests its assets in various mutual funds through ING Life Insurance Company. Contributions from the Authority on behalf of the employees vest at 20% per year after one years of service and are fully vested after five years. Forfeitures are used to reduce the Authority's future contributions. During 2009, the payroll for employees covered under this plan was \$192,800 and the Authority contributed \$15,424 to the plan on behalf of its employees which approximates 8% of eligible payroll.

NOTE 16: 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's loss exposure for general liability and worker's compensation is limited by state law.

The Authority maintain general liability, auto liability, auto physical damage, errors and omissions, and worker's compensation insurance through the Tennessee Risk Management Trust (TNRMT), a public entity risk pool operated as a risk-sharing program by the Tennessee School Board Association (TSBA). This pool is sustained by member premiums, and, because the pool has excess aggregate and individual claim loss reinsurance coverage, management considers any related credit risk to be insignificant. The Authority continue to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 16: RISK MANAGEMENT (Continued)

The per occurrence deductible for each insurance policy of the Authority is as follows: comprehensive general liability \$5,000, public officials liability \$10,000, and electronic data processing \$2,500.

The Authority incurred net claim losses of \$5,052 which were submitted to the TNRMT insurance pool during the fiscal year ended June 30, 2009.

NOTE 17: SUPPLEMENTARY CASH FLOWS INFORMATION

The Authority paid \$95,729 in interest on bonds payable for 2009.

NOTE 18: ECONOMIC CONCENTRATION

The Authority's area covers the unincorporated areas of Anderson County located in East Tennessee. It serves 8,099 water customers located in a rural area 25 miles from Knoxville, Tennessee. The Authority's ten largest customers accounted for 11% of water sales during 2009.

NOTE 19: SUBSEQUENT EVENTS

On July 8, 2009, the Authority purchased land for \$175,000 for the location of a new office building.

Effective September 8, 2009, Mr. Curtis Perez was appointed to the Board of Commissioners. Mr. Perez replaced Mr. Bedford Hatmaker.

In November 2009, the Authority entered into a \$350,000 contract with Holm Construction Company for the construction of a new office building. The new office building is scheduled for completion by April 30, 2010.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS

Last Fiscal Year

<u>Fiscal Year</u>	<u>Annual Required Contribution (ARC)</u>	<u>Contributions Made</u>	<u>Percentage of Contributions/ ARC</u>
2009	\$ 26,593	\$ 26,593	100%

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF EMPLOYER PENSION FUNDING PROGRESS

Last Valuation Date

Actuarial Valuation Date	<u>7/1/2007</u>
Actuarial Value of Assets	\$ -
Actuarial Accrued Liability	<u>-</u>
Total Unfunded Actuarial Accrued Liability	\$ <u><u>-</u></u>
Funded Ratio (Actuarial Value of Assets as a Percentage of the Actuarial Accrued Liability)	0%
Annual Covered Payroll	\$ -
Ratio of the Unfunded Actuarial Liability to Annual Covered Payroll	0%

Note: Since the Authority started participation in the TCRS defined benefit plan on January 1, 2009, no actuarial valuation is available until July 1, 2009.

**SUPPLEMENTARY
SECTION**

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2009

Years Ending June 30,	Revenue Bonds Series 2008		Total
	Principal	Interest	
2010	\$ 200,000	\$ 199,976	\$ 399,976
2011	205,000	191,555	396,555
2012	215,000	182,925	397,925
2013	225,000	173,873	398,873
2014	230,000	164,400	394,400
2015	240,000	154,718	394,718
2016	250,000	144,614	394,614
2017	265,000	134,089	399,089
2018	275,000	122,932	397,932
2019	285,000	111,354	396,354
2020	300,000	99,356	399,356
2021	310,000	86,726	396,726
2022	325,000	73,675	398,675
2023	335,000	59,992	394,992
2024	350,000	45,889	395,889
2025	365,000	31,154	396,154
2026	375,000	15,786	390,786
TOTAL	\$ <u>4,750,000</u>	\$ <u>1,993,014</u>	\$ <u>6,743,014</u>

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF INSURANCE COVERAGE

June 30, 2009

Insurer/Type	Coverage
Tennessee Risk Management Trust	
Comprehensive Automobile:	
Bodily Injury and Property Damage (\$500 Deductible)	\$ 1,000,000
Medical Payments Per Person (Private Passenger Autos) and Uninsured Motorist	5,000/100,000
Property Damage	Actual Replacement Cost
Electronic Data Processing Coverage (\$2,500 Deductible)	500,000
Public Official's Liability (\$10,000 Deductible)	1,000,000
Commercial Equipment Floater	500,000
General Liability (\$5,000 Deductible)	1,000,000
Worker's Compensation (Statutory Limits)	1,000,000/1,000,000/1,000,000
Employee Benefit Liability	1,000,000
Employee Blanket Honesty Bond	150,000

NOTE: All policy periods end July 1, 2009.

