

**ANDERSON COUNTY WATER AUTHORITY
Clinton, Tennessee**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**For the Years Ended
June 30, 2011 and 2010**

PREPARED BY:

**Larry Clowers, General Manager
and
David Carr, CPA**

ANDERSON COUNTY WATER AUTHORITY
Clinton, Tennessee

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INTRODUCTORY SECTION



**P. O. Box 70
Clinton, Tennessee 37717**

Anderson County Water Authority

(865) 457-3033

January 12, 2012

Board of Commissioners of
Anderson County Water Authority
Clinton, Tennessee

State law and the Comptroller of the Treasury, State of Tennessee, requires that every political subdivision or municipal corporation publish within six months of the close of each fiscal year-end, a complete set of audited financial statements. This Comprehensive Annual Financial Report (CAFR) of the Anderson County Water Authority (the Authority) is published to fulfill these requirements for the fiscal years ended June 30, 2011 and 2010.

Internal Controls

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatements.

Independent Audit

Pugh & Company, P.C., CPA's has issued an unqualified ("clean") opinion on the Authority's financial statements for the year ended June 30, 2011. As stated in the independent auditor's report, the audit was conducted in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A)

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of MD&A. The Letter of Transmittal is designed to complement MD&A and should be read in conjunction with it. The Authority's MD&A can be found immediately following the Independent Auditor's Report.

Profile of the Authority

The Authority was created by the Tennessee General Assembly Private Act No. 40 and approved by the Anderson County Commission on July 16, 2007. The Authority started organizing activities on July 16, 2007, and began significant operations on January 1, 2009. The purpose of the Authority is to "acquire, construct, improve, extend, operate, and maintain a water system." The Authority serves 9,132 water and 1,059 wastewater customers in Anderson County. The Authority's primary source of water is drawn from the Clinch River.

The Authority is governed by a Board of Commissioners composed of five citizens who reside in, or are customers, of the Authority. Board members are appointed by the Anderson County Mayor for a term of four years.

The Authority's primary capital assets consists of two water treatment plants, one office building, one wastewater treatment plant, and sixteen 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 and wastewater charges based upon metered water consumption of customers. The water and wastewater rates are established by the Board of Commissioners.

Budgeting

The Authority adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with GAAP. 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 capital budget details the plan to receive and expend cash basis capital contributions, grants, borrowings and certain revenues for capital projects.

Local Economy

The Authority is located within the Knoxville Metropolitan Statistical Area (MSA) which includes Knox, Blount, Anderson, Sevier, Loudon and Union Counties. The Knoxville MSA is also the trade center for several counties in East Tennessee, and parts of Kentucky, Virginia and North Carolina.

For June 2011, the unemployment rates according to the U.S. Bureau of Labor Statistics for Anderson County, Tennessee, and the Nation were 9.4%, 9.8% and 9.2%, respectively.

Per capita income in 2010 for Anderson County, Tennessee, and the Nation was \$28,780, \$34,245, and \$39,626, respectively.

The Knoxville MSA has several large employers including the Tennessee Valley Authority, U.S. Department of Energy, Alcoa Aluminum, several hospitals, Clayton Homes, Denso, the University of Tennessee, and several regional shopping malls and centers.

Long-Term Financial Planning

The Authority has projected a 2% annual increase in the number of customers over the next several years. The Authority is planning several capital improvements including upgrading water and sewer lines, pump stations, and building additional water lines to provide new water service to various areas.

The financing of the Authority's capital improvements is by internally generated cash flows and the issuance of long-term debt.

Relevant Financial Policies

The combination of continued customer growth, moderate rate increases and the issuance of long-term debt are projected to provide the Authority with adequate resources to provide for the delivery of water and wastewater services and for capital improvements.

Major Initiatives

In November 2010, the Authority issued \$8,650,000 in Series 2010 Revenue Term Bonds to currently refund \$4,550,000 of the Series 2008 Bonds and to provide approximately \$4,000,000 in funding for system-wide capital improvements to be constructed during FY 2011 and 2012. One of the major capital projects includes replacing all 9,200 customer water meters with "radio read" models that can be read electronically and should significantly reduce future meter reading costs. In addition, the Authority is constructing three new water tanks that will replace eight smaller ones that will reduce ongoing maintenance costs and improve the distribution system pressure. Also included are renovations to water treatment plant number one which will increase water treatment capacity by 50% from two to three million gallons per day.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting. The Authority received this award for the first time for the FYE June 30, 2010. In order to be awarded a Certificate of Achievement, the Authority must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

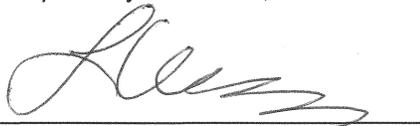
A Certificate of Achievement is valid for a period of only one year. We believe that our current comprehensive annual financial report will meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

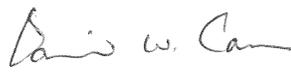
The preparation of this CAFR results from the combined efforts of our staff, accountant, and technical assistance provided by our independent auditors. Those involved have our sincere appreciation for the individual and collective contributions made in preparation of the report. Thank you very much for your professional dedication.

Recognition and appreciation are also extended to the Board for its continued guidance of the operation of the Authority in a financially responsible and progressive manner.

Respectfully submitted,



Larry Clowers
General Manager



David Carr, CPA
Accountant
WLC CPAs, PC

ANDERSON COUNTY WATER AUTHORITY

ORGANIZATIONAL CHART

June 30, 2011

ACWA BOARD OF COMMISSIONERS

↓
Larry Clowers
General Manager

↔

↓

John Mitchell
Supt. of Operations
Chief WTP Operator #1

↔

↓
Robert Lancaster
NACUD System Foreman

↓
Vestel Mitchell
ACUB System Foreman

↓
Teresa Ridenour
Office Manager

↓
Tina Spears
Vanessa Jennings
Jeannie Gregory
Lori Noonan

↓
Annelle Brown
HR Director
Safety Director

Jeff Elliott
Chief WTP Operator #2

↓
Wayne Smith
Jon Martin
Walter Sharp

Randy Hensley
Tony Parks
David Noonan

↓
Harold Bray
Kirk Bray
Jerry Lindsey
Jamie Craig
Clayton Haney
Barry Daniel
Kevin Jeffers
Jimmy Spears
Travis Nelson
Steve Phillips
Gary Sharp
Mike Manning
Jeremiah Sweat

ANDERSON COUNTY WATER AUTHORITY
ROSTER OF AUTHORITY OFFICIALS AND OTHERS
June 30, 2011

Board of Commissioners

Curtis Perez, Chairman	September 30, 2013
Jack Shelton, Vice Chairman	September 30, 2015
Duane Stooksbury, Secretary	September 30, 2013
Jack D. Hill	September 30, 2012
Zenith R. Rose	September 30, 2015

Expiration of Term

Management

Larry Clowers, General Manager

Independent Auditors

Pugh & Company, P.C.
Certified Public Accountants
Knoxville, Tennessee

Accountant

David Carr, CPA
WLC Certified Public Accountants, 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, PE
Robert B. Campbell & Associates, LP
Knoxville, Tennessee

Certificate of Achievement for Excellence in Financial Reporting

Presented to
Anderson County Water Authority
Tennessee

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Davison

President

Jeffrey R. Emer

Executive Director

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Anderson County Water Authority
Clinton, Tennessee

We have audited the accompanying balance sheet of Anderson County Water Authority (the Authority) as of June 30, 2011, 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 as of June 30, 2010, and for the year then ended, were audited by Bacon, Howard and Company, CPA's, who merged with Pugh and Company, P.C. as of January 1, 2011, and whose report dated November 10, 2010, expressed an unqualified opinion on the 2010 financial 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. 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 the 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 2011 financial statements referred to above present fairly, in all material respects, the financial position of Anderson County Water Authority as of June 30, 2011, and the changes in financial position and 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 a report dated January 12, 2012, 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 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.



Accounting principles generally accepted in the United States of America, require that the Management's Discussion and Analysis on pages 3 through 10, the Schedule of Employer Pension Contributions on page 32, and the Schedule of Employer Pension Funding Progress on page 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The introductory, supplementary, and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary section is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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 do not express an opinion or provide any assurance on them.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
January 12, 2012

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 years ending June 30, 2011, 2010, and 2009. 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, Pugh & Company, P.C., CPA's, is included in this report on pages 1 and 2.

