

**HAMILTON COUNTY WATER &  
WASTEWATER TREATMENT AUTHORITY**

**FINANCIAL STATEMENTS**

**June 30, 2011**

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

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# Governing Board for the fiscal year ended June 30, 2011



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Cleveland Grimes, Executive Director



Commissioner Don Haynes



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Commissioner Billy Cooper, Ridgeside  
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Commissioner Louis Wright

## **REPORT OF INDEPENDENT ACCOUNTANTS**

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

We have audited the accompanying statements of net assets of Hamilton County Water & Wastewater Treatment Authority (a component unit of Hamilton County, Tennessee) (the Authority) as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hamilton County Water & Wastewater Treatment Authority as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2011, on our consideration of the Authority's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedules of actual to budget comparison on pages 22 through 24 and the accompanying information shown on pages 25 through 26 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of actual to budget comparison on pages 22 through 24 and the accompanying information shown on pages 25 through 26 have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

*Joseph Decasino and Company, PLLC*

Chattanooga, Tennessee  
December 6, 2011

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**STATEMENTS OF NET ASSETS**

**June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,907,515	\$ 3,199,124
Accounts receivable	1,082,805	849,190
PSLP receivable - restricted	182,529	175,483
Interest receivable	2,528	2,528
Prepaid expenses	19,819	24,449
Inventory	<u>154,813</u>	<u>223,790</u>
Total current assets	<u>6,350,009</u>	<u>4,474,564</u>
<b>NONCURRENT ASSETS</b>		
Cash and cash equivalents - restricted	1,097,663	1,693,546
Accounts receivable - restricted	108,197	103,517
Bond discount and issuance cost, net	122,235	128,059
Contractor note receivable	<u>159,257</u>	<u>228,057</u>
Total noncurrent assets	<u>1,487,352</u>	<u>2,153,179</u>
<b>CAPITAL ASSETS</b>		
Cost of plant in service	111,202,326	108,453,094
Land improvements	5,200	5,200
Buildings	153,836	153,836
Machinery and equipment	687,808	534,582
Automobiles	703,287	655,333
Construction in progress	2,955,945	3,990,452
Accumulated depreciation	<u>(23,678,357)</u>	<u>(20,594,427)</u>
Capital assets, net	<u>92,030,045</u>	<u>93,198,070</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 99,867,406</u></b>	<b><u>\$ 99,825,813</u></b>

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

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	2011	2010
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Due to Hamilton County, Tennessee	\$ 204,155	\$ 245,136
Due to other government	595,023	563,929
Accounts payable	120,207	92,576
Accrued interest	195,887	201,037
Reserve for grinder pump maintenance	205,515	200,301
Reserve for overflow	36,561	34,320
Current portion of long-term debt	540,808	7,513,766
Current portion of advance to Hamilton County, Tennessee	<u>230,000</u>	<u>220,000</u>
Total current liabilities	<u>2,128,156</u>	<u>9,071,065</u>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net	13,863,841	7,684,040
Advance from Hamilton County, Tennessee	14,827,841	15,062,720
Accrued liability for pollution remediation	<u>2,376,000</u>	<u>2,376,000</u>
Total noncurrent liabilities	<u>31,067,682</u>	<u>25,122,760</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	60,191,555	60,341,544
Restricted	1,388,389	1,972,546
Unrestricted	<u>5,091,624</u>	<u>3,317,898</u>
Total net assets	<u>66,671,568</u>	<u>65,631,988</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 99,867,406</u></b>	<b><u>\$ 99,825,813</u></b>