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF RATES AND STATISTICS

June 30, 2009

1. Monthly Water Rates (Effective January 1, 2009)

Former ACUB Territory:

1st 2,000 gallons - \$15.20 minimum bill.

All over 2,000 gallons - \$4.90 per 1,000 gallons.

Former NACUD Territory:

1st 2,000 gallons - \$21.14 minimum bill.

All over 2,000 gallons - \$5.42 per 1,000 gallons.

2. Monthly Wastewater Rates (Effective January 1, 2009)

Former ACUB Territory:

1st 2,000 gallons of water used - \$16.48 minimum bill.

All over 2,000 gallons of water used - \$4.90 per 1,000 gallons.

Former NACUD Territory:

100% of water usage.

3. Service Charges:

Residential Connection Fee	\$	40.00
Residential Renters Connection Fee		75.00
Commercial Connection Fee		100.00
Wastewater Connection Fee		50.00
Reconnection Fee for Nonpayment		50.00
Returned Check Fee		25.00

4. New Service Installation:

Water Tap Fees for:

3/4"	\$	600.00
1"		800.00
1 1/2"		2,000.00
2"		2,500.00
Above 2"		1,000
		Plus actual costs

5. There were 8,990 water and 1,089 wastewater customers at June 30, 2009.

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF UNACCOUNTED FOR WATER

For the Year Ended June 30, 2009

(All amounts in gallons)

June 30, 2009

Water Treated and Purchased:

Water Pumped (Potable)	471,694,000	
Water Purchased	23,645,200	
Total Water Treated and Purchased		495,339,200

Accounted for Water:

Water Sold	312,406,260	
Metered for Consumption (in house usage)	0	
Fire Department(s) Usage	0	
Flushing	20,700,000	
Tank Cleaning/Filling	0	
Street Cleaning	0	
Bulk Sales	0	
Water Bill Adjustments	2,067,400	

Total Accounted for Water		335,173,660
Unaccounted for Water		160,165,540
Percent Unaccounted for Water		32.33%

Other (explain)

See Below

Explain Other:

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

STATISTICAL SECTION

This part of the 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.

<u>Contents</u>	<u>Pages</u>
Financial Trends	
<i>These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.</i>	55-56
Revenue Capacity	
<i>These schedules contain information to help the reader assess the Authority's operating revenues and customer statistics.</i>	57-61
Debt Capacity	
<i>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.</i>	62-63
Demographic and Economic Information	
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place.</i>	64-65
Operating Information	
<i>These schedules contain service data to help the reader understand how the information in the Authority's financial report relates to the water services provided by the Authority.</i>	66-67

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

ANDERSON COUNTY WATER AUTHORITY

NET ASSETS BY COMPONENT

Last Two Fiscal Years

Fiscal Year	Invested in Capital Assets - Net of Related Debt	Restricted		Unrestricted	Total
		Debt Service	Capital Activity		
2008	\$ -	\$ -	\$ -	14,823	\$ 14,823
2009	12,765,165	17,862	627,330	2,630,990	16,041,347

Notes: (A) Fiscal year 2008 was the first year the Authority was organized.

(B) Fiscal year 2009 was the first year the Authority began significant operations on January 1, 2009.

