

**HAMILTON COUNTY WATER &
WASTEWATER TREATMENT AUTHORITY
FINANCIAL STATEMENTS**

June 30, 2009

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Commissioners
Hamilton County Water & Wastewater Treatment Authority
Chattanooga, Tennessee

We have audited the accompanying statement of net assets of Hamilton County Water & Wastewater Treatment Authority (a component unit of Hamilton County, Tennessee) (the Authority) as of June 30, 2009, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Hamilton County Water & Wastewater Treatment Authority as of and for the year ended June 30, 2008, were audited by other auditors whose report dated November 14, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of Hamilton County Water & Wastewater Treatment Authority as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2010, on our consideration of Hamilton County Water & Wastewater Treatment Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 read in conjunction with this report in considering the results of our audit.

Management has not presented Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Budgetary comparison information on pages 19 through 21 is not a required part of the basic financial statements but is 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 measurement and presentation of the required supplementary information. However, we did not audit the information and expressed no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic 2009 financial statements taken as a whole. The accompanying information shown on pages 22 through 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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.

Joseph DeCarino and Company, PLLC

Chattanooga, Tennessee
January 6, 2010

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
STATEMENTS OF NET ASSETS**

June 30, 2009 and 2008

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,204,640	\$ 2,477,300
Accounts receivable	940,207	1,057,751
Interest receivable	2,528	2,148
Prepaid expenses	22,894	22,787
Inventory	<u>274,404</u>	<u>51,150</u>
Total current assets	<u>4,444,673</u>	<u>3,611,136</u>
NONCURRENT ASSETS		
Accounts receivable - restricted	123,007	136,817
Bond discount and issuance cost, net	<u>133,884</u>	<u>147,278</u>
Total noncurrent assets	<u>256,891</u>	<u>284,095</u>
CAPITAL ASSETS		
Cost of plant in service	104,486,938	97,605,007
Land improvements	5,200	-
Buildings	153,836	153,836
Machinery and equipment	384,309	359,381
Automobiles	632,350	608,650
Construction in progress	3,199,783	2,760,331
Accumulated depreciation	<u>(17,664,618)</u>	<u>(14,721,707)</u>
Capital assets, net	<u>91,197,798</u>	<u>86,765,498</u>
TOTAL ASSETS	\$ <u>95,899,362</u>	\$ <u>90,660,729</u>

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

	2009	2008
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Due to Hamilton County, Tennessee	\$ 153,552	\$ 160,954
Due to other government	478,806	184,105
Accounts payable	167,869	120,716
Accrued interest	214,316	241,636
Contractor deposit	106,652	4,425
Reserve for grind pump maintenance	221,404	191,050
Reserve for overflow	57,222	27,222
Current portion of long-term debt	<u>7,417,464</u>	<u>1,089,538</u>
Total current liabilities	<u>8,817,285</u>	<u>2,019,646</u>
NONCURRENT LIABILITIES		
Long-term debt	23,580,126	30,992,605
Bond premium	<u>111,155</u>	<u>120,666</u>
Total noncurrent liabilities	<u>23,691,281</u>	<u>31,113,271</u>
Total liabilities	<u>32,508,566</u>	<u>33,132,917</u>
NET ASSETS		
Invested in capital assets, net of related debt	60,089,053	54,562,689
Restricted	269,270	136,817
Unrestricted	<u>3,032,473</u>	<u>2,828,306</u>
Total net assets	<u>63,390,796</u>	<u>57,527,812</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>95,899,362</u>	\$ <u>90,660,729</u>

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2009 and 2008**

	2009	2008
OPERATING REVENUES		
Sewer revenue	\$ 8,046,321	\$ 7,701,214
PSLP revenue	154,599	-
Grinder pump revenue	62,570	122,960
Tap on fees	407,560	318,100
Inspection fees	<u>65,709</u>	<u>155,372</u>
Total operating revenues	<u>8,736,759</u>	<u>8,297,646</u>
OPERATING EXPENSES		
Personnel services	1,557,219	1,338,009
Wheelage and treatment service	2,608,764	2,055,932
PSLP expense	55,227	-
Other operating expense	<u>978,566</u>	<u>1,153,978</u>
Total operating expenses	<u>5,199,776</u>	<u>4,547,919</u>
OPERATING INCOME BEFORE DEPRECIATION	3,536,983	3,749,727
Depreciation	<u>2,942,911</u>	<u>2,615,090</u>
OPERATING INCOME	<u>594,072</u>	<u>1,134,637</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	40,212	78,846
Interest expense	(947,061)	(1,115,057)
Other income	<u>14,787</u>	<u>8,464</u>
Nonoperating expenses, net	<u>(892,062)</u>	<u>(1,027,747)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(297,990)	106,890
Capital contributions	<u>6,160,974</u>	<u>12,242,793</u>
CHANGE IN NET ASSETS	5,862,984	12,349,683
NET ASSETS - beginning of year	<u>57,527,812</u>	<u>45,178,129</u>
NET ASSETS - end of year	<u>\$ 63,390,796</u>	<u>\$ 57,527,812</u>