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

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

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

	<b>2011</b>	<b>2010</b>
<b>OPERATING REVENUES</b>		
Sewer revenue	\$ 8,213,617	\$ 8,149,393
PSLP revenue	2,108,851	2,009,633
Grinder pump revenue	74,750	62,790
Inspection fees	<u>22,320</u>	<u>4,750</u>
Total operating revenues	<u>10,419,538</u>	<u>10,226,566</u>
<b>OPERATING EXPENSES</b>		
Personnel costs	1,616,155	1,613,167
Wheelage and treatment service	3,268,988	3,001,475
PSLP expense	998,941	289,116
Other operating expense	<u>1,014,926</u>	<u>918,017</u>
Total operating expenses	<u>6,899,010</u>	<u>5,821,775</u>
<b>OTHER OPERATING REVENUES (EXPENSES)</b>	<b>3,520,528</b>	<b>4,404,791</b>
Depreciation	(3,083,930)	(2,967,116)
Other income (expense)	<u>3,234</u>	<u>(5,183)</u>
<b>TOTAL OPERATING INCOME</b>	<u><b>439,832</b></u>	<u><b>1,432,492</b></u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	8,473	13,151
Tap on fees	268,660	298,540
Interest expense	<u>(799,179)</u>	<u>(847,423)</u>
Total nonoperating revenues (expenses)	<u>(522,046)</u>	<u>(535,732)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	<b>(82,214)</b>	<b>896,760</b>
Capital contributions	<u>1,121,794</u>	<u>1,344,432</u>
<b>CHANGE IN NET ASSETS</b>	<b>1,039,580</b>	<b>2,241,192</b>
<b>NET ASSETS - beginning of year</b>	<u><b>65,631,988</b></u>	<u><b>63,390,796</b></u>
<b>NET ASSETS - end of year</b>	<u><b>\$ 66,671,568</b></u>	<u><b>\$ 65,631,988</b></u>

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

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**STATEMENTS OF CASH FLOWS**

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

	<b>2011</b>	<b>2010</b>
<b>OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ 10,177,430	\$ 10,161,590
Payments to suppliers	<u>(6,803,617)</u>	<u>(5,830,693)</u>
<b>Net cash flows from operating activities</b>	<u><b>3,373,813</b></u>	<u><b>4,330,897</b></u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(794,110)	(1,246,956)
Tap on fees	268,660	298,540
Principal payments on long-term debt	(788,799)	(398,843)
Principal payments on advance from Hamilton County, Tennessee	(220,000)	(220,000)
Payments received (notes made) to contractor	68,800	(228,057)
Interest paid on long-term debt	<u>(804,329)</u>	<u>(860,702)</u>
<b>Net cash flows from capital and related financing activities</b>	<u><b>(2,269,778)</b></u>	<u><b>(2,656,018)</b></u>
<b>INVESTING ACTIVITIES</b>		
Interest received	<u>8,473</u>	<u>13,151</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>1,112,508</b>	<b>1,688,030</b>
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<u><b>4,892,670</b></u>	<u><b>3,204,640</b></u>
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<u><b>\$ 6,005,178</b></u>	<u><b>\$ 4,892,670</b></u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR CONSIST OF -</b>		
Unrestricted cash and cash equivalents	\$ 4,907,515	\$ 3,199,124
Restricted cash and cash equivalents	<u>1,097,663</u>	<u>1,693,546</u>
	<u><b>\$ 6,005,178</b></u>	<u><b>\$ 4,892,670</b></u>

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

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**STATEMENTS OF CASH FLOWS**

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

	<b>2011</b>	<b>2010</b>
<b>RECONCILIATION OF TOTAL OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Total operating income	\$ 439,832	\$ 1,432,492
Adjustments to reconcile operating income to net cash flows from operating activities -		
Depreciation	3,083,930	2,967,116
Amortization	5,824	5,825
Bond premium	(9,238)	(9,376)
Reserve for grinder pump maintenance	5,214	(21,103)
Reserve for overflow	2,241	(22,902)
Changes in operating assets and liabilities -		
Accounts receivable	(233,615)	(55,246)
PSLP receivable - restricted	(7,046)	(29,220)
Accounts receivable - restricted	(4,680)	19,490
Prepaid expenses	4,630	(1,555)
Inventory	68,977	50,614
Accounts payable and accrued expenses	17,744	101,414
Contractor deposit	<u>-</u>	<u>(106,652)</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b><u>\$ 3,373,813</u></b>	<b><u>\$ 4,330,897</u></b>
<b>NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital contributions of wastewater treatment capital assets	\$ 1,121,794	\$ 1,344,432
Capital addition included in accrued liability for pollution remediation	\$ -	\$ 2,376,000