FINANCIAL HIGHLIGHTS

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

The Authority maintained good debt service coverage and was in compliance with all debt covenants. Fiscal years 2011 and 2010 were for twelve months of operations and 2009 was for six months of operations. The following are key financial highlights:

- The Authority sold 669 and 659 million gallons of water in 2011 and 2010.
- Total assets at June 30, 2011 and 2010 were \$24,298,215 and \$20,247,607, and exceeded liabilities (net assets) by \$15,863,687 and \$15,851,606, respectively. Of the total net assets, \$2,650,670 and \$2,646,678 were unrestricted and were available to support short-term operations for 2011 and 2010. Net assets increased (decreased) in 2011 by \$12,084 and in 2010 by \$(189,741).
- Operating revenues were \$4,620,181 and \$4,604,572 for 2011 and 2010.
- Operating expenses before depreciation were \$3,625,622 and \$3,753,702 for 2011 and 2010.
- Operating income (loss) was \$79,177 and \$(50,605) for 2011 and 2010.
- The ratios of operating income (loss) to total operating revenues were 1.7% for 2011 and (1.1)% for 2010.
- Debt service coverage ratio was 2.38 for 2011 and 2.16 for 2010.
- Cash capital contributions for 2011 and 2010 were \$236,800 and \$145,000, respectively. There were no noncash contributions in 2011 or 2010.
- The Authority is in the process of completing \$4,000,000 in capital improvements. At year-end 2011, construction in progress was \$1,439,986 consisting of several water and water line extensions to new customers, the replacement of all 9,200 customer water meters with electronic meters, and renovations and improvements to water treatment plant number one.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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.

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 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 9,132 water customers and 1,059 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.

The Authority is governed by a Board of Commissioners composed of five citizens who reside in, or are current customers, of 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 426 miles of water lines, two water treatment plants, one office building, one wastewater treatment 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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.

Condensed Balance Sheets
(In Thousands of Dollars)
June 30, 2011, 2010 and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
ASSETS			
Current Assets	\$ 6,000	\$ 2,945	\$ 3,492
Capital Assets:			
Producing - Net	18,164	17,191	16,947
Construction in Progress	0	0	3
Other Assets - Net	<u>134</u>	<u>111</u>	<u>123</u>
TOTAL ASSETS	\$ <u>24,298</u>	\$ <u>20,247</u>	\$ <u>20,565</u>
LIABILITIES			
Current Liabilities	\$ 491	\$ 544	\$ 540
Bonds Payable - Net of Current Portion	<u>7,944</u>	<u>3,852</u>	<u>3,985</u>
Total Liabilities	<u>8,435</u>	<u>4,396</u>	<u>4,525</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	13,196	13,135	12,765
Restricted for:			
Debt Service	16	25	17
Capital Activity	0	45	627
Unrestricted	<u>2,651</u>	<u>2,646</u>	<u>2,631</u>
Total Net Assets	<u>15,863</u>	<u>15,851</u>	<u>16,040</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>24,298</u>	\$ <u>20,247</u>	\$ <u>20,565</u>

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 Years Ended June 30, 2011, 2010, and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u> (Six Months)
Operating Revenues			
Water - Net	\$ 3,713	\$ 3,895	\$ 1,874
Wastewater - Net	641	578	339
Connection Fees	105	51	11
Customer Forfeited Discounts	87	33	41
Tap Fees	56	41	16
Other Charges and Fees	<u>18</u>	<u>7</u>	<u>43</u>
Total Operating Revenues	<u>4,620</u>	<u>4,605</u>	<u>2,324</u>
Operating Expenses			
Water Treatment, Transmission and Distribution	2,471	2,403	1,403
Wastewater Treatment	463	450	246
Customer Billing and Accounting	101	190	119
General and Administrative	591	711	378
Depreciation	<u>915</u>	<u>901</u>	<u>436</u>
Total Operating Expenses	<u>4,541</u>	<u>4,655</u>	<u>2,582</u>
Operating Income (Loss)	<u>79</u>	<u>(50)</u>	<u>(258)</u>
Non-Operating Revenues (Expenses)			
Gain (Loss) on Disposal of Capital Assets	12	(16)	10
Investment Income	24	15	19
Interest (Expense)	<u>(340)</u>	<u>(283)</u>	<u>(149)</u>
Total Non-Operating Revenues (Expenses) - Net	<u>(304)</u>	<u>(284)</u>	<u>(120)</u>
Increase (Decrease) in Net Assets Before Capital Contributions	<u>(225)</u>	<u>(334)</u>	<u>(378)</u>
Capital Contributions			
Cash	237	145	2,989
Non-Cash	<u>0</u>	<u>0</u>	<u>13,414</u>
Total Capital Contributions	<u>237</u>	<u>145</u>	<u>16,403</u>
Increase (Decrease) in Net Assets	12	(189)	16,025
Net Assets, Beginning of Year	<u>15,851</u>	<u>16,040</u>	<u>15</u>
Net Assets, End of Year	<u>\$ 15,863</u>	<u>\$ 15,851</u>	<u>\$ 16,040</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OTHER SELECTED INFORMATION

Selected Data:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Employees at Year-End	31.5	28.5	28.5
Average Employees	30	28.5	28.5
Customers at Year-End:			
Water	9,132	9,136	8,990
Wastewater	1,059	1,063	1,089
Water (Millions of Gallons)			
Treated and Purchased	1,048	1015	495
Sold	669	659	314
Per Average Employee:			
Operating Revenues	\$ 154,006	\$ 161,564	\$ 81,555
Operating Expenses	151,367	163,340	90,615
Realized Rate per 1,000 Gallons of Water Consumed:	5.70	6.01	6.00
Ratio of Operating Revenues to:			
Operating Expenses	1.02	0.99	0.90
Operating Expenses - Net of Depreciation	1.27	1.23	1.08
Total Assets	0.19	0.23	0.11
Net Assets	0.29	0.29	0.15
Debt Related Ratios:			
Long-Term Debt to Net Assets	0.50	0.24	0.28
Long-Term Debt to Total Assets	0.33	0.19	0.20
Operating Coverage	2.38	2.16	0.80

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.

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 2011 and 2010 was \$670,894 and \$651,442. At 2011 and 2010 year-end, 60% and 66% of accounts receivable were current within 30 days. The Authority's provision for bad debt expense was \$40,216 and \$30,021 for 2011 and 2010.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

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. During FY 2011, the Authority combined the two different classifications of ratepayers into one classification.

There was no increase in water rates during 2011 and 2010.

The average realized rate from water sales was \$5.70 and \$6.01 per thousand gallons in 2011 and 2010.

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 service connectivity 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.

Capital contributions during 2011, 2010, and 2009, consisted of the following:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash:			
Anderson County	\$ 79,300	\$ 45,000	\$ 0
Greenview Village Development, LLC	157,500	0	0
BWXT Y-12, LLC	0	100,000	0
ACUB - Anderson County (Merger)	0	0	1,437,941
NACUD (Merger)	<u>0</u>	<u>0</u>	<u>1,550,975</u>
 Total Cash	 <u>236,800</u>	 <u>145,000</u>	 <u>2,988,916</u>
Non-Cash:			
ACUB - Anderson County (Merger)	0	0	10,249,683
NACUD (Merger)	<u>0</u>	<u>0</u>	<u>3,164,022</u>
 Total Non-Cash	 <u>0</u>	 <u>0</u>	 <u>13,413,705</u>
 Total	 <u>\$ 236,800</u>	 <u>\$ 145,000</u>	 <u>\$ 16,402,621</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

RESULTS OF OPERATIONS (Continued)

Expenses

Operating expenses, excluding depreciation, increased (decreased) by \$(128,076) in 2011, \$1,607,515 in 2010, and \$2,140,987 in 2009. During 2011 and 2010, the Authority had 12 months of significant operations vs. six months in 2009.

During 2010 and 2009, the Authority incurred the following additional estimated expenses related to the consolidation and merger of the two districts.

	<u>2010</u>	<u>2009</u>
Legal and Professional	\$ 10,000	\$ 57,000
Computer Software and Consulting	35,000	42,000
Salaries and Benefits for Overtime	212,000	93,000
Materials and Supplies	0	109,000
Property and Casualty Insurance	<u>0</u>	<u>58,000</u>
 Total	 <u>\$ 257,000</u>	 <u>\$ 359,000</u>

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

CAPITAL ASSETS

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

During 2011 and 2010, the Authority increased its capital assets before depreciation by \$448,445 and \$1,158,160. This increase is due to the following:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Office Building and Land	\$ 21,398	\$ 690,627	\$ 0
New River Line Extension Project	0	0	408,101
Norris Booster - Vowell Mt.	0	0	101,132
Other Water Line Improvements and Extensions	246,205	180,365	108,172
Water Plant Improvements	146,454	194,811	75,721
Vehicles and Equipment	23,091	43,625	50,225
Office Furniture and Equipment	<u>11,297</u>	<u>48,732</u>	<u>8,188</u>
 Total	 <u>\$ 448,445</u>	 <u>\$ 1,158,160</u>	 <u>\$ 751,539</u>

The Authority's capital asset activity for 2011 and 2010 is described in Notes 3 and 4 to the financial statements.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

DEBT

At June 30, 2011 and 2010, the Authority had \$8,138,816 and \$4,056,694 in bonds payable.

During 2011, the Authority issued \$8,650,000 Series 2010 Revenue Term Bonds to retire \$4,550,000 of outstanding Series 2008 Revenue Term Bonds and to provide approximately \$4,000,000 in additional funding for system wide capital improvements.

During 2011 and 2010, the Authority had \$340,148 and \$283,081 in interest expense.