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

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008**

	2009	2008
OPERATING ACTIVITIES		
Cash receipts from customers	\$ 8,868,113	\$ 8,642,897
Payments to suppliers	<u>(4,912,709)</u>	<u>(5,486,695)</u>
Net cash flows from operating activities	<u>3,955,404</u>	<u>3,156,202</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(1,291,089)	(2,671,968)
Reimbursement from state of Tennessee	76,852	-
Principal payments on long-term debt	(1,084,553)	(1,095,350)
Proceeds from long-term debt	-	2,011,276
Bond discount and issuance costs	-	13,394
Interest paid on long-term debt	<u>(983,892)</u>	<u>(1,131,372)</u>
Net cash flows from capital and related financing activities	<u>(3,282,682)</u>	<u>(2,874,020)</u>
INVESTING ACTIVITIES		
Interest received	39,832	86,446
Other income received	<u>14,786</u>	<u>8,464</u>
Net cash flows from investing activities	<u>54,618</u>	<u>94,910</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	727,340	377,092
CASH AND CASH EQUIVALENTS - beginning of year	<u>2,477,300</u>	<u>2,100,208</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 3,204,640</u>	<u>\$ 2,477,300</u>

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

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008**

	2009	2008
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 594,072	\$ 1,134,637
Adjustments to reconcile operating income to net cash flows from operating activities -		
Depreciation	2,942,911	2,615,090
Amortization	13,394	-
Provision for grind pump maintenance reserve	30,354	28,209
Provision for overflow reserve	30,000	27,222
Changes in operating assets and liabilities -		
Accounts receivable	117,544	359,715
Accounts receivable - restricted	13,810	(9,204)
Prepaid expenses	(107)	(9,397)
Inventory	(223,254)	152,158
Accounts payable and accruals	334,453	(1,136,969)
Deferred revenue	-	(5,259)
Contractor deposit	102,227	-
	<u>3,955,404</u>	<u>3,156,202</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ <u>3,955,404</u>	\$ <u>3,156,202</u>
 NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions of wastewater treatment capital assets	\$ 6,084,122	\$ 12,242,793

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

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and procedures followed by the Authority are as follows:

REPORTING ENTITY - Hamilton County Water & Wastewater Treatment Authority, a component unit of Hamilton County, Tennessee (the County), is legally separate from the County, but the County is considered to be financially accountable for the Authority. The Authority is organized under the Water and Wastewater Treatment Authority Act of the State of Tennessee. The Authority began operations on July 1, 1994, for the purpose of providing wastewater treatment service to residents of unincorporated areas of Hamilton County, Tennessee. Under the Act, Hamilton County is authorized to form the Authority, and other local governments in Hamilton County may join the Authority at their discretion. As of June 30, 2009, Hamilton County, the City of Lake Site, the City of Ridgeside, the City of Soddy Daisy, the City of East Ridge, the Town of Signal Mountain, the City of Red Bank and the Town of Lookout Mountain are the only participating governments. The governing body of the Authority is the Board of Commissioners consisting of five individuals appointed by the executive officer of Hamilton County and approved by the County's Board of Commissioners. The County's Board of Commissioners does not approve the Authority's budget but the County does finance debt for the Authority's capital projects at its discretion. The Authority's Board of Commissioners has final decision-making authority for the entity.

The accounting policies of the Authority conform to the generally accepted accounting principles applicable to governmental entities. The more significant accounting policies of the Authority are summarized as follows:

MEASUREMENT FOCUS, BASIS ACCOUNTING AND BASIS OF PRESENTATION - The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the cash flows. In accordance with generally accepted accounting principles, the Authority has elected to apply all applicable Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, except for those that conflict with Governmental Accounting Standards Board pronouncements.

Revenues from water treatment services are recognized when the related water treatment charges are billed by the respective water utility.

Meter and service line tap fees are recognized as income when cash are received and the costs of installing the meters and service lines are recognized as expenses when services are provided.

Private lateral service program fees are recognized when the related water treatment charges are billed by the respective water utility.

NET ASSETS - The Authority has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (Statement 34) and Statement No. 38, *Certain Financial Statement Disclosures* (Statement 38). Statements 34 and 38 establish standards for external financial reporting and disclosure for all state and local governmental entities, which include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

cash flows. Statement 34 requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in Capital Assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted Net Assets - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Authority's policy is generally to use any restricted net assets first, as appropriate opportunities arise.
- Unrestricted Net Assets - This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt. While management may have categorized and segmented portions for various purposes, the Authority has the unrestricted authority to revisit or alter these managerial decisions.