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

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### A. REPORTING ENTITY

Hamilton County Water & Wastewater Treatment Authority, a component unit of Hamilton County, Tennessee (the County), is legally separate from the County, but the County is considered to be financially accountable for the Authority. The Authority is organized under the Water and Wastewater Treatment Authority Act of the State of Tennessee. The Authority began operations on July 1, 1994, for the purpose of providing wastewater treatment service to residents of unincorporated areas of Hamilton County, Tennessee. Under the Act, Hamilton County is authorized to form the Authority, and other local governments in Hamilton County may join the Authority at their discretion. As of June 30, 2011, Hamilton County, the City of Lake Site, the City of Ridgeside, the City of Soddy Daisy, the City of East Ridge, the Town of Signal Mountain, the City of Red Bank and the Town of Lookout Mountain are the only participating governments. The governing body of the Authority is the Board of Commissioners consisting of six individuals appointed by the executive officer of Hamilton County and approved by the County's Board of Commissioners. The County's Board of Commissioners does not approve the Authority's budget but the County does finance debt for the Authority's capital projects at its discretion. The Authority's Board of Commissioners has final decision-making authority for the entity.

#### B. ACCOUNTING PRONOUNCEMENTS

The Authority adopted the provisions of the Governmental Accounting Standards Board Codification Section 1000.101, *The Hierarchy of Generally Accepted Accounting Principles*, in the year ended June 30, 2010. This Statement established accounting and financial reporting standards which constitute generally accepted accounting principles (GAAP) for all state and local governmental entities. All references to pre-Codification Statements have either been removed or updated to reflect the new Codification reference. The adoption of this Statement did not have a significant impact on the Authority's financial statements.

The Authority adopted Section P40.101, *Pollution Remediation Obligations*, required for fiscal periods beginning after December 15, 2007, in the year ended June 30, 2010. This Statement sets uniform standards requiring more timely and complete reporting of pollution remediation obligations. Based upon the Statement's requirements relating to recording an estimated liability related to the costs associated with pollution remediation, the Authority recorded a liability of \$2,376,000 as an estimation of the liability in fiscal year 2010. The required disclosures are found in Note 13 of the financial statements.

The Authority adopted Section 1400, *Reporting Capital Assets*, paragraphs .120-.135, *Intangible Assets*, which requires intangible assets subject to the provisions of paragraphs .123-135 should be classified as capital assets in the year ended June 30, 2010. The adoption of this Statement did not have a significant impact on the Authority's financial statements.

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

#### C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF FINANCIAL STATEMENT PRESENTATION

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

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

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

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

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

NET ASSETS - The Authority has adopted the provisions of Section P80, *Proprietary Fund Accounting and Financial Reporting*, which establishes standards for external financial reporting and disclosure for all state and local governmental entities, which include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. Statement 34 requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in Capital Assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- Restricted Net Assets - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Authority's policy is generally to use any restricted net assets first, as appropriate opportunities arise.
- Unrestricted Net Assets - This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt. While management may have categorized and segmented portions for various purposes, the Authority has the unrestricted authority to revisit or alter these managerial decisions.

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

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

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

**BOND PREMIUM, DISCOUNTS AND BOND ISSUANCE COSTS** - Bond premiums and discounts, as well as issuance costs, are stated at unamortized cost and are being amortized over the life of the bonds using the straight-line method. Amortization expense related to bond discounts and issuance costs totaled \$5,824 for 2011 and \$5,825 for 2010, and is estimated to be \$5,825 for 2012 through 2016. Bond premium amortization, reported as a reduction in interest, totaled \$9,238 for 2011 and \$9,376 for 2010. Bond premium payables as of June 30, 2011 and 2010, totaled \$92,541 and \$101,778, respectively.