The long-term debt to total assets ratio was 33% and 19% at year-end 2011 and 2010.

More detailed information about the Authority’s debt is described in Notes 8 and 9 to the financial statements.

ECONOMIC FACTORS AND FISCAL YEAR 2012

- Effective October 1, 2011, the Authority decreased the minimum monthly water billing from 2,000 to 1,500 gallons, which is expected to increase revenues by approximately \$200,000 for the remaining nine months of FY 2012.
- Number of customers is projected to increase by 3% during 2012 due to the completion of the Park Rd. water line extension.
- FY 2012 Budget:

Revenues	\$ 4,770,000
Expenses	<u>(4,770,000)</u>
Increase in Net Assets	<u><u>0</u></u>

- The budget includes increases of 2% for salaries and 6% in employee health insurance for during 2012.
- Complete the replacement of all customer water meters with a “radio read” version with electronic reading capability which should eliminate annual meter reading costs of approximately \$110,000.
- Other FY 2012 capital projects scheduled for completion consist of three new water reservoirs that will replace eight older ones, renovations and upgrades to water treatment plant number one, and a new pump station that is projected to provide annual cost savings of approximately \$75,000.
- Start construction of a forced wastewater main line that directly connects to the Clinton Utilities Board wastewater treatment plant which will reduce monthly treatment costs by 50%. This project is to be financed by a \$3,000,000 loan with the State of Tennessee Revolving Loan Fund and save an estimated \$24,000 annually (net of debt service payments) in operating costs.

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

BASIC FINANCIAL STATEMENTS

ANDERSON COUNTY WATER AUTHORITY

BALANCE SHEETS

	As of June 30,	<u>2011</u>	<u>2010</u>
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$	1,863,882	\$ 1,987,336
Cash and Cash Equivalents - Restricted		74,567	41,223
Investments, at Fair Value		200,116	200,116
Investments, at Fair Value - Restricted		3,140,284	0
Accounts Receivable - Customers (Net of Allowance for Uncollectible Accounts of \$174,126 for 2011 and \$182,452 for 2010.)		653,458	638,186
Accounts Receivable - Wholesale Customers		17,436	13,256
Accounts Receivable - Capital Contribution		0	45,000
Accrued Interest Receivable		262	264
Prepaid Expenses		<u>50,106</u>	<u>19,519</u>
Total Current Assets		<u>6,000,111</u>	<u>2,944,900</u>
NON-CURRENT ASSETS			
Capital Assets - Net		18,164,414	17,191,362
Bond Issuance Costs - Net		133,055	110,710
Utility Deposits		<u>635</u>	<u>635</u>
Total Non-Current Assets		<u>18,298,104</u>	<u>17,302,707</u>
TOTAL ASSETS	\$	<u>24,298,215</u>	\$ <u>20,247,607</u>

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

ANDERSON COUNTY WATER AUTHORITY

BALANCE SHEETS (Continued)

	As of June 30,	<u>2011</u>	<u>2010</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts Payable	\$	62,982	\$ 100,826
Accrued Liabilities		47,999	36,709
Accrued Bond Interest Payable		27,432	15,963
Compensated Absences Payable		34,997	41,070
Customer Deposits		122,302	144,739
Bonds Payable - Current Portion		<u>195,000</u>	<u>205,000</u>
Total Current Liabilities		490,712	544,307
NON-CURRENT LIABILITIES			
Bonds Payable - Net of Current Portion		<u>7,943,816</u>	<u>3,851,694</u>
Total Liabilities		<u>8,434,528</u>	<u>4,396,001</u>
NET ASSETS			
Invested in Capital Assets - Net of Related Debt		13,196,514	13,134,668
Restricted:			
Debt Service		16,503	25,260
Capital Asset Costs		0	45,000
Unrestricted		<u>2,650,670</u>	<u>2,646,678</u>
Total Net Assets		<u>15,863,687</u>	<u>15,851,606</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>24,298,215</u>	\$ <u>20,247,607</u>

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

ANDERSON COUNTY WATER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	For the Years Ended June 30,	<u>2011</u>	<u>2010</u>
OPERATING REVENUES			
Water - Net	\$	3,713,110	\$ 3,894,824
Wastewater - Net		641,015	578,261
Connection Fees		105,190	50,810
Customer Forfeited Discounts		87,518	32,743
Tap Fees		55,620	40,550
Other Charges and Fees		<u>17,728</u>	<u>7,384</u>
Total Operating Revenues		<u>4,620,181</u>	<u>4,604,572</u>
OPERATING EXPENSES			
Water Treatment, Transmission, and Distribution		2,470,739	2,402,701
Wastewater Treatment		462,561	449,830
Customer Billing and Accounting		100,940	189,670
General and Administrative		591,386	711,501
Depreciation		<u>915,378</u>	<u>901,475</u>
Total Operating Expenses		<u>4,541,004</u>	<u>4,655,177</u>
OPERATING INCOME (LOSS)		<u>79,177</u>	<u>(50,605)</u>
NON-OPERATING REVENUES (EXPENSES)			
Gain (Loss) on Disposal of Capital Assets		12,000	(15,721)
Investment Income		24,253	14,666
Interest (Expense)		<u>(340,149)</u>	<u>(283,081)</u>
Total Non-Operating Revenues (Expenses) - Net		<u>(303,896)</u>	<u>(284,136)</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS		<u>(224,719)</u>	<u>(334,741)</u>
CAPITAL CONTRIBUTIONS			
Cash		<u>236,800</u>	<u>145,000</u>
Total Capital Contributions		<u>236,800</u>	<u>145,000</u>
INCREASE (DECREASE) IN NET ASSETS		12,081	(189,741)
NET ASSETS, BEGINNING OF YEAR		<u>15,851,606</u>	<u>16,041,347</u>
NET ASSETS, END OF YEAR	\$	<u>15,863,687</u>	\$ <u>15,851,606</u>

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

ANDERSON COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users		\$ 4,574,372	\$ 4,493,852
Payments to Employees		(1,586,747)	(1,737,405)
Payments to Suppliers		<u>(2,098,171)</u>	<u>(2,024,774)</u>
Net Cash Provided (Used) by Operating Activities		<u>889,454</u>	<u>731,673</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Contributions		281,800	100,000
Acquisition and Construction of Capital Assets		(1,888,430)	(1,188,187)
Interest Paid on Revenue Bonds		(244,729)	(199,975)
Principal Paid on Revenue Bonds		(4,715,000)	(200,000)
Proceeds from Revenue Bond Issues		8,874,739	0
Call Premium Paid on Refunded Bonds		(45,500)	0
Payment of Bond Issuance Costs		(138,413)	0
Proceeds from Disposal of Capital Assets		<u>12,000</u>	<u>(135)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities		<u>2,136,467</u>	<u>(1,488,297)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Received on Investments		24,253	18,271
Maturity (Purchase) of Investments		<u>(3,140,284)</u>	<u>600,000</u>
Net Cash Provided (Used) by Capital and Related Investing Activities		<u>(3,116,031)</u>	<u>618,271</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(90,110)	(138,353)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		<u>2,028,559</u>	<u>2,166,912</u>
CASH AND CASH EQUIVALENTS, END OF YEAR		<u>\$ 1,938,449</u>	<u>\$ 2,028,559</u>

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

ANDERSON COUNTY WATER AUTHORITY
STATEMENTS OF CASH FLOWS (Continued)

	For the Years Ended June 30,	<u>2011</u>	<u>2010</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF:			
Unrestricted Cash and Cash Equivalents	\$	1,863,882	\$ 1,987,336
Restricted Cash and Cash Equivalents		<u>74,567</u>	<u>41,223</u>
Total	\$	<u>1,938,449</u>	<u>\$ 2,028,559</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$	79,177	\$ (50,605)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation		915,378	901,475
Provision for Uncollectible Receivables		40,216	30,021
Changes in:			
Accounts Receivable, Net of Charge Offs		(59,668)	(130,719)
Other Current Assets		(30,585)	(19,519)
Accounts Payable		(37,844)	17,161
Other Accrued Liabilities		11,290	(10,597)
Payroll and Related Liabilities		(6,073)	2,879
Customer Deposits		<u>(22,437)</u>	<u>(8,423)</u>
Net Cash Provided by Operating Activities	\$	<u>889,454</u>	<u>\$ 731,673</u>
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES			
Amortization of Bond Premiums	\$	(6,547)	\$ 0
Amortization of Bond Issuance Costs		5,358	12,347
Amortization of Deferred Cost of Defeased Bonds		68,452	71,461
Amortization of Deferred Cost of Refunded Bonds		16,688	0

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

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010

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:

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.

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 using the specific identification method. Realized gains or losses in the current period include unrealized amounts from prior periods.

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.

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 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.

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.

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.

Inventories - Material and supply inventories are stated at cost using the first in, first out method. Incidental supplies are not included in inventory.

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.

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, during the construction period. 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 \$5,000 and an estimated useful life in excess of one year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	Years
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

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 or current refundings, or defeasances are deferred and amortized over the life of the bonds.