BUDGETS - The Authority adopts an annual budget on or before July 1 of each year and operates under an annual budget. The budget is prepared on the same basis of accounting as the fund financial statements. The budget presents a financial plan for the ensuing fiscal year. The budget and plan are in accordance with such guidelines as may be required by law, or adopted by the Board, from time to time. The budget is monitored on a monthly basis by the management of the Authority.

CASH AND CASH EQUIVALENTS - The Authority considers all highly liquid investments with original maturities of three months or less to be cash or cash equivalents. These include cash on hand, amounts held in bank accounts and certificates of deposit. The Authority maintains cash and cash equivalent accounts with individual financial institutions which may exceed federally insured amounts at times and which may at times significantly exceed statement of net asset amounts due to outstanding checks. The financial institutions are members of the Tennessee State Collateral Pool.

INVENTORY - Inventory is valued at the lower of cost, which is determined using the first-in, first-out method, or market. Inventory consists of numerous grinder pumps. The costs are recognized as expenditures at the time individual inventory items are consumed.

BOND PREMIUM, DISCOUNTS AND BOND ISSUANCE COSTS - Bond premiums and discounts, as well as issuance costs, are stated at unamortized cost and are being amortized over the life of the bonds using the straight-line method. Amortization expense related to bond discounts and issuance costs totaled \$13,394 for 2009 and 2008, and is estimated to be \$5,824 for 2010 through 2014. Bond premium payables as of June 30, 2009 and 2008, was \$111,155 and \$120,666, respectively.

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

RESTRICTED NET ASSETS - Restricted assets consist of private service lateral program receivables and other assets. These assets are to be used for projects as specified by the Board and for purposes specified in the 1996 Tennessee Local Development Authority Sewer Treatment Water Works loan.

CAPITAL ASSETS - Capital assets include land, plant and equipment, and furniture and fixtures reported at cost less accumulated depreciation. The cost for assets contributed to the Authority from Hamilton County was recorded based on Hamilton County Engineering Department's estimate of the original cost. Capital assets received from the City of Soddy Daisy, City of East Ridge, Town of Signal Mountain and City of Red Bank were recorded based on the cost of the assets to the cities less accumulated depreciation through the date of transfer. Purchased and constructed assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Expenditures for additions, improvements, replacements, betterments and major renewals are capitalized. Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred.

DEPRECIATION - Depreciation is provided using the straight-line method over the estimated useful lives of the depreciable assets. The estimated useful life of the system contributed by governmental entities is based upon estimates established by the engineering department of the transferring entity or the remaining life of the assets at the time of the contribution.

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Sewer line	40 years
Lateral	40 years
Land and building improvements	25 - 40 years
Machinery and equipment	5 - 10 years
Automobiles	5 years

INCOME TAXES - The Authority is exempt from federal and state income taxes under current statutes.

CAPITALIZED INTEREST - The Authority capitalizes interest costs net of interest earned as part of the cost of construction when material. As of June 30, 2009 and 2008, the Authority has determined the interest costs net of interest earned as part of the cost of construction were not material.

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

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

SUBSEQUENT EVENTS - For the year ended June 30, 2009, the Authority has evaluated subsequent events for potential recognition and disclosure through January 6, 2010, the date of financial statement issuance.

RECLASSIFICATIONS - Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

NOTE 2 - FORMATION AND OPERATION OF THE AUTHORITY

In accordance with the Water and Wastewater Treatment Authority Act, the Authority began operations on July 1, 1994. To establish the Authority, Hamilton County contributed wastewater facilities. The City of Soddy Daisy joined the Authority on January 1, 1995, the City of East Ridge joined the Authority on November 1, 2001, the Town of Signal Mountain joined the Authority on September 1, 2002, and the City of Red Bank joined the Authority on November 1, 2003. All municipalities contributed wastewater facilities to the Authority.

The amounts initially contributed to the Authority were as follows:

Hamilton County	\$ 4,526,376
City of Soddy Daisy	1,956,691
City of East Ridge	6,984,098
Town of Signal Mountain	3,298,973
City of Red Bank	<u>4,893,397</u>
	<u>\$ 21,659,535</u>

At the time Soddy Daisy joined the Authority, bonds payable of \$299,308 were assumed by the Authority. At the time East Ridge joined the Authority, bonds payable of \$1,384,029 were assumed by the Authority. At the time the Town of Signal Mountain joined the Authority, the Town agreed to pay all current outstanding bonds, grants or loans obtained for improvements of any facilities transferred to the Authority based upon available funds within the fiscal year 2003 - 2005. At the time the City of Red Bank joined the Authority, bonds payable of \$12,782,940 were assumed by the Authority.