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

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

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

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

**CAPITALIZED INTEREST** - The Authority capitalizes interest costs net of interest earned as part of the cost of construction, when material. As of June 30, 2011 and 2010, the Authority has capitalized \$0 and \$26,281, respectively, as part of the cost of construction.

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

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

**SUBSEQUENT EVENTS** - The Authority has evaluated subsequent events for potential recognition and disclosure through December 6, 2011, the date the financial statements were available to be issued, as discussed in Note 14.

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 2 - FORMATION AND OPERATION OF THE AUTHORITY

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

The amounts initially contributed to the Authority were as follows:

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

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

There were no amounts contributed from the Town of Lookout Mountain at the time the Town joined the Authority.

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

### NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2011	2010
Trade receivables	\$ 1,054,708	\$ 811,721
Other accounts receivable	<u>28,097</u>	<u>37,469</u>
	<u>\$ 1,082,805</u>	<u>\$ 849,190</u>

The Authority performs ongoing credit evaluations of its customers' financial condition but does not require collateral to support receivable. The Authority has determined that an allowance for doubtful accounts for accounts receivable is not necessary as of June 30, 2011 or 2010.

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 4 - RESTRICTED NET ASSETS**

The Authority's restricted net assets as of June 30, 2011 and 2010, consist of the following:

	<b>2011</b>	2010
Cash and cash equivalents - Private Lateral Service Program	<b>\$ 1,097,663</b>	\$ 1,693,546
Receivable - Red Bank Unapplied Reserve	<b>103,517</b>	103,517
Receivable - Private Lateral Service Program	<b>182,529</b>	175,483
Receivable - Inspection Fees	<b>4,680</b>	-
	<b><u>\$ 1,388,389</u></b>	<b><u>\$ 1,972,546</u></b>

**NOTE 5 - DUE TO HAMILTON COUNTY, TENNESSEE**

The amounts due to Hamilton County, Tennessee as of June 30, 2011 and 2010, totaled \$204,155 and \$245,136, respectively. The amounts represent operating expenses incurred by the Authority which are reimbursed to Hamilton County, Tennessee on a monthly basis.

**NOTE 6 - DUE TO OTHER GOVERNMENT**

The amounts due to other government represent amounts owed to the City of Chattanooga for wheelage and treatment expenses as of June 30, 2011 and 2010, in the amounts of \$595,023 and \$563,929, respectively.

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - CAPITAL ASSETS**

A summary of the changes in capital assets for the year ended June 30, 2011, is as follows:

	<b>June 30, 2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2011</b>
<b>Capital assets being depreciated</b>				
Cost of plant in service	\$ 108,453,094	\$ 2,749,232	\$ -	\$ 111,202,326
Land improvements	5,200	-	-	5,200
Buildings	153,836	-	-	153,836
Machinery and equipment	534,582	153,226	-	687,808
Automobiles	<u>655,333</u>	<u>47,954</u>	<u>-</u>	<u>703,287</u>
Total capital assets being depreciated	109,802,045	2,950,412	-	112,752,457
<b>Capital assets not being depreciated</b>				
Construction in progress	<u>3,990,452</u>	<u>265,779</u>	<u>(1,300,286)</u>	<u>2,955,945</u>
Total capital assets	<u>113,792,497</u>	<u>3,216,191</u>	<u>(1,300,286)</u>	<u>115,708,402</u>
<b>Accumulated depreciation</b>				
Cost of plant in service	19,729,683	2,970,121	-	22,699,804
Land improvements	282	260	-	542
Buildings	30,177	6,099	-	36,276
Machinery and equipment	251,494	74,782	-	326,276
Automobiles	<u>582,791</u>	<u>32,668</u>	<u>-</u>	<u>615,459</u>
Total accumulated depreciation	<u>20,594,427</u>	<u>3,083,930</u>	<u>-</u>	<u>23,678,357</u>
<b>Capital assets, net</b>	<b>\$ <u>93,198,070</u></b>	<b>\$ <u>132,261</u></b>	<b>\$ <u>(1,300,286)</u></b>	<b>\$ <u>92,030,045</u></b>