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.

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.

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.

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 - 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 states, municipalities, U.S. Government and federal agency debt securities.

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

At June 30, 2011 and 2010, the Authority had the following deposits and investments:

	<u>2011</u>	<u>2010</u>
Deposits:		
Demand Deposits	\$ 1,938,449	\$ 2,028,559
Certificates of Deposit	200,116	200,116
	<u>2,138,565</u>	<u>2,228,675</u>
Investments:		
State and Municipal Bonds	2,440,298	0
U.S. Treasury Bills	699,986	0
	<u>3,140,284</u>	<u>0</u>
 Total	 <u>\$ 5,278,849</u>	 <u>\$ 2,228,675</u>

A summary of the deposits on the balance sheets at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and Cash Equivalents	\$ 1,863,882	\$ 1,987,336
Cash and Cash Equivalents - Restricted	74,567	41,223
Investments	200,116	200,116
Investments - Restricted	<u>3,140,284</u>	<u>0</u>
 Total	 <u>\$ 5,278,849</u>	 <u>\$ 2,228,675</u>

Restricted Cash Equivalents and Investments - The restricted cash equivalents and investments are for 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, 2011, the Authority's investments were:

State and Municipal Bonds	
Taxable and Tax-free Issues Maturing	
from 7/15/2011 to 12/15/2011	\$ 2,440,298
 U.S. Treasury Bill - Maturing 8/18/2011	 <u>699,986</u>
 Total	 <u>\$ 3,140,284</u>

Custodial Credit Risk – Deposits - The Authority's deposits, with a carrying amount of \$2,138,565 and \$2,228,675 at June 30, 2011 and 2010, 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.

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Investments at Fair Value - The Authority's investments at June 30, 2011, with a carrying amount of \$3,140,284 are in obligations of states, municipalities and U.S. government held by the Authority or its agent in the Authority's name. As required by GASB Statement No. 31, the carrying values of the investments are presented at fair value.

Investment Income - Investment income for 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Interest Income	\$ 24,253	\$ 14,661
Unrealized Gains (Losses) - Net	<u>0</u>	<u>5</u>
Total	<u>\$ 24,253</u>	<u>\$ 14,666</u>

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, 2011, the Authority's investments in marketable debt securities, at par value, had the following credit ratings:

		<u>Credit Rating</u>	<u>Rating Agency</u>
State & Municipal Bonds:			
Taxable - Various Issues	\$ 1,080,000	AA(1-3)	Moody's
Taxable - Various Issues	750,000	AA	Standards & Poor
Tax-free - Various Issues	150,000	AA	Standards & Poor
Tax-free - Various Issues	450,000	Aaa	Moody's
U.S. Treasury Bill	700,000	AAA	Standards & Poor

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 various investment 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.

NOTE 3 - CAPITAL ASSETS

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2011 was as follows:

	Balance 7/1/10	Additions and Transfers	Deletions, Retirements and Transfers	Balance 06/30/11
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 375,134	\$ 0	\$ 0	\$ 375,134
Construction in Progress	<u>0</u>	<u>1,439,986</u>	<u>0</u>	<u>1,439,986</u>
Total Capital Assets Not Being Depreciated	<u>375,134</u>	<u>1,439,986</u>	<u>0</u>	<u>1,815,120</u>
Capital Assets Being Depreciated:				
Water System:				
Mains, Lines and Reservoirs	7,641,529	329,007	0	7,970,536
Treatment Facilities	18,595,731	63,652	0	18,659,383
Wastewater System:				
Collection Lines and Equipment	4,048,572	0	0	4,048,572
Treatment Facilities	300,591	0	0	300,591
Other:				
Building and Improvements	515,627	21,398	0	537,025
Machinery and Equipment	302,996	0	0	302,996
Vehicles	582,368	23,091	0	605,459
Office Furniture and Equipment	<u>167,216</u>	<u>11,296</u>	<u>0</u>	<u>178,512</u>
Total Capital Assets Being Depreciated	<u>32,154,630</u>	<u>448,444</u>	<u>0</u>	<u>32,603,074</u>
Less Accumulated Depreciation:				
Water System:				
Mains, Lines and Reservoirs	3,951,805	208,755	0	4,160,560
Treatment Facilities	9,474,845	487,246	0	9,962,091
Wastewater System:				
Collection Lines and Equipment	1,124,524	101,390	0	1,225,914
Treatment Facilities	128,529	6,686	0	135,215
Other:				
Building and Improvements	1,074	13,248	0	14,322
Machinery and Equipment	193,777	31,567	0	225,344
Vehicles	359,370	51,366	0	410,736
Office Furniture and Equipment	<u>104,478</u>	<u>15,120</u>	<u>0</u>	<u>119,598</u>
Total Accumulated Depreciation	<u>15,338,402</u>	<u>915,378</u>	<u>0</u>	<u>16,253,780</u>
Total Capital Assets Being Depreciated - Net	<u>16,816,228</u>	<u>(466,934)</u>	<u>0</u>	<u>16,349,294</u>
Total Capital Assets	<u>\$ 17,191,362</u>	<u>\$ 973,052</u>	<u>\$ 0</u>	<u>\$ 18,164,414</u>

Depreciation Expense was \$915,378 for 2011.

NOTE 3 - CAPITAL ASSETS (Continued)

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2010, was as follows:

	Balance 07/01/09	Additions and Transfers	Deletions, Retirements and Transfers	Balance 06/30/10
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 200,134	\$ 175,000	\$ 0	\$ 375,134
Construction in Progress	<u>2,975</u>	<u>512,652</u>	<u>(515,627)</u>	<u>0</u>
Total Capital Assets Not Being Depreciated	<u>203,109</u>	<u>687,652</u>	<u>(515,627)</u>	<u>375,134</u>
Capital Assets Being Depreciated:				
Water System:				
Mains, Lines and Reservoirs	7,463,108	178,421	0	7,641,529
Treatment Facilities	1,839,002	199,729	0	18,595,731
Wastewater System:				
Collection Lines and Equipment	4,048,572	0	0	4,048,572
Treatment Facilities	300,591	0	0	300,591
Other:				
Buildings and Improvements	0	0	515,627	515,627
Machinery and Equipment	302,996	0	0	302,996
Vehicles	538,743	43,625	0	582,368
Office Furniture and Equipment	<u>181,366</u>	<u>48,733</u>	<u>(62,883)</u>	<u>167,216</u>
Total Capital Assets Being Depreciated	<u>14,674,378</u>	<u>470,508</u>	<u>452,744</u>	<u>32,154,630</u>
Less Accumulated Depreciation:				
Water System:				
Mains, Lines and Reservoirs	3,749,243	202,562	0	3,951,805
Treatment Facilities	8,997,863	476,982	0	9,474,845
Wastewater System:				
Collection Lines and Equipment	1,021,730	102,794	0	1,124,524
Treatment Facilities	121,714	6,815	0	128,529
Other:				
Buildings and Improvements	0	1,074	0	1,074
Machinery and Equipment	159,426	34,351	0	193,777
Vehicles	306,983	52,387	0	359,370
Office Furniture and Equipment	<u>127,130</u>	<u>24,510</u>	<u>(47,162)</u>	<u>104,478</u>
Total Accumulated Depreciation	<u>14,484,089</u>	<u>901,475</u>	<u>(47,162)</u>	<u>15,338,402</u>
Total Capital Assets Being Depreciated - Net	<u>190,289</u>	<u>(430,967)</u>	<u>499,906</u>	<u>16,816,228</u>
Total Capital Assets	<u>\$ 393,398</u>	<u>\$ 256,685</u>	<u>\$ (15,721)</u>	<u>\$ 17,191,362</u>

Depreciation Expense was \$901,475 for 2010.

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress at June 30, 2011 consisted of:

<u>Projects</u>	<u>Actual To Date</u>	<u>Remaining Commitment</u>
Water Treatment Plant #2 Improvements	\$ 79,366	\$ 0
Meter Replacements - System Wide	1,046,495	200,000
Claxton Wastewater Line	128,090	0
Mt. Olive Water Line	37,909	20,000
Old Vaspar Road Water Line	2,750	0
Ross Cemetery Water Line	5,087	0
Park Road Water Line	497	300,000
Water Treatment Plant #1 Improvements	119,020	400,000
Sewer Mapping	13,850	0
Various Projects	<u>6,922</u>	<u>0</u>
Total Construction in Progress	<u>\$ 1,439,986</u>	<u>\$ 920,000</u>

The Authority is in the process of replacing all customer water meters and various other capital projects that should be completed and placed into service during FY 2012.

NOTE 5 - GAIN (LOSS) ON DISPOSAL OF CAPITAL ASSETS

The Authority's gain (loss) on disposal of capital assets for 2011 and 2010 was as follows:

	<u>2011</u>	<u>2010</u>
Sales Proceeds	\$ 12,000	\$ 0
Less: Net Book Value of Capital Asset	<u>0</u>	<u>(15,721)</u>
Gain (Loss)	<u>\$ 12,000</u>	<u>\$ (15,721)</u>

The charges in 2010 were for obsolete computer software.