ANDERSON COUNTY WATER AUTHORITY

*CHANGES IN NET ASSETS
Last Two Fiscal Years*

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Water – Net	\$ 1,873,956	\$ -
Wastewater – Net	339,171	-
Connection Fees	11,201	-
Customer Forfeited Discounts	41,300	-
Other Charges and Fees	58,701	-
Total Operating Revenues	<u>2,324,329</u>	<u>-</u>
Operating Expenses		
Water Treatment, Transmission and Distribution	1,402,607	-
Wastewater Treatment	246,428	-
Customer Billing and Accounting	119,442	-
General and Administrative	377,710	5,200
Depreciation	436,347	-
Total Operating Expenses	<u>2,582,534</u>	<u>5,200</u>
Operating Income (Loss)	<u>(258,205)</u>	<u>(5,200)</u>
Non-Operating Revenues (Expenses)		
Gain (Loss) on Disposal of Capital Assets	10,281	-
Investment Income	20,484	23
Interest (Expense)	(148,657)	-
Non-Operating Revenues (Expenses) – Net	<u>(117,892)</u>	<u>23</u>
Increase (Decrease) in Net Assets Before Capital Contributions	<u>(376,097)</u>	<u>(5,177)</u>
Capital Contributions		
Cash	2,988,916	20,000
Non-Cash	13,413,705	-
Total Capital Contributions	<u>16,402,621</u>	<u>20,000</u>
Change in Net Assets	<u>\$ 16,026,524</u>	<u>\$ 14,823</u>

Notes: (A) Fiscal year 2008 was the first year the Authority was organized.

(B) Fiscal year 2009 was the first year the Authority began significant operations on January 1, 2009.

ANDERSON COUNTY WATER AUTHORITY

CUSTOMER STATISTICS, RATES AND TAP SALES
Last Fiscal Year

Fiscal Year	Water Customers	Former ACUB Territory		Former NACUD Territory		Annual Tap Sales
		Minimum Bill (A)	Rate Per 1,000 Gallons	Minimum Bill (A)	Rate Per 1,000 Gallons	
2009	8,990	\$ 15.20	\$ 4.90	\$ 21.14	\$ 5.42	19

Notes: (A) Minimum bill is based upon the first 2,000 gallons of water purchased.

(B) Rates are the same for any size meter.

(C) Fiscal year 2009 was the first year the Authority began significant operations on January 1, 2009.

ANDERSON COUNTY WATER AUTHORITY

WATER TREATED, SOLD AND CONSUMED

Last Fiscal Year

<u>Fiscal Year</u>	<u>Gallons of Water (In Thousands)</u>			<u>Percent Lost</u>
	<u>Water Treated and Purchased</u>	<u>Water Sold and Consumed</u>	<u>Water Unbilled</u>	
2009	495,339	335,174	160,165	32.3%

Note: Fiscal year 2009 was the first year the Authority began significant operations on January 1, 2009.

ANDERSON COUNTY WATER AUTHORITY

ANNUAL TAP SALES
Last Fiscal Year

<u>Fiscal Year</u>	<u>Water Meter Taps Sold</u>	<u>Sewer Taps Sold</u>	<u>Total Taps</u>
2009	19	-	19

Note: Fiscal year 2009 was the first year the Authority began significant operations on January 1, 2009.

ANDERSON COUNTY WATER AUTHORITY

NUMBER OF CUSTOMERS BY TYPE
Last Fiscal Year

<u>Fiscal Year</u>	<u>Water</u>	<u>Wastewater</u>
2009	8,990	1,089

Note: Fiscal year 2009 was the first year the Authority began significant operations on January 1, 2009.

ANDERSON COUNTY WATER AUTHORITY

TEN LARGEST CUSTOMERS
Current Fiscal Year

Customer	Type of Business	2009	
		(A) Total Annual Sales	Percentage of Total Sales
City of Lake City	Municipality	\$ 49,634	2.65%
Thor Industries	Manufacturing	38,517	2.06
TVA	Electrical Power Distributor	26,684	1.42
Mariner Health	Health Care	26,488	1.41
Stardust Marina	Recreation	16,268	0.87
Waterside Marina	Recreation	16,043	0.86
Clinton Utility Board	Municipality	15,186	0.81
Rocky Top Marina	Recreation	11,843	0.63
City of Caryville	Municipality	5,851	0.31
Norris Dam State Park	Recreation	1,696	0.09
Total		\$ <u>208,210</u>	<u>11.11%</u>

Note: (A) Sales include net water revenues only for FY 2009 (6 Months).

ANDERSON COUNTY WATER AUTHORITY

OUTSTANDING DEBT PER CUSTOMER

Last Fiscal Year

<u>Fiscal Year</u>	<u>Revenue Bonds (A)</u>	<u>Number of Customers (B)</u>	<u>Outstanding Debt Per Customer</u>
2009	\$ 4,185,233	8,990	\$ 466

Notes: (A) Revenue Bonds are net of related discounts, premiums and deferred cost of defeasance.
(B) Water customers at year-end.
(C) Fiscal year 2009 was the first year the Authority began significant operations on January 1, 2009.