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7 - CAPITAL ASSETS - continued

A summary of the changes in capital assets for the year ended June 30, 2010, is as follows:

	June 30, 2009	Additions	Deletions	June 30, 2010
<b>Capital assets being depreciated</b>				
Cost of plant in service	\$ 104,486,938	\$ 3,966,156	\$ -	\$ 108,453,094
Land improvements	5,200	-	-	5,200
Buildings	153,836	-	-	153,836
Machinery and equipment	384,309	187,580	(37,307)	534,582
Automobiles	<u>632,350</u>	<u>22,983</u>	<u>-</u>	<u>655,333</u>
Total capital assets being depreciated	105,662,633	4,176,719	(37,307)	109,802,045
<b>Capital assets not being depreciated</b>				
Construction in progress	<u>3,199,783</u>	<u>2,376,000</u>	<u>(1,585,331)</u>	<u>3,990,452</u>
Total capital assets	<u>108,862,416</u>	<u>6,552,719</u>	<u>(1,622,638)</u>	<u>113,792,497</u>
<b>Accumulated depreciation</b>				
Cost of plant in service	16,858,716	2,870,967	-	19,729,683
Land improvements	22	260	-	282
Buildings	24,078	6,099	-	30,177
Machinery and equipment	246,112	42,689	(37,307)	251,494
Automobiles	<u>535,690</u>	<u>47,101</u>	<u>-</u>	<u>582,791</u>
Total accumulated depreciation	<u>17,664,618</u>	<u>2,967,116</u>	<u>(37,307)</u>	<u>20,594,427</u>
<b>Capital assets, net</b>	<u>\$ 91,197,798</u>	<u>\$ 3,585,603</u>	<u>\$ (1,585,331)</u>	<u>\$ 93,198,070</u>

The Authority has determined that capital expenditures relating to the pollution remediation at Signal Mountain will have a future use after the completion of the remediation issues. An asset in the amount of \$2,376,000 is recorded in construction in progress for these pollution remediation costs in fiscal year 2011 and 2010. See Note 13 for additional information.

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 8 - LONG-TERM DEBT

#### **Hamilton County**

Hamilton County and the Authority jointly issued \$6,500,000 of Hamilton County General Obligation Bonds in 1995. The bonds were refunded by issuance of 1998B Bonds. The 1998B Bonds bear interest at varying rates from 3.25% to 5.0% and are to be repaid by Hamilton County through 2024. The bonds were issued to finance the design and construction of various wastewater projects undertaken by the Authority. The joint bond issue is recorded on the records of Hamilton County, Tennessee. Repayment is to be made first through the use of Hamilton County privilege tax and secondly through other taxes to be levied against Hamilton County property owners. If such levy is not sufficient, the Authority will use operating revenues, after paying current expenses and other future bond principal and interest, to service the debt.

Hamilton County issued \$40,000,000 of Hamilton County General Obligation Bond Series 2005 of which the Authority received and has agreed to repay \$10,000,000. The bonds bear interest at varying rates from 4.0% to 5.0% and are to be repaid through 2034. The proceeds of the bonds were used to pay back the \$3,883,893 line of credit with First Tennessee Bank in 2004. The remainder was recorded as restricted cash as of June 30, 2004, and was used to finance the design and construction of various wastewater projects undertaken by the Authority. Interest is payable semiannually on the first day of January and July and mature serially on January 1 of each year based on agreements. The principal balance as of June 30, 2011 and 2010, was \$8,557,841 and \$8,782,720, respectively.

#### **Collegedale**

In October 1997, the Authority entered into a Loan Agreement (the Agreement) with the City of Collegedale to jointly fund and construct a sewer project located along Ooltewah-Ringgold Road in the Rabbit Valley Basin. In June 2001, the City of Collegedale procured a State Revolving Fund Loan. The Authority is obligated under the Agreement to repay the Loan in installments consisting of (i) principal repayments payable monthly for a 20-year term in certain amounts and on certain dates as specified in the Agreement, and (ii) interest and certain expenses calculated and billed at the rate or rates and on the date or dates as specified in the Agreement. The Authority's share on this note was \$249,462 and \$270,862 as of June 30, 2011 and 2010, respectively.