NOTE 6 - DEFERRED CHARGES

The Authority incurred bond issuance costs in connection with various debt issues. At June 30, 2011 and 2010, the net unamortized bond issuance costs were as follows:

	<u>2011</u>	<u>2010</u>
Revenue Bonds Series 2008	\$ 0	\$ 128,400
Revenue Bonds Series 2010	138,413	0
Less: Accumulated Amortization	<u>(5,358)</u>	<u>(17,690)</u>
Total	<u>\$ 133,055</u>	<u>\$ 110,710</u>

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 \$5,358 and \$12,347 for 2011 and 2010.

NOTE 7 - ACCRUED LIABILITIES

Accrued liabilities at year-end 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Sales Taxes Payable	\$ 33,372	\$ 28,966
Accrued Salaries and Payroll Taxes	<u>14,627</u>	<u>7,743</u>
Total	<u>\$ 47,999</u>	<u>\$ 36,709</u>

NOTE 8 - LONG-TERM DEBT

Long-term debt at June 30, 2011 and 2010, consisted of the following

Revenue Bonds

	<u>2011</u>	<u>2010</u>
Revenue Term Bonds Series 2010 of \$8,650,000 with an interest rate of between 2% to 5%. Semi-annual payments on June 1 and December 1 through June 1, 2036. Principal payments are annually deposited with the bond trustee on June 1, ranging from \$165,000 to \$555,000. Interest is paid semi-annually ranging from \$167,167 to \$13,875.	\$ 8,485,000	\$ 0
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. The Series 2008 bonds were currently refunded on November 30, 2010.	0	4,550,000
Less: Unamortized Deferred Cost of Defeased Bonds	(424,854)	(493,306)
Less: Unamortized Deferred Cost of Refunding	(139,522)	0
Add: Unamortized Bond Premium	<u>218,192</u>	<u>0</u>
Total	<u>\$ 8,138,816</u>	<u>\$ 4,056,694</u>
Current Portion	\$ 195,000	\$ 205,000
Long-Term	<u>7,943,816</u>	<u>3,851,694</u>
Total	<u>\$ 8,138,816</u>	<u>\$ 4,056,694</u>

The Authority has pledged revenues as collateral for the Revenue Term Bonds Series 2010. The bond holders have placed a statutory lien upon the Authority as permitted by TCA, Section 7-28-101, and will remain in effect until the bond issue is paid in full. There is also a bond covenant, which requires a minimum debt service coverage ratio of 1.2, the ratio for 2011 and 2010 was 2.38 and 2.16.

NOTE 8 - LONG-TERM DEBT (Continued)

Activity

The following is a summary of changes in long-term debt for 2011 and 2010:

<u>2011</u>	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue Bonds	\$ 4,550,000	\$ 8,650,000	\$ (4,715,000)	\$ 8,485,000	\$ 195,000
Less: Deferred Cost of Defeasance	(493,306)	0	68,452	(424,854)	0
Less: Deferred Cost of Refunding	0	(156,210)	16,688	(139,522)	0
Add: Bond Premium	0	224,739	(6,547)	218,192	0
Total	<u>\$ 4,056,694</u>	<u>\$ 8,718,529</u>	<u>\$ (4,636,407)</u>	<u>\$ 8,138,816</u>	<u>\$ 195,000</u>
<u>2010</u>					
Revenue Bonds	\$ 4,750,000	\$ 0	\$ (200,000)	\$ 4,550,000	\$ 205,000
Less: Deferred Cost of Defeasance	(564,767)	0	71,461	(493,306)	0
Total	<u>\$ 4,185,233</u>	<u>\$ 0</u>	<u>\$ (128,539)</u>	<u>\$ 4,056,694</u>	<u>\$ 205,000</u>

Debt Service

The Annual debt service requirements of the bonds payable as of June 30, 2011, are as follows:

Years Ending June 30,	Principal	Interest	Total
2012	\$ 195,000	\$ 329,188	\$ 524,188
2013	205,000	325,288	530,288
2014	210,000	321,188	531,188
2015	220,000	316,988	536,988
2016	235,000	312,588	547,588
2017	245,000	307,888	552,888
2018	255,000	302,375	557,375
2019	260,000	296,000	556,000
2020	270,000	288,850	558,850
2021	280,000	280,750	560,750
2022	290,000	269,550	559,550
2023	305,000	257,950	562,950
2024	320,000	245,750	565,750
2025	335,000	232,950	567,950
2026	350,000	219,550	569,550
2027	370,000	205,550	575,550
2028	380,000	190,750	570,750
2029	400,000	175,550	575,550
2030	410,000	159,550	569,550
2031	435,000	143,150	578,150
2032	455,000	125,750	580,750
2033	480,000	103,000	583,000
2034	500,000	79,000	579,000
2035	525,000	54,000	579,000
2036	555,000	27,750	582,750
Total	<u>\$ 8,485,000</u>	<u>\$ 5,570,900</u>	<u>\$ 14,055,900</u>

NOTE 8 - LONG-TERM DEBT (Continued)

Interest Expense

Interest expense for 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Interest Paid	\$ 262,947	\$ 199,975
Less: Capitalization of Construction Period Interest	(18,217)	0
Amortization of Bond Issuance Costs	5,358	12,347
Amortization of Bond Premium	(6,547)	0
Accrued Interest Payable - Net Change	11,468	(702)
Amortization of Deferred Cost of Defeasance	68,452	71,461
Amortization of Refunding Costs	<u>16,688</u>	<u>0</u>
Total	<u>\$ 340,149</u>	<u>\$ 283,081</u>

Restricted Cash Equivalents – Debt Service

The Revenue Term Bonds – Series 2010, require the Authority to make mandatory semi-annual sinking fund payments to the bond trustee, Regions Bank, who is responsible for paying the bondholder when the term bond matures on June 1, 2036.

The Authority is required by various bond covenants to maintain the following restricted cash and cash equivalents at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Bond Principal and Interest Payment Account	<u>\$ 43,935</u>	<u>\$ 41,223</u>

NOTE 9 - DEFEASANCE OF DEBT

Current Refunding - 2011

On November 30, 2010, the Authority issued \$8,650,000 in Revenue Term Bonds – Series 2010 to provide a current refunding of \$4,550,000 of the Series 2008 Bonds and to provide additional funding for capital improvements. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$144,383. This amount is being netted against the new debt and amortized over the life of the old debt, which is shorter than the new debt. This transaction resulted in an economic gain of \$115,247 and a reduction of \$237,682 in future debt service payments.

Advanced Refunding

The following advanced refunded debt was considered extinguished at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</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>\$ 2,520,000</u>	<u>\$ 2,805,000</u>

NOTE 9 - DEFEASANCE OF DEBT (Continued)

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.

NOTE 10 - NET ASSETS

Net assets represent the difference between assets and liabilities. The net assets at June 30, 2011 and 2010, were as follows:

	<u>2011</u>	<u>2010</u>
Invested in Capital Assets, Net of Related Debt:		
Net Property, Plant and Equipment in Service	\$ 18,164,414	\$ 17,191,362
Less: Revenue Bonds Payable - Net of		
Unamortized Cost of Defeasance	(8,138,816)	(4,056,694)
Add: Debt Proceeds to be Used for Capital Assets	<u>3,170,916</u>	<u>0</u>
	<u>13,196,514</u>	<u>13,134,668</u>
Restricted for Debt Service:		
Restricted Cash and Cash Equivalents	43,935	41,223
Less: Accrued Interest Payable - Revenue Bonds	<u>(27,432)</u>	<u>(15,963)</u>
	<u>16,503</u>	<u>25,260</u>
Restricted for Capital Activity:		
Restricted Cash and Investments	30,632	0
Restricted Investments	3,140,284	0
Less: Debt Proceeds to be Used for Capital Assets	<u>(3,170,916)</u>	<u>0</u>
Accounts Receivable - Capital Contribution	<u>0</u>	<u>45,000</u>
	<u>0</u>	<u>45,000</u>
Unrestricted	<u>2,650,670</u>	<u>2,646,678</u>
Total	<u>\$ 15,863,687</u>	<u>\$ 15,851,606</u>

NOTE 11 - CAPITAL CONTRIBUTIONS

Cash

During 2011, the Authority received \$157,500 in cash capital contributions from Greenview Development, LLC to defray the costs of extending water and wastewater lines to a residential development in the Claxton area. Also, Anderson County contributed \$79,300 to help extend water and wastewater lines to various underserved areas of the County.

During 2010, the Authority received \$100,000 in a capital contribution from BWXT Y-12, LLC to extend water service to un-served areas. In addition, the Authority received \$45,000 from Anderson County to extend wastewater service to Isabella Lane which was completed during FY 2011.