Currently, the Authority has no employees and reimburses Hamilton County for personnel cost and insurance coverage related to the operation of the facilities.

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2009	2008
Trade receivables	\$ 899,154	\$ 1,016,267
Other accounts receivable	<u>41,053</u>	<u>41,484</u>
	<u>\$ 940,207</u>	<u>\$ 1,057,751</u>

The Authority performs ongoing credit evaluations of its customers' financial condition but does not require collateral to support receivable. The Authority has determined that an allowance for doubtful accounts for accounts receivable is not necessary as of June 30, 2009 and 2008.

NOTE 4 - RESTRICTED NET ASSETS

The Authority's restricted net assets as of June 30, 2009 and 2008, consist of the following:

	2009	2008
Receivable - Red Bank Unapplied Reserve	\$ 103,517	\$ 103,517
Receivable - Private Lateral Service Program	146,263	-
Receivable - Inspection Fees	<u>19,490</u>	<u>33,300</u>
	<u>\$ 269,270</u>	<u>\$ 136,817</u>

NOTE 5 - DUE TO HAMILTON COUNTY, TENNESSEE

The amount due Hamilton County, Tennessee as of June 30, 2009 and 2008, totaled \$153,552 and \$160,954, respectively. The amounts represent operating expenses incurred by the Authority which are paid by Hamilton County, Tennessee. These costs are reimbursed by the Authority on a monthly basis.

NOTE 6 - DUE TO OTHER GOVERNMENT

The amounts due to other government represents amounts owed to the City of Chattanooga for wheelage and treatment expenses as of June 30, 2009 and 2008, in the amount of \$478,806 and \$184,105, respectively.

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - CAPITAL ASSETS

Capital assets are summarized as follows:

	June 30, 2008	Additions	Deletions	June 30, 2009
Capital assets being depreciated				
Cost of plant in service	\$ 97,605,007	\$ 6,881,931	\$ -	\$ 104,486,938
Land improvements	-	5,200	-	5,200
Buildings	153,836	-	-	153,836
Machinery and equipment	359,381	24,928	-	384,309
Automobiles	<u>608,650</u>	<u>23,700</u>	<u>-</u>	<u>632,350</u>
Total capital assets being depreciated	98,726,874	6,935,759	-	105,662,633
Capital assets not being depreciated				
Construction in progress	<u>2,760,331</u>	<u>439,452</u>	<u>-</u>	<u>3,199,783</u>
Total capital assets	<u>101,487,205</u>	<u>7,375,211</u>	<u>-</u>	<u>108,862,416</u>
Accumulated depreciation				
Cost of plant in service	14,055,264	2,803,452	-	16,858,716
Land improvements	-	22	-	22
Buildings	17,980	6,098	-	24,078
Machinery and equipment	205,298	40,814	-	246,112
Automobiles	<u>443,165</u>	<u>92,525</u>	<u>-</u>	<u>535,690</u>
Total accumulated depreciation	<u>14,721,707</u>	<u>2,942,911</u>	<u>-</u>	<u>17,664,618</u>
Capital assets, net	<u>\$ 86,765,498</u>	<u>\$ 4,432,300</u>	<u>\$ -</u>	<u>\$ 91,197,798</u>

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - LONG-TERM DEBT

Hamilton County

Hamilton County and the Authority have jointly issued \$6,500,000 of Hamilton County General Obligation Bonds. The bonds bear interest at varying rates from 6.0% to 6.3% and are to be repaid through 2025. The bonds were issued to finance the design and construction of various wastewater projects undertaken by the Authority.

The joint bond issue is recorded on the records of Hamilton County, Tennessee. Repayment is to be made first through the use of Hamilton County privilege tax and secondly through other taxes to be levied against Hamilton County property owners. If such levy is not sufficient, the Authority will use operating revenues, after paying current expenses and other future bond principal and interest, to service the debt.

Hamilton County issued \$40,000,000 of Hamilton County General Obligation Bond Series 2005 of which the Authority received and has agreed to repay \$10,000,000. The bonds bear interest at varying rates from 4.0% to 5.0% and are to be repaid through 2034. The proceeds of the bonds were used to pay back the \$3,883,893 line of credit with First Tennessee Bank in 2004. The remainder was recorded as restricted cash as of June 30, 2004, and was used to finance the design and construction of various wastewater projects undertaken by the Authority. Interest is payable semiannually on the first day of January and July of each year and mature serially on January 1 of each year based on agreements. The principal balance as of June 30, 2009 and 2008, was \$9,007,737 and \$9,227,890, respectively.