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 8 - LONG-TERM DEBT - continued

#### Red Bank

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

- (i) 1993 City of Red Bank Sewer Revenue and Tax Bonds in the principal amount of \$2,160,000. The bonds were repaid in March 2009.
- (ii) Red Bank Sewer Revenue and Tax Bonds Series A-2-H in the principal amount of \$3,340,000. The bonds bear interest at a variable rate, currently at 3.25%. Interest only is payable quarterly on the 25th day of February, May, August and November each year through 2010, with bonds payable through June 2017. The principal balance as of June 30, 2011 and 2010, was 3,005,000 and \$3,340,000, respectively. This amount was repaid in July 2011. See Note 14.
- (iii) 1996 Tennessee Local Development Authority Sewer Treatment Water Works loan in the principal amount of \$1,126,338. Interest rate is variable, currently at 1.7%. Principal and interest in the amount of \$8,626 are payable in monthly installments through March 2017. The principal balance as of June 30, 2011 and 2010, was \$583,369 and \$679,038, respectively.
- (iv) State of Tennessee Revolving Fund Loan in the original principal amount of \$6,917,000, bearing interest at 3.752%. Principal and interest are payable in monthly installments through August 2020. The principal balance as of June 30, 2011 and 2010, was \$3,841,850 and \$4,182,938, respectively.

#### Other Notes

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

The Authority has a line of credit with First Tennessee Bank with a credit limit of \$9,000,000. Balance is due on August 1, 2011, with a variable interest rate (LIBOR rate plus 1.58% but no less than 2%). As of June 30, 2011, the interest rate is 2% and interest is payable monthly. As of June 30, 2011 and 2010, the principal balance was \$6,724,968. This amount was repaid in July 2011. See Note 14.

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 8 - LONG-TERM DEBT - continued

A summary of the changes in long-term debt for the year ended June 30, 2011, is as follows:

	June 30, 2010	Retirements	Re-classification	Amortization of Bond Premium	June 30, 2011
<b>Advance from Hamilton County:</b>					
Advance from Hamilton County 6.5 Million Bond	\$ 6,500,000	\$ -	\$ -	\$ -	\$ 6,500,000
Advance from Hamilton County 10 Million Bond	<u>8,782,720</u>	<u>(220,000)</u>	<u>-</u>	<u>(4,879)</u>	<u>8,557,841</u>
	15,282,720	(220,000)	-	(4,879)	15,057,841
Due within 1 year	<u>(220,000)</u>	<u>-</u>	<u>(10,000)</u>	<u>-</u>	<u>(230,000)</u>
Due in more than 1 year	<u>\$ 15,062,720</u>	<u>\$ (220,000)</u>	<u>\$ (10,000)</u>	<u>\$ (4,879)</u>	<u>\$ 14,827,841</u>
Other long-term debt:					
Collegedale Bond Payable	\$ 270,862	\$ (21,400)	\$ -	\$ -	\$ 249,462
State of Tennessee Revolving Fund Loan	4,182,938	(341,088)	-	-	3,841,850
Red Bank 1996 Bond Payable	679,038	(91,310)	-	(4,359)	583,369
Red Bank A-2-H Bond Payable	3,340,000	(335,000)	-	-	3,005,000
First Tennessee Line of Credit	<u>6,724,968</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,724,968</u>
	15,197,806	(788,798)	-	(4,359)	14,404,649
Current portion	<u>(7,513,766)</u>	<u>-</u>	<u>6,972,958</u>	<u>-</u>	<u>(540,808)</u>
Other long-term debt	<u>\$ 7,684,040</u>	<u>\$ (788,798)</u>	<u>\$ 6,972,958</u>	<u>\$ (4,359)</u>	<u>\$ 13,863,841</u>