	<u>2011</u>	<u>2010</u>
Greenview Development, LLC	\$ 157,500	\$ 0
Anderson County, TN	79,300	45,000
BWXT Y-12, LLC	<u>0</u>	<u>100,000</u>
Total	<u>\$ 236,800</u>	<u>\$ 145,000</u>

NOTE 12 - OPERATING REVENUES – NET

Operating revenues during 2011 and 2010 consisted of the following:

<u>2011</u>	<u>Water</u>	<u>Wastewater</u>	<u>Other Charges</u>	<u>Total</u>
Gross Revenues	\$ 3,747,294	\$ 647,047	\$ 266,056	\$ 4,660,397
Less: Provision for Bad Debt Expense	<u>(34,184)</u>	<u>(6,032)</u>	<u>0</u>	<u>(40,216)</u>
Total Operating Revenues - Net	<u>\$ 3,713,110</u>	<u>\$ 641,015</u>	<u>\$ 266,056</u>	<u>\$ 4,620,181</u>
 <u>2010</u>				
Gross Revenues	\$ 3,920,946	\$ 582,160	\$ 131,487	\$ 4,634,593
Less: Provision for Bad Debt Expense	<u>(26,122)</u>	<u>(3,899)</u>	<u>0</u>	<u>(30,021)</u>
Total Operating Revenues - Net	<u>\$ 3,894,824</u>	<u>\$ 578,261</u>	<u>\$ 131,487</u>	<u>\$ 4,604,572</u>

NOTE 13 - 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 2011 and 2010, the revenues earned under these billings were \$186,052 and \$209,762.

NOTE 14 - RETIREMENT PLANS

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.

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.

NOTE 14 - RETIREMENT PLANS (Continued)

Plan Description (Continued)

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.

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

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 years ending June 30, 2011 and 2010 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.

Annual Pension Cost

For the years ending June 30, 2011 and 2010, the Authority's annual pension cost of \$67,830 and \$65,937 to TCRS was equal to the Authority's required and actual employer contributions. The required contribution was determined as part of the July 1, 2009 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, 2009 was zero. An actuarial valuation was performed as of July 1, 2009, which established employer contribution rates effective July 1, 2009, which is 7.34% for FY 2010 and 2011.

Trend Information

Fiscal Years Ending June 30,	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
2011	\$ 67,830	100.00%	\$ 0
2010	65,937	100.00%	0
2009	26,593	100.00%	0

Since the Authority began operations on January 1, 2009, only three years of trend information is available.

NOTE 14 - RETIREMENT PLANS (Continued)

Funded Status and Funding Progress

As of July 1, 2009, 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
7/1/2009	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	<u>0%</u>	\$ <u>0</u>	<u>0%</u>

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 2011 and 2010, 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 year of service and are fully vested after five years. Forfeitures are used to reduce the Authority's future contributions. The Plan is frozen to new participants. During 2011 and 2010, the Authority contributed \$17,969 and \$22,363 to the plan on behalf of its employees.

NOTE 15 - 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.

During FY 2011 and 2010, the Authority obtained general liability, vehicle, errors and omissions, worker's compensation, and other property and casualty insurance coverage through commercial insurance.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

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 and property \$1,000.

NOTE 16 - ECONOMIC CONCENTRATION

The Authority's area covers the unincorporated areas of Anderson County located in East Tennessee. It serves 9,132 water customers located in a rural area 25 miles from Knoxville, Tennessee. The Authority's ten largest customers accounted for 11% and 12% of water sales during 2011 and 2010.

NOTE 17 - SUBSEQUENT EVENTS

In July 2011, the Authority awarded a \$1.5 million contract to construct three new water reservoirs that will replace eight smaller reservoirs. This project is expected to be completed in fiscal year 2012.

Effective October 1, 2011, Mr. Zenith R. Rose and Jack Shelton were reappointed to the Board of Commissioners for a four year term that will expire on September 30, 2015.

Effective October 1, 2011, the Authority lowered the number of gallons covered by the minimum monthly billing for water from 2,000 to 1,500.

In November 2011, the Authority began the planning phase for the construction of a forced wastewater main line to connect directly with the Clinton Utilities Board wastewater treatment plant that is expected to cost approximately \$3,000,000. This project is to be financed by a loan with the State of Tennessee Revolving Loan Fund.

REQUIRED SUPPLEMENTARY INFORMATION

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
Last Three Fiscal Years

<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%
2010	65,937	65,937	100%
2011	67,830	67,830	100%

Note: The Authority started participation in the TCRS defined benefit plan on January 1, 2009.

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF EMPLOYER PENSION FUNDING PROGRESS

Last Valuation Date

Actuarial Valuation Date	<u>7/1/2009</u>
Actuarial Value of Assets	\$ 0
Actuarial Accrued Liability	<u>0</u>
Total Unfunded Actuarial Accrued Liability	<u>\$ 0</u>
Funded Ratio (Actuarial Value of Assets as a Percentage of the Actuarial Accrued Liability)	0%
Annual Covered Payroll	\$ 0
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 would be available until July 1, 2011.

SUPPLEMENTARY INFORMATION

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2011

Years Ending June 30,	Revenue Term Bonds Series 2010		
	Principal	Interest	Total
2012	\$ 195,000	\$ 329,188	\$ 524,188
2013	205,000	325,288	530,288
2014	210,000	321,188	531,188
2015	220,000	316,988	536,988
2016	235,000	312,588	547,588
2017	245,000	307,888	552,888
2018	255,000	302,375	557,375
2019	260,000	296,000	556,000
2020	270,000	288,850	558,850
2021	280,000	280,750	560,750
2022	290,000	269,550	559,550
2023	305,000	257,950	562,950
2024	320,000	245,750	565,750
2025	335,000	232,950	567,950
2026	350,000	219,550	569,550
2027	370,000	205,550	575,550
2028	380,000	190,750	570,750
2029	400,000	175,550	575,550
2030	410,000	159,550	569,550
2031	435,000	143,150	578,150
2032	455,000	125,750	580,750
2033	480,000	103,000	583,000
2034	500,000	79,000	579,000
2035	525,000	54,000	579,000
2036	555,000	27,750	582,750
TOTAL	\$ 8,485,000	\$ 5,570,900	\$ 14,055,900

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF RATES AND STATISTICS

June 30, 2011

1. Monthly Water Rates (July 1, 2010 through February 28, 2011)

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.

Monthly Water Rates (Effective March 1, 2011)

All Customers:

1st 2,000 gallons - \$18.00 minimum bill.
All over 2,000 gallons - \$5.5 per 1,000 gallons.

2. Monthly Wastewater Rates (July 1, 2010 through February 28, 2011)

Former ACUB Territory:

1st 2,000 gallons of water used - \$16.48 minimum bill.
All over 2,000 gallons of water used - \$7.62 per 1,000 gallons.

Former NACUD Territory:

1st 2,000 gallons of water used - \$21.14 minimum bill.
All over 2,000 gallons of water used - \$5.42 per 1,000 gallons.

Monthly Wastewater Rates (Effective March 1, 2011)

Sewer/South End Residential:

1st 2,000 gallons of water used - \$19.48 minimum bill.
All over 2,000 gallons of water used - \$8.62 per 1,000 gallons.

Sewer/South End Commercial:

1st 2,000 gallons of water used - \$18.50 minimum bill.
All over 2,000 gallons of water used - \$9.88 per 1,000 gallons.

Sewer/North End Residential In-City:

1st 2,000 gallons of water used - \$14.40 minimum bill.
All over 2,000 gallons of water used - \$7.30 per 1,000 gallons.

Sewer/North End Residential Outside-City:

1st 2,000 gallons of water used - \$21.50 minimum bill.
All over 2,000 gallons of water used - \$8.00 per 1,000 gallons.

Sewer/North End Commercial:

1st 2,000 gallons of water used - \$21.50 minimum bill.
All over 2,000 gallons of water used - \$10.00 per 1,000 gallons.

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF RATES AND STATISTICS (Continued)

June 30, 2011

- | | | | |
|----|--|----|-------------------|
| 3. | Service Charges: | | |
| | Residential Connection Fee | \$ | 40 |
| | Residential Renters Connection Fee | | 75 |
| | Commercial Connection Fee | | 100 |
| | Wastewater Connection Fee | | 50 |
| | Reconnection Fee for Nonpayment | | 50 |
| | Returned Check Fee | | 25 |
| | | | |
| 4. | New Service Installation: | | |
| | Water Tap Fees for: | | |
| | $\frac{3}{4}$ " | \$ | 600 |
| | 1" | | 800 |
| | 1 $\frac{1}{2}$ " | | 2,000 |
| | 2" | | 2,500 |
| | Above 2" | | 1,000 |
| | | | Plus actual costs |
| | | | |
| 5. | There were 9,132 and 9,136 water and 1,059 and 1,063 wastewater customers at June 30, 2011 and 2010. | | |

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF UNACCOUNTED FOR WATER
For the Year Ended June 30, 2011

(All amounts in gallons)

Water Treated and Purchased:

Water Pumped (Potable)	983,021,500	
Water Purchased	<u>64,546,770</u>	
		1,047,568,270

Accounted for Water:

Water Sold	669,030,550	
Metered for Consumption (in house usage)	0	
Fire Department(s) Usage	177,850	
Flushing	18,998,700	
Tank Cleaning/Filling	0	
Street Cleaning	0	
Bulk Sales	0	
Water Bill Adjustments	<u>0</u>	
Total Accounted for Water		<u>688,207,100</u>
Unaccounted for Water		359,361,170
Percent Unaccounted for Water		34.30%

Other (explain)

See Below

Explain Other:

None

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.