Collegedale

In October 1997, the Authority entered into a Loan Agreement (the Agreement) with the City of Collegedale to jointly fund and construct a sewer project located along Ooltewah-Ringgold Road in the Rabbit Valley Basin. In June 2001, the City of Collegedale procured a State Revolving Fund Loan. The Authority is obligated under the Agreement to repay the Loan in installments consisting of (i) principal repayments payable monthly for a 20-year term in certain amounts and on certain dates as specified in the Agreement, and (ii) interest and certain expenses calculated and billed at the rate or rates and on the date or dates as specified in the Agreement. The Authority's share on this note was \$291,719 and \$311,532 as of June 30, 2009 and 2008, respectively.

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - LONG-TERM DEBT - continued

Red Bank

In October 2003, the Authority entered into an Agreement with the City of Red Bank to accept the transfer of the City's wastewater treatment facilities and to assume all current outstanding debt obligations incurred to develop the facilities, which are summarized as follows:

- (i) 1993 City of Red Bank Sewer Revenue and Tax Bonds in the principal amount of \$2,160,000. The bonds bear interest at 4.756% per annum and were repaid in March 2009. The principal balance as of June 30, 2009 and 2008, was \$0 and \$405,000, respectively.
- (ii) Red Bank Sewer Revenue and Tax Bonds Series A-2-H in the principal amount of \$3,340,000. The bonds bear interest at a variable rate, currently at 3.25%. Interest only is payable quarterly on the 25th day of February, May, August and November each year through 2010, with bonds payable through June 2017. The principal balance as of June 30, 2009 and 2008, was \$3,340,000.
- (iii) 1996 Tennessee Local Development Authority Sewer Treatment Water Works loan in the principal amount of \$1,126,338. Interest rate is variable, currently at 3.5%. Principal and interest in the amount of \$8,626 are payable in monthly installments through March 2017. The principal balance as of June 30, 2009 and 2008, was \$683,397 and \$758,916, respectively.
- (iv) State of Tennessee Revolving Loan in the original principal amount of \$6,917,000, bearing interest at 3.752%. Principal and interest are payable in monthly installments through August 2020. The principal balance as of June 30, 2009 and 2008, was \$4,511,486 and \$4,827,974, respectively.

Other Notes

In November 2005, the Authority entered into an installment note agreement for \$300,000 with First Tennessee Bank for the purchase of equipment. The Authority is obligated under the agreement to repay the loan in installments consisting of (i) principal repayments payable monthly for a 59-month term in certain amounts and on certain dates as specified in the agreement, and (ii) interest and certain expenses calculated and billed at a variable rate (LIBOR rate plus 0.00%). The current interest rate as of June 30, 2009, was 1.3163%. As of June 30, 2009 and 2008, the principal balance was \$49,438 and \$106,529, respectively.

The Authority has line of credit with First Tennessee Bank with a credit limit of \$9,000,000. Balance is due on June 1, 2010, with a floating interest rate (currently at 1.5763%). Interest is payable monthly. As of June 30, 2009 and 2008, the principal balance was \$6,724,968.

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - LONG-TERM DEBT - continued

A summary of the changes in long-term debt is as follows:

	June 30, 2008	Additions	Retirements	Amortization of Bond Premium	June 30, 2009
Due to Hamilton County 6.5 Million Bond	\$ 6,500,000	\$ -	\$ -	\$ -	\$ 6,500,000
Due to Hamilton County 10 Million Bond	9,227,890	-	(215,000)	(5,153)	9,007,737
Collegedale Bond Payable	311,532	-	(19,813)	-	291,719
Red Bank SRF 97-108 Bond Payable	4,827,974	-	(316,488)	-	4,511,486
Red Bank 1996 Bond Payable	758,916	-	(71,161)	(4,358)	683,397
Red Bank 1993 Sewer Bond	405,000	-	(405,000)	-	-
Red Bank A-2-H Bond Payable	3,340,000	-	-	-	3,340,000
First Tennessee Installment Notes	106,529	-	(57,091)	-	49,438
First Tennessee Line of Credit	<u>6,724,968</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,724,968</u>
	32,202,809	-	(1,084,553)	(9,511)	31,108,745
Current portion	<u>(1,089,538)</u>	<u>(6,327,926)</u>	<u>-</u>	<u>-</u>	<u>(7,417,464)</u>
	<u>\$ 31,113,271</u>	<u>\$ (6,327,926)</u>	<u>\$ (1,084,553)</u>	<u>\$ (9,511)</u>	<u>\$ 23,691,281</u>

Debt service requirements for the years subsequent to June 30, 2009, are as follows:

Year ending	Principal	Interest
June 30, 2010	\$ 7,417,464	\$ 760,489
June 30, 2011	993,719	734,933
June 30, 2012	1,130,093	692,807
June 30, 2013	1,172,719	643,731
June 30, 2014	1,216,349	592,152
June 30, 2015-2034	<u>12,567,246</u>	<u>4,645,744</u>
	24,497,590	8,069,856
Bond payable - Hamilton County (terms yet undefined)	<u>6,500,000</u>	<u>-</u>
Debt service requirement	30,997,590	8,069,856
Plus bond premium	<u>111,155</u>	<u>-</u>
Net debt service requirement	<u>\$ 31,108,745</u>	<u>\$ 8,069,856</u>