A summary of the changes in long-term debt for the year ended June 30, 2010, is as follows:

	June 30, 2009	Retirements	Re-classification	Amortization of Bond Premium	June 30, 2010
<b>Advance from Hamilton County:</b>					
Advance from Hamilton County 6.5 Million Bond	\$ 6,500,000	\$ -	\$ -	\$ -	\$ 6,500,000
Advance from Hamilton County 10 Million Bond	<u>9,007,737</u>	<u>(220,000)</u>	<u>-</u>	<u>(5,017)</u>	<u>8,782,720</u>
	15,507,737	(220,000)	-	(5,017)	15,282,720
Due within 1 year	<u>(220,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(220,000)</u>
Due in more than 1 year	<u>\$ 15,287,737</u>	<u>\$ (220,000)</u>	<u>\$ -</u>	<u>\$ (5,017)</u>	<u>\$ 15,062,720</u>
Other long-term debt:					
Collegedale Bond Payable	\$ 291,719	\$ (20,857)	\$ -	\$ -	\$ 270,862
State of Tennessee Revolving Fund Loan	4,511,486	(328,548)	-	-	4,182,938
Red Bank 1996 Bond Payable	683,397	-	-	(4,359)	679,038
Red Bank A-2-H Bond Payable	3,340,000	-	-	-	3,340,000
First Tennessee Installment Notes	49,438	(49,438)	-	-	-
First Tennessee Line of Credit	<u>6,724,968</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,724,968</u>
	15,601,008	(398,843)	-	(4,359)	15,197,806
Current portion	<u>(7,197,464)</u>	<u>-</u>	<u>(316,302)</u>	<u>-</u>	<u>(7,513,766)</u>
Other long-term debt	<u>\$ 8,403,544</u>	<u>\$ (398,843)</u>	<u>\$ (316,302)</u>	<u>\$ (4,359)</u>	<u>\$ 7,684,040</u>

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - LONG-TERM DEBT - continued**

Debt service requirements for the years subsequent to June 30, 2011, adjusted for the new Revenue Refunding Bond entered into subsequent to year end (see Note 14) are as follows:

	<b>Principal</b>	<b>Interest</b>
<b>Year ending</b>		
June 30, 2012	\$ 770,808	\$ 877,082
June 30, 2013	1,027,389	845,004
June 30, 2014	1,093,135	834,263
June 30, 2015	1,133,453	793,940
June 30, 2016	1,132,696	725,859
June 30, 2017 - 2034	<u>24,363,436</u>	<u>6,104,586</u>
	29,520,917	10,180,734
Advance From Hamilton County, Tennessee	<u>6,500,000</u>	<u>-</u>
Debt service requirement	36,020,917	10,180,734
Plus bond premium	<u>92,541</u>	<u>-</u>
Net debt service requirement	<u>\$ 36,113,458</u>	<u>\$ 10,180,734</u>

**NOTE 9 - CREDIT RISK**

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

Credit risk - As of June 30, 2011, the Authority's investments consist of moneys invested in the state investment pool, which is a 2a7-like pool. The state investment pool is not rated. Withdrawals from the state investment pool are made upon demand.

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 10 - RISK FINANCING AND INSURANCE-RELATED ACTIVITIES**

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

### **NOTE 11 - INSURANCE FOR OFFICERS AND DIRECTORS**

The Authority maintains insurance for officers and directors to a \$3,000,000 limit with \$25,000 deductible and a \$25,000 EPLI deductible. The cost for the years ended June 30, 2011 and 2010, totaled \$4,647 and \$4,880, respectively.

### **NOTE 12 - RELATED PARTY TRANSACTIONS**

There were no related party transactions for the year ended June 30, 2011 and 2010.