ANDERSON COUNTY WATER AUTHORITY

PLEDGED REVENUE COVERAGE

Last Fiscal Year

(A) Fiscal Year	(B) Gross Revenues	(C) Operating Expenses	Net Revenues Available for Debt Service	Debt Service Requirements			(E) Coverage Ratio
				Principal	(D) Interest Paid	Total	
2009	\$ 2,344,818	\$ 2,146,187	\$ 198,631	\$ 150,000	\$ 95,729	\$ 245,729	.80

- Notes: (A) *FY 2009 is for a six month period beginning January 1, 2009, the effective date of significant operations.*
 (B) *Includes operating revenues and, interest income received.*
 (C) *Does not include depreciation expenses.*
 (D) *Includes interest paid net of capitalized construction period interest.*
 (E) *The Bond Series 2008, covenants requires a coverage ratio of 1.20 effective for the fiscal year ending June 30, 2010.*

ANDERSON COUNTY WATER AUTHORITY

DEMOGRAPHIC AND ECONOMIC INDICATORS

Last Two Fiscal Years

Fiscal Year	Population	Personal Income In Thousands (A)	Per Capita Personal Income (A)	Median Age (A)	School Attendance (B)	Unemployment Rates (C)	
						County	State
2008	74,446	\$ 2,217,002	\$ 29,780	41.4	8,694	5.4%	6.4%
2009	74,738	2,258,433	30,218	41.4	8,541	10.8	11.1

*Notes: (A) U.S. Census Bureau and East Tennessee Development District.
 (B) Anderson County Schools.
 (C) Tennessee Department of Labor and Workforce Development.
 (D) The Authority was created in Fiscal Year 2008 on July 16, 2007.
 (E) Demographic and economic information is for Anderson County, Tennessee.*

ANDERSON COUNTY WATER AUTHORITY

PRINCIPAL EMPLOYERS

Current Fiscal Year

Customer	2009		Percentage of County Workforce
	Employees	Rank	
BWXT – Y12	4,500	1	12.56%
UT Battelle (Oak Ridge National Laboratory)	4,200	2	11.73
Anderson County Government	1,542	3	4.30
Methodist Medical Center	1,306	4	3.65
Bechtel Jacobs Co., LLC	1,337	5	3.73
City of Oak Ridge	1,053	6	2.94
Wackenhut	902	7	2.52
SAIC	902	8	2.52
Eagle Bend Manufacturing	624	9	1.74
Oak Ridge Associated Universities (ORAU)	600	10	1.68
Duratek Resource Recovery	510	11	1.43
Carlisle Tire and Wheel Co. (B)	400	12	1.12
Total	<u>17,876</u>		<u>49.92%</u>

Notes: (A) Source(s): Tennessee Department of Economic and Community Development and Tennessee Department of Labor and Workforce Development.

(B) Carlisle Tire and Wheel Co. was previously named Dico Tire.

ANDERSON COUNTY WATER AUTHORITY

EMPLOYEES BY FUNCTION
Last Fiscal Year

	<u>2009</u>
WATER AND WASTEWATER	
Water and Wastewater Systems	<u>20</u>
ADMINISTRATION	
Billing and Customer Service	4.5
Finance & Accounting	2
Administrative	<u>2</u>
	<u>8.5</u>
TOTAL EMPLOYEES	<u>28.5</u>

Note: Fiscal year 2009 was the first year the Authority began significant operations on January 1, 2009.

ANDERSON COUNTY WATER AUTHORITY
OPERATING AND CAPITAL INDICATORS
Last Fiscal Year

	<u>2009</u>
Area in Square Miles:	220
Water System:	
Miles of Water Mains	420
Number of:	
Service Connections (Water)	8,990
Water Treatment Plants	2
Wastewater Treatment Plants	1
Reservoirs	16
Water Pumping Stations	24
Wastewater Pumping Stations	19
Fire Hydrants	325
Daily Average Water Treatment in Gallons (MGD)	2.58
Daily Average Water Purchases in Gallons (MGD)	.12
Daily Average Water Sales and Consumption in Gallons (MGD)	1.84
Water Reservoir Storage Capacity (Millions of Gallons)	4.38

Note: (A) MGD = Million of gallons per day.

(B) Fiscal Year 2009 was the first year that the Authority began significant operations on January 1, 2009.