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - CREDIT RISK

Custodian credit risk - The Authority's policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be covered by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Authority's agent in the Authority's name, or by the Federal Reserve Banks acting as third-party agents. The statutes also authorize the type of investments in which the Authority can participate. The Authority may invest in any instruments which are in accordance with applicable laws, including but not limited to the following: certificates of deposit and savings accounts in banks and savings and loan institutions; Tennessee Valley Authority Bonds; bonds, notes or treasury bills of the United States; Federal Land Bank bonds; Federal Home Loan Bank notes and bonds; Federal National Mortgage Association notes and debentures, banks for cooperative debentures, or any of its other agencies, or obligations guaranteed as to principal and interest by the United States; the pooled investment fund of the State of Tennessee; or repurchase agreements.

Credit risk - As of June 30, 2009, the Authority's investments consist of moneys invested in the state investment pool, which is a 2a7-like pool. The state investment pool is not rated. Withdrawals from the state investment pool are made upon demand.

NOTE 10 - RISK FINANCING AND INSURANCE-RELATED ACTIVITIES

Because the Authority has contracted with the primary governmental unit, Hamilton County, for employee services, such employees are insured by the primary government; therefore, no risks associated with financing and insurance-related activities exist. Hamilton County has signed an agreement assuming all claims and losses resulting from actions of its employees and indemnifies the Authority for any such losses and expenses.

NOTE 11 - INSURANCE FOR OFFICERS AND DIRECTORS

The Authority maintains insurance for officers and directors to a \$3,000,000 limit with \$25,000 deductible and a \$25,000 EPLI deductible. The cost for the years ended June 30, 2009 and 2008, totaled \$5,704 and \$8,869, respectively.

NOTE 12 - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2008 and for the period from July 1, 2008 through December 31, 2008, the Chairman of the Board of the Authority was a partner in the firm which performs certain bookkeeping functions for the Authority. The Authority paid Barto, Hoss & Company, P.C. \$3,876 and \$5,529 as of June 30, 2009 and 2008, respectively.

SUPPLEMENTARY INFORMATION

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
SCHEDULE OF ACTUAL TO BUDGET COMPARISON**

Year Ended June 30, 2009

	2009 Actual	2009 Budget	Variance	% Variance Favorable (Unfavorable)
OPERATING REVENUES				
Sewer revenue	\$ 8,046,321	\$ 8,277,050	\$ (230,729)	(3)%
PSLP revenue	154,599	-	154,599	-
Grinder pump revenue	62,570	125,000	(62,430)	(50)%
Tap on fees	407,410	300,000	107,410	36 %
PSLP tap on fees	150	-	150	-
Inspection fees	<u>65,709</u>	<u>150,000</u>	<u>(84,291)</u>	(56)%
	<u>8,736,759</u>	<u>8,852,050</u>	<u>(115,291)</u>	(1)%
OPERATING EXPENSES	5,144,549	5,065,650	78,899	2 %
PSLP EXPENSES	55,227	-	55,227	-
DEPRECIATION	<u>2,942,911</u>	<u>2,866,500</u>	<u>76,411</u>	3 %
OPERATING INCOME	<u>594,072</u>	<u>919,900</u>	<u>(325,828)</u>	(35)%
NONOPERATING REVENUES (EXPENSES)				
Interest income	40,212	85,000	(44,788)	(53)%
Interest expense	(947,061)	(1,012,400)	65,339	(6)%
Other income	12,087	2,500	9,587	383 %
Sewer plan review income	<u>2,700</u>	<u>5,000</u>	<u>(2,300)</u>	(46)%
	<u>(892,062)</u>	<u>(919,900)</u>	<u>27,838</u>	(3)%
CAPITAL CONTRIBUTIONS	<u>6,160,974</u>	<u>-</u>	<u>6,160,974</u>	-
CHANGE IN NET ASSETS	<u>\$ 5,862,984</u>	<u>\$ -</u>	<u>\$ 5,862,984</u>	-

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
SCHEDULE OF ACTUAL TO BUDGET COMPARISON**