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF UNACCOUNTED FOR WATER
For the Year Ended June 30, 2010

(All amounts in gallons)

Water Treated and Purchased:

Water Pumped (Potable)	953,933,400	
Water Purchased	<u>61,438,160</u>	
		1,015,371,560

Accounted for Water:

Water Sold	659,156,096	
Metered for Consumption (in house usage)	0	
Fire Department(s) Usage	406,700	
Flushing	24,640,560	
Tank Cleaning/Filling	0	
Street Cleaning	0	
Bulk Sales	0	
Water Bill Adjustments	<u>0</u>	
		<u>684,203,356</u>
Total Accounted for Water		684,203,356
		<u>331,168,204</u>
Unaccounted for Water		331,168,204
Percent Unaccounted for Water		32.62%

Other (explain)

See Below

Explain Other:

None

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	
These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.	39-40
Revenue Capacity	
These schedules contain information to help the reader assess the Authority's operating revenues and customer statistics.	41-45
Debt Capacity	
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.	46-47
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place.	48-49
Operating Information	
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.	50-51

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 Four Fiscal Years

Fiscal Year	Invested in Capital Assets - Net of Related Debt	Restricted		Unrestricted	Total
		Debt Service	Capital Activity		
2008	\$ 0	\$ 0	\$ 0	\$ 14,823	\$ 14,823
2009	12,765,165	17,862	627,330	2,630,990	16,041,347
2010	13,134,668	25,260	45,000	2,646,678	15,851,606
2011	13,196,514	16,503	0	2,650,670	15,863,687

Notes: (A) Fiscal year 2008 was the first year the Authority was organized.
(B) Fiscal year 2009 was the first year the Authority began operations (effective January 1, 2009).

ANDERSON COUNTY WATER AUTHORITY

CHANGES IN NET ASSETS
Last Four Fiscal Years

	2011	2010	2009	2008
Operating Revenues				
Water - Net	\$ 3,713,110	\$ 3,894,824	\$ 1,873,956	\$ 0
Wastewater - Net	641,015	578,261	339,171	0
Connection Fees	105,190	50,810	11,201	0
Customer Forfeited Discounts	87,518	32,743	41,300	0
Tap Fees	55,620	40,550	15,500	0
Other Charges and Fees	17,728	7,384	43,201	0
Total Operating Revenues	<u>4,620,181</u>	<u>4,604,572</u>	<u>2,324,329</u>	<u>0</u>
Operating Expenses				
Water Treatment, Transmission and Distribution	2,470,739	2,402,701	1,402,607	0
Wastewater Treatment	462,561	449,830	246,428	0
Customer Billing and Accounting	100,940	189,670	119,442	0
General and Administrative	591,386	711,501	377,710	5,200
Depreciation	915,378	901,475	436,347	0
Total Operating Expenses	<u>4,541,004</u>	<u>4,655,177</u>	<u>2,582,534</u>	<u>5,200</u>
Operating Income (Loss)	<u>79,177</u>	<u>(50,605)</u>	<u>(258,205)</u>	<u>(5,200)</u>
Non-Operating Revenues (Expenses)				
Gain (Loss) on Disposal of Capital Assets	12,000	(15,721)	10,281	0
Investment Income	24,253	14,666	20,484	23
Interest (Expense)	(340,149)	(283,081)	(148,657)	0
Non-Operating Revenues (Expenses) - Net	<u>(303,896)</u>	<u>(284,136)</u>	<u>(117,892)</u>	<u>23</u>
Increase (Decrease) in Net Assets Before Capital Contributions	<u>(224,719)</u>	<u>(334,741)</u>	<u>(376,097)</u>	<u>(5,177)</u>
Capital Contributions				
Cash	236,800	145,000	2,988,916	20,000
Non-Cash	0	0	13,413,705	0
Total Capital Contributions	<u>236,800</u>	<u>145,000</u>	<u>16,402,621</u>	<u>20,000</u>
Change in Net Assets	<u>\$ 12,081</u>	<u>\$ (189,741)</u>	<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 operations (effective January 1, 2009).

ANDERSON COUNTY WATER AUTHORITY
CUSTOMER STATISTICS, RATES, AND TAP SALES
Last Three Fiscal Years

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
2010	9,136	15.20	4.90	21.14	5.42	78
2011	9,132	18.00	5.50	18.00	5.50	93

- 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 operations (effective January 1, 2009).
(D) During fiscal year 2011, the Authority changed the rate per 1,000 gallons to \$5.50 and the monthly minimum residential billing to \$18.00 for ratepayers in the former ACUB and NACUD territories.

ANDERSON COUNTY WATER AUTHORITY
WATER TREATED, SOLD, AND CONSUMED
Last Three Fiscal Years

Fiscal Year	Gallons of Water (In Thousands)			Percent Lost
	Water Treated and Purchased	Water Sold and Consumed	Water Unbilled	
2009	495,339	335,174	160,165	32.3%
2010	1,015,372	684,203	331,169	32.6%
2011	1,047,568	688,207	359,362	34.3%

Note: Fiscal year 2009 was the first year the Authority began operations (effective January 1, 2009).

ANDERSON COUNTY WATER AUTHORITY

**ANNUAL TAP SALES
Last Three Fiscal Years**

<u>Fiscal Year</u>	<u>Water Meter Taps Sold</u>	<u>Sewer Taps Sold</u>	<u>Total Taps</u>
2009	19	0	19
2010	69	9	78
2011	66	27	93

Note: Fiscal year 2009 was the first year the Authority began operations (effective January 1, 2009).

ANDERSON COUNTY WATER AUTHORITY

**NUMBER OF CUSTOMERS BY TYPE
Last Three Fiscal Years**

<u>Fiscal Year</u>	<u>Water</u>	<u>Wastewater</u>
2009	8,990	1,089
2010	9,136	1,063
2011	9,132	1,059

Note: Fiscal year 2009 was the first year the Authority began operations (effective January 1, 2009).

ANDERSON COUNTY WATER AUTHORITY
TEN LARGEST CUSTOMERS
Current Fiscal Year and Two Fiscal Years Ago

Customer	Type of Business	2011		2009 (B)	
		(A) Total Annual Sales	Percentage of Total Sales	(A) Total Annual Sales	Percentage of Total Sales
City of Lake City	Municipality	\$ 111,695	3.01%	\$ 49,634	2.65%
Thor Industries	Manufacturing	19,973	0.54%	38,517	2.06%
TVA	Electrical Power Distributor	37,390	1.01%	26,684	1.42%
Mariner Health	Health Care	86,779	2.34%	26,488	1.41%
Stardust Marina	Recreation	34,585	0.93%	16,268	0.87%
Waterside Marina	Recreation	36,844	0.99%	16,043	0.86%
Clinton Utility Board	Municipality	40,784	1.10%	15,186	0.81%
Rocky Top Marina	Recreation	12,235	0.33%	11,843	0.63%
City of Caryville	Municipality	11,249	0.30%	5,851	0.31%
Norris Dam State Park	Recreation	0	0.00%	1,696	0.09%
Oliver Springs	Municipality	8,397	0.23%	0	0.00%
Total		\$ 399,931	10.77%	\$ 208,210	11.11%

Note: (A) Sales included net water revenues only.
 (B) FY 2009 is for the initial six month period ending June 30, 2009.

ANDERSON COUNTY WATER AUTHORITY

OUTSTANDING DEBT PER CUSTOMER
Last Three Fiscal Years

<u>Fiscal Year</u>	<u>Revenue Bonds (A)</u>	<u>Number of Customers (B)</u>	<u>Amount of Outstanding Debt Per Customer</u>
2009	\$ 4,185,233	8,990	\$ 466
2010	4,056,694	9,136	444
2011	8,138,816	9,132	891

- 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 operations (effective January 1, 2009).
(D) No debt to personal income ratio is shown because personal income for the Authority's service area, which excludes the Cities of Oak Ridge and Clinton, TN, is not available.

ANDERSON COUNTY WATER AUTHORITY

**PLEDGED REVENUE COVERAGE
Last Three Fiscal Years**

(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	\$ 2,344,813	\$ 2,146,187	\$ 198,626	\$ 150,000	\$ 95,729	\$ 245,729	0.80
2010	4,619,238	3,753,702	865,536	200,000	199,975	399,975	2.16
2011	4,644,434	3,625,626	1,018,808	165,000	262,947	427,947	2.38

- 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 expense.
 (D) Includes interest paid net of capitalization 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 (E)
Last Four 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	5.40%	6.40%
2009	74,738	2,258,433	30,218	41.4	8,541	10.80%	11.10%
2010	74,849	2,154,154	28,780	39.2	8,117	9.40%	10.00%
2011	75,129	2,162,213	28,780	39.9	8,186	9.40%	9.80%

- Notes: (A) U.S. Census Bureau and East Tennessee Development District for the previous calendar year.
(B) Anderson County Schools
(C) Tennessee Department of Labor and Workforce Development for June.
(D) The Authority was created in Fiscal Year 2008 on July 16, 2007.
(E) Demographic and economic information is for Anderson County, Tennessee. Specific information for the Authority is not available.