**INTERNAL CONTROL
AND
COMPLIANCE SECTION**

**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***

Board of Commissioners
Anderson County Water Authority
Clinton, Tennessee

We have audited the financial statements of the Anderson County Water Authority (the Authority) as of June 30, 2009 and 2008, and for the year ended June 30, 2009, and for the period from inception July 16, 2007 to June 30, 2008, and have issued our report thereon dated December 22, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Recommendations to be significant deficiencies in internal control over financial reporting as item numbered 09-1 to 09-5.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatements, 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 noncompliance 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*.

The Authority's response to the items numbered 09-1 to 09-5 identified in our audit is described in the accompanying Schedule of Audit Findings and Recommendations. We did not audit the Authority's response and accordingly, we express no opinion on it.

Board of Commissioners
Anderson County Water Authority
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We also noted certain matters that we reported to the Authority's management in a separate letter dated December 22, 2009.

This report is intended solely for the information and use of management, the Board of Commissioners and various governmental agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bacon Howard and Company

Knoxville, Tennessee
December 22, 2009

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS

June 30, 2009

A: SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Authority.
2. Five significant deficiencies were disclosed during the audit of the financial statements and are reported in the "Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. These significant deficiencies were not considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of the Authority which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS (Continued)

June 30, 2009

B. FINDINGS - FINANCIAL STATEMENT AUDIT

Item 09-1: Customer Accounts Receivable Adjustments (Significant Deficiency)

The Authority does not have adequate segregation of duties in the customer adjustment process. Presently, the cashiers have the ability to adjust customers' accounts receivable without approval from the billing supervisor or the general manager. In addition, we noted that the billing supervisor was not documenting customer adjustments that exceed the previous six months of average use as required by the Authority's written policies and procedures.

Recommendation:

We recommend that the Authority adjust its accounts receivable billing software to prevent the cashiers from making customer adjustments. Customer adjustments should be performed by the billing department and documented by a written log with the general manager's approval when required by policy.

Management's Response:

We concur and have implemented the recommendations noted above.

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS (Continued)

June 30, 2009

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

Item 09-2 Accounts Receivable Billing Process (Significant Deficiency)

We noted that the Authority will complete the reading of meters, print the billing and then wait an additional 30 days before mailing almost half of the Authority's customers who are from the former NACUD territory. This practice immediately ages the accounts receivable by 30 days, delays cash receipting, and increases the Authority's bad debt exposure.

Recommendation:

We recommend that the Authority discontinue this practice and mail customer billings in a more timely manner.

Management's Response:

This is a practice that the Authority inherited as part of the consolidation of NACUD and ACUB. We have reviewed our customer billing and mailing dates by route and anticipate correcting this issue by April 30, 2010.

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS (Continued)

June 30, 2009

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

Item 09-3 Accounts Payable Procedures (Significant Deficiency)

We noted the following:

- a. The Authority is not using purchase orders for certain purchases that exceed \$500, as required by the purchasing policies and procedures.
- b. There is no documented approval of vendors' invoices by the general manager prior to payment.
- c. Accounts payable documentation, such as vendors' invoices, bills of lading, purchase orders, or receiving reports are not attached to the accounts payable check for the signator's review.

Recommendation:

We recommend the following:

- a. Purchase orders should be issued prior to the ordering of goods and services for certain individual purchases exceeding \$500, as required by policy.
- b. The general manager should review and document his approval of vendors' invoices before accounts payable checks are prepared.
- c. All accounts payable documentation should be attached to accounts payable checks for signator's review.

Management's Response:

We concur and will implement the recommendations noted above.

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS (Continued)

June 30, 2009

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

Item 09-4 Payroll Procedures (Significant Deficiency)

We noted the following:

- a. Employee time cards are not being reviewed and approved by supervisors prior to submission to the office manager as required by the Authority's personnel policy.
- b. The payroll register is not being reviewed and approved by the general manager.

Recommendation:

We recommend that employee time cards be reviewed and approval documented before the payroll is prepared. In addition, we recommend that the general manager review and document his approval of the payroll register.

Management's Response:

We concur and will implement the recommendation noted above.

Item 09-5 Review and Approval of Bank Statements and Reconciliations (Significant Deficiency)

During the audit, we noted that the monthly bank statements, check images, and reconciliations are not being reviewed and approved by the general manager or his designee, such as the Authority's accountant.

Recommendation:

We recommend that the general manager or his designee review and approve the monthly bank statements, check images, and reconciliations.

Management's Response:

We concur and will review the recommendation with our outside accountant.

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2009

Item	Finding Type	Status
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Not applicable since the Authority began significant operations on January 1, 2009.