Year Ended June 30, 2009

	2009 Actual	2009 Budget	Variance	% Variance Favorable (Unfavorable)
OPERATING EXPENSES				
Telephone	\$ 48,894	\$ 55,000	\$ (6,106)	(11)%
Cost of grinder pumps	57,051	112,500	(55,449)	(49)%
Electricity	144,851	130,000	14,851	11 %
Natural gas	2,331	2,500	(169)	(7)%
Water	15,767	16,000	(233)	(1)%
Comcast	2,280	2,500	(220)	(9)%
Repairs and maintenance	120,897	150,000	(29,103)	(19)%
Emergency repairs	29,163	70,000	(40,837)	(58)%
Grinder pump repair	30,354	38,000	(7,646)	(20)%
Wheelage and treatment	2,608,763	2,150,000	458,763	21 %
Overflow expense	510	-	510	-
Inspection expenses	25,680	125,000	(99,320)	(79)%
Engineering studies	16,299	34,000	(17,701)	(52)%
Permits	4,850	4,500	350	8 %
Personal costs	1,554,650	1,797,700	(243,050)	(14)%
Uniform expense	2,569	5,000	(2,431)	(49)%
Auto expense	77,574	105,000	(27,426)	(26)%
Sludge hauling	39,433	60,000	(20,567)	(34)%
Liability and property insurance	5,704	8,500	(2,796)	(33)%
Operating travel and training	10,636	12,000	(1,364)	(11)%
Operating - miscellaneous	-	1,200	(1,200)	(100)%
Odor control	94,959	-	94,959	-
Recording fee for easements	461	-	461	-
Amortization - computer software	18,586	12,500	6,086	49 %
Legal services	66,514	40,000	26,514	66 %
Other professional services	16,825	24,000	(7,175)	(30)%
Accounting and auditing	25,868	20,000	5,868	29 %
Amortization - bond issue	13,394	13,500	(106)	(1)%
Bank charges	1,376	-	1,376	-
Advertising	4,962	2,000	2,962	148 %
Office expense	30,935	13,500	17,435	129 %
Postage	1,531	1,750	(219)	(13)%
Board meetings	5,393	4,500	893	20 %
Settlement claims	30,900	30,000	900	3 %

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
SCHEDULE OF ACTUAL TO BUDGET COMPARISON**

Year Ended June 30, 2009

	2009 Actual	2009 Budget	Variance	% Variance Favorable (Unfavorable)
Association dues	\$ 7,390	\$ 15,000	\$ (7,610)	(51)%
Office rent	10,153	-	10,153	- %
Parking	5,430	-	5,430	- %
License renewal	838	3,000	(2,162)	(72)%
Tennessee One Call System	10,778	6,500	4,278	66 %
Repairs and maintenance - PSLP	34,637	-	34,637	- %
Personnel costs - PSLP	7,990	-	7,990	- %
Legal services - PSLP	12,012	-	12,012	- %
Office expense - PSLP	252	-	252	- %
Postage - PSLP	<u>336</u>	<u>-</u>	<u>336</u>	- %
	<u>\$ 5,199,776</u>	<u>\$ 5,065,650</u>	<u>\$ 134,126</u>	3 %

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
SCHEDULES OF OPERATING EXPENSES**

Years Ended June 30, 2009 and 2008

	2009	2008
Telephone	\$ 48,894	\$ 48,944
Cost of grinder pumps	57,051	174,373
Electricity	144,851	107,679
Natural gas	2,331	2,330
Water	15,767	14,330
System maintenance	120,897	98,808
Grinder pump repair	30,354	37,481
Wheelage and treatment	2,608,763	2,055,932
Overflow expense	510	268
Inspection expense	25,680	154,142
Engineering studies	16,299	33,360
Permits and inspection fees	4,850	4,500
Odor control	94,959	-
Sludge hauling	39,433	56,117
Personnel expenses	1,554,650	1,330,069
Property insurance	5,704	8,869
Auto expense	65,562	93,420
Legal	78,526	104,176
Uniform	2,569	7,939
Emergency repairs	29,163	39,198
Accounting	25,868	19,589
Amortization	13,394	13,394
Computer expense	18,586	12,406
Office expense	37,859	19,462
Office rent	10,153	-
Travel and meetings	10,636	11,597
Association dues	7,390	28,839
Settlement claims	30,900	30,000
License renewal	838	2,958
Tennessee one call system	10,778	6,024
Easement expense	461	1,109
Miscellaneous	30,873	30,606
PSLP expense -		
Repair and maintenance	34,637	-
Personnel costs	7,990	-
Legal services	12,012	-
Office expense	252	-
Postage	336	-
	<u>5,199,776</u>	<u>4,547,919</u>
	\$	\$

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
SCHEDULE OF WASTEWATER RATES
Year Ended June 30, 2009**

The following monthly wastewater rates were in effect as of June 30, 2009:

Gallons/Month	Cost/1,000 Gallons
First 100,000	\$ 4.63
Next 650,000	3.40
Next 1,250,000	2.73
Over 2,000,000	1.96

The minimum monthly bill, based on water meter size, is as follows:

Water Meter Size	Minimum Gallons	Minimum Bill
Less than 1"	2,000	\$ 9.26
1"	14,301	66.18
1-1/2"	32,007	148.12
2"	56,671	262.26
3"	132,841	614.74
4"	245,494	1,136.06
6"	584,729	2,705.93
8"	1,034,280	4,786.30

The Red Bank rates as of June 30, 2009, are as follows:

Water Meter Size	Minimum Gallons	Minimum Bill
Less than 1"	1,500	\$ 11.17
1"	13,000	79.13
1-1/2"	30,000	179.61
2"	50,000	297.81
3"	120,000	711.51
4"	220,000	1,302.51
6"	530,000	3,134.61
8"	940,000	5,557.71

INTERNAL CONTROL AND COMPLIANCE

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

To the Board of Commissioners
Hamilton County Water & Wastewater Treatment Authority
Chattanooga, Tennessee

We have audited the financial statements of Hamilton County Water & Wastewater Treatment Authority as of and for the year ended June 30, 2009, and have issued our report thereon dated January 6, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement 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 the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 considered 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 findings and responses, Items 2009-01, 2009-02 and 2009-03 to be significant deficiencies in internal control over financial reporting.

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 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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, of the significant deficiencies described above, we considered items 2009-03 to be a material weakness.

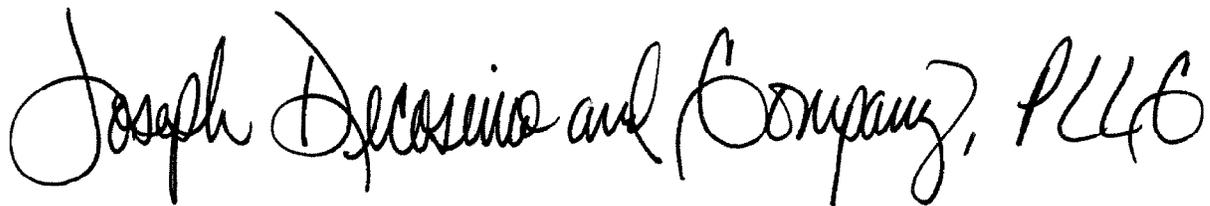
Compliance and Other Matters

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

We noted certain matters that we reported to management of the Authority in a separate letter dated January 6, 2010.

The Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and responses and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Joseph DeCarino and Company, PLLC". The signature is written in a cursive, flowing style.

Chattanooga, Tennessee
January 6, 2010

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES**

Year Ended June 30, 2009

2009-01 - INTERNAL CONTROL OVER CASH RECEIPTS

Condition and Criteria: Checks that were received by mail before January 2009 were not restrictively endorsed and it is impossible to identify the date of receiving the checks. Furthermore, as required by the state of Tennessee, all cash receipts must be deposited to the bank in less than 3 days of cash receipts. During our audit procedures, we noted certain checks that were deposited to the bank in excess of 3 days.

Effect: The condition does not allow the Authority, in the normal course of performing its assigned functions, to prevent or detect misstatements in financial reporting on a timely basis.

Auditor's Recommendations: All checks should be immediately restrictively endorsed when the mail is opened by stamping checks "for deposit only" and the date of receipt. We also suggest that all deposits to the bank be made on a daily basis.

View of responsible official: We concur with finding and have complied.

2009-02 - USING PURCHASE ORDER OR REQUISITION

Condition and Criteria: Only purchase order numbers are created without any additional supporting documentation. Only packing slips are currently being used as evidence of receipt of goods.

Effect: The condition does not allow the Authority, in the normal course of performing its assigned functions, to prevent or detect misstatements in financial reporting on a timely basis.

Auditor's Recommendations:

1. All purchases should have an authorized purchase order. The purchase order should describe the goods or services authorized, quantities needed and authorized price limitation.
2. Prenumbered receiving reports that include vendor description and date of receipt should be prepared and signed by a person who is independent from purchasing. All receiving reports should be forwarded to the accounting department with the packing slips attached for matching with related purchase orders.

View of responsible official: We concur with finding and we will implement a system where a memo for approval by Executive Director will precede purchase. This memo will be attached to receipt of goods for payment.

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES**

Year Ended June 30, 2009

2009-03 - SEGREGATION OF DUTIES - WIRE TRANSFERS

Condition and Criteria: One person is able to initiate wire transfers and approve and record wire transfers in the general ledger.

Effect: The condition does not allow the Authority, in the normal course of performing its assigned functions, to prevent or detect misstatements in financial reporting on a timely basis.

Auditor's Recommendations: All wire transfers should be approved by the treasurer, Executive Director or Hamilton County Accounting Director.

View of responsible official: We concur with finding and we will implement prior approval for wire transfers by one of the following: Executive Director, Authority Treasurer or Accounting Director.