ANDERSON COUNTY WATER AUTHORITY

**PRINCIPAL EMPLOYERS
Current Fiscal Year and Two Fiscal Years Ago**

Customer	2011			2009		
	Employees	Rank	Percentage of County Workforce	Employees	Rank	Percentage of County Workforce
BWXT - Y12	4,600	1	12.84%	4,500	1	12.56%
UT Battelle (Oak Ridge National Laboratory)	4,200	2	11.73%	4,200	2	11.73%
Anderson County Government	1,739	3	4.85%	1,542	3	4.30%
Covenant Health Systems (Methodist Medical Center)	1,350	4	3.77%	1,306	4	3.65%
Bechtel Jacobs Co., LLC	1,337	5	3.73%	1,337	5	3.73%
SAIC	1,100	7	3.07%	902	8	2.52%
City of Oak Ridge	1,169	6	3.28%	1,053	6	2.94%
Wackenhut	902	8	2.52%	902	7	2.52%
Eagle Bend Manufacturing	0	0		624	9	1.74%
Oak Ridge Associated Universities (ORAU)	850	9	2.37%	600	10	1.68%
Sitel	500	10	1.40%	0	0	0.00%
Duratek Resource Recovery	0	0	0.00%	510	11	1.43%
Carlisle Tire and Wheel Co. (B)	0	0	0.00%	400	12	1.12%
Total	17,747		49.56%	17,876		49.92%

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 Three Fiscal Years

	<u>2011</u>	<u>2010</u>	<u>2009</u>
WATER AND WASTEWATER			
Water and Wastewater Systems	<u>24</u>	<u>21</u>	<u>20</u>
ADMINISTRATION			
Billing and Customer Service	2	2	4.5
Finance & Accounting	2.5	2.5	2
Administrative	3	3	2
	<u>7.5</u>	<u>7.5</u>	<u>8.5</u>
TOTAL EMPLOYEES	<u><u>31.5</u></u>	<u><u>28.5</u></u>	<u><u>28.5</u></u>

ANDERSON COUNTY WATER AUTHORITY

OPERATING AND CAPITAL INDICATORS
Last Three Fiscal Years

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Area in Square Miles:	220	220	220
Water System:			
Miles of Water Mains	426	422	420
Number of:			
Service Connections (Water)	9,132	9,136	8,990
Office Building	1	1	0
Water Treatment Plants	2	2	2
Wastewater Treatment Plants	1	1	1
Reservoirs	16	16	16
Water Pumping Stations	24	24	24
Wastewater Pumping Stations	19	19	19
Fire Hydrants	327	325	325
Daily Average Water Treatment in Gallons (MGD)	2.69	2.61	2.58
Daily Average Water Purchases in Gallons (MGD)	0.18	0.17	0.12
Daily Average Water Sales and Consumption in Gallons (MGD)	1.86	1.87	1.84
Water Reservoir Storage Capacity (Millions of Gallons)	4.38	4.38	4.38

INTERNAL CONTROL AND COMPLIANCE SECTION

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660



100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

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, 2011, and for the year then ended, and have issued our report thereon dated January 12, 2012. 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.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting as items numbered 2010-1, 2011-1, and 2011-2. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



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 instance of noncompliance or other matter that is required to be reported under Government Auditing Standards.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Authority's responses and accordingly, we express no opinion on them.

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.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
January 12, 2012

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

Section II - Financial Statement Findings

Unresolved Prior Year Audit Findings

2010-1 Individual Cashier Drawers

Criteria or Specific Requirement – Good internal controls require that cashiers operate from a separate cash drawer to improve accountability.

Condition - During the audit, it was noted that more than one cashier could use the same cash drawer throughout the day when collecting payments from customers. This situation reduces the individual cashier's accountability.

Cause and Effect - Cashiers cannot be held accountable for daily cash receipts of customers' payments. Possible discrepancies during the year could not be traced back to the individual cashier who was responsible for the transaction.

Recommendation - We recommend cashiers operate out of separate locked drawers. In addition, we recommend that the daily reconciliation of receipts and deposits of each cashier be recounted by the office manager or another cashier.

Management's Response - Subsequent to year-end 2011, this finding was resolved in September 2011 by the office manager. Individual cashiers are now using separate locked cash drawers and their daily reconciliation of receipts and deposits are being recounted by the office manager or another cashier. The daily reconciliations require the cashier's and office manager's initials.

Current Year Audit Findings

2011-1 Commissioner's Approval of Capital Asset Purchases

Criteria or Specific Requirements - The Authority's purchasing policy requires that the Board of Commissioners approve all purchases greater than \$10,000.

Condition - The Authority made three capital asset purchases of materials and contracts in excess of \$10,000 that did not have Board of Commissioners' approval.

Cause and Effect - Management did not present the summary of bids and quotes for large purchases to the Board of Commissioners for approval.

Recommendation - We recommend that the general manager present a summary of the bids and quotes along with a recommendation to the board for approval.

Management's Response - We concur and will present large purchases and contracts to the board for approval and document in the minutes.

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES (Continued)

June 30, 2011

Section II - Financial Statement Findings (Continued)

Current Year Audit Findings (Continued)

2011-2 Billing and Accounts Receivable Software

Criteria or Specific Requirements - Internal controls require segregation of duties in the billing, accounts receivable, and collection processes.

Condition - During the audit, the following issues related to the billing and accounts receivable software were noted.

- a. The radio-read water meter reading software initial setup does not measure usage from inactive customers.
- b. Employee passwords are not being periodically changed.
- c. Reconnection fees are billed to a customer's account at the time of customer payment.
- d. The accounts receivable software will allow a cashier to issue a printed customer receipt for payment and then delete or alter the amount collected.

Cause and Effect - Certain features of the software have not been implemented, or the software needs further enhancements in order to strengthen internal controls.

Recommendation - we recommend the Authority consider:

- a. The radio-read water meter software be modified to read inactive customers for possible unbilled water usage.
- b. Employees periodically change passwords to help improve IT security.
- c. Reconnection fees should be billed to customer accounts at the time service is disconnected.
- d. The Authority should consult with its billing and accounts receivable software provider about changes to limit the cashier's ability to delete or alter customer payments received. The Authority should review the point of sale (POS) software module currently offered by its software provider to see if it provides better internal controls.

Management's Response - We concur and will implement the recommendations in FY 2012.

ANDERSON COUNTY WATER AUTHORITY
DISPOSITION OF PRIOR YEAR AUDIT FINDINGS

June 30, 2011

2010-2 Performance and Payment Bond

Condition - During FY 2010, the Authority constructed a new office building and hired a general contractor and made progress payments of \$319,693. The Authority did not obtain a performance and payment bond as required by its written purchasing policy. In addition, Tennessee Code Annotated (TCA) §12-4-201 requires that any public works construction contracts in excess of \$100,000 have a performance and payment bond. The building was subsequently completed and occupied by the Authority.

Recommendation - We recommend that performance and payment bonds be obtained for construction contracts in excess of \$100,000 as required by the Authority's purchasing policy and TCA §12-4-201.

Management's Response - In order to save costs, the Board of Commissioners waived the performance and payment bond while negotiating with the two lowest bidders. However, in the future we will require a performance and payment bond for construction contracts in excess of \$100,000.

Current Year Update - This finding is resolved. The Authority has required performance and payment bonds for construction contracts in excess of \$100,000 during the planning stage of ongoing capital projects.

2010-3 Conference Registration for Spouses and Children

Condition - During FY 2010, the Authority paid \$775 in conference registration fees for certain spouses and children of Commissioners and employees. According to the Authority's written travel policies, travel expenses are disallowed for spouses and family members.

Recommendation - We recommend that that the Authority limit travel expenses to Commissioners and employees as required by the travel policies.

Management's Response - The Authority only paid for conference registration fees and no additional travel costs for spouses or family members was incurred. In the future we will only pay conference registration fees for Commissioners and employees.

Current Year Update - This finding is resolved. During the current year's audit, we did not observe travel costs for spouses or family members.

2010-4 Fidelity Insurance Coverage for Commissioners and Employees

Condition - During the audit, it was noted that the Authority did not have fidelity insurance coverage for certain Commissioners and employees as required by the Revenue Term Bonds Series 2008 bond covenants, Section 6.03.

Recommendation - We recommend that the Authority obtain fidelity insurance coverage as required by the Series 2008 bond covenants.

Management's Response - We concur and will obtain fidelity insurance coverage immediately

Current Year Update - This finding is resolved. During the current year, management obtained appropriate fidelity insurance coverage.