### **NOTE 13 - POLLUTION REMEDIATION OBLIGATION**

The Authority is under an Order and Assessment (The Order) from the Commissioner of the Tennessee Department of Environment and Conservation requiring the Authority to develop a Maintenance Operation and Management Program (MOM) that will eliminate the overflows into the Tennessee River addressed under the Order. To date, the Authority has completed some random smoke testing and flow monitoring throughout the system. The work in this area that still needs to be done includes: a) Submission and approval of the Corrective Action Plan, b) easement clearing program, c) flow monitoring, and d) new infrastructure construction. Total estimated costs for the remediation is currently estimated at approximately \$3,238,000. The Authority has implemented an \$8 fee to reduce some of the costs associated with the remediation and expects the fees to reduce the costs approximately \$862,000. The Authority's estimated potential liability for additional expenses not reimbursed by the fees for infrastructure construction totaled \$2,376,000 as of June 30, 2011 and 2010.

### **NOTE 14 - SUBSEQUENT EVENTS**

On July 27, 2011, the Authority entered into a revenue refunding bond payable in the amount of \$9,810,946. The bond payable has an interest rate of 3.78% and a maturity date of August 1, 2026. Interest only payments are due through August 1, 2012. Beginning September 1, 2012, principal and interest payments in the amount of \$58,637 are payable monthly through July 1, 2016. All principle and interest is due on August 1, 2026. The proceeds of the refinancing were used to pay off the First Tennessee line of credit and the Red Bank A-2-H bond payable.

## **SUPPLEMENTARY INFORMATION**

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**SCHEDULE OF ACTUAL TO BUDGET COMPARISON**

**Year Ended June 30, 2011**

	<b>2011 Actual</b>	<b>2011 Budget</b>	<b>Variance</b>	<b>% Variance Favorable (Unfavorable)</b>
<b>OPERATING REVENUES</b>				
Sewer revenue	\$ 8,213,617	\$ 8,085,870	\$ 127,747	2 %
PSLP revenue	2,108,851	1,980,030	128,821	7 %
Grinder pump revenue	74,750	62,570	12,180	19 %
Inspection fees	<u>22,320</u>	<u>15,000</u>	<u>7,320</u>	49 %
	10,419,538	10,143,470	276,068	3 %
<b>PSLP EXPENSE</b>	998,941	1,471,404	472,463	32 %
<b>OTHER OPERATING EXPENSE</b>	5,900,069	5,692,573	(207,496)	(4)%
<b>DEPRECIATION</b>	3,083,930	3,110,048	26,118	1 %
<b>OTHER EXPENSE</b>	<u>(3,234)</u>	<u>(3,000)</u>	<u>234</u>	(8)%
<b>TOTAL OPERATING INCOME (LOSS)</b>	<u>439,832</u>	<u>(127,555)</u>	<u>567,387</u>	
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	8,473	13,000	(4,527)	(35)%
Tap on fees	268,660	300,000	(31,340)	(10)%
Interest expense	<u>(799,179)</u>	<u>(845,300)</u>	<u>(46,121)</u>	5 %
	<u>(522,046)</u>	<u>(532,300)</u>	<u>(10,254)</u>	2 %
<b>CAPITAL CONTRIBUTIONS</b>	<u>1,121,794</u>	<u>1,667,500</u>	<u>(545,706)</u>	(33)%
<b>CHANGE IN NET ASSETS</b>	<u>\$ 1,039,580</u>	<u>\$ 1,007,645</u>	<u>\$ 31,935</u>	3 %

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**SCHEDULE OF ACTUAL TO BUDGET COMPARISON**

**Year Ended June 30, 2011**

	<b>2011 Actual</b>	<b>2011 Budget</b>	<b>Variance</b>	<b>% Variance Favorable (Unfavorable)</b>
<b>OPERATING EXPENSES</b>				
Telephone	\$ 55,739	\$ 60,000	\$ 4,261	7 %
Cost of grinder pumps	77,487	65,734	(11,753)	(18)%
Electricity	157,329	156,000	(1,329)	(1)%
Natural gas	2,147	2,900	753	26 %
Water	15,053	16,000	947	6 %
Comcast	2,280	2,290	10	-
Repairs and maintenance	73,358	97,000	23,642	24 %
Emergency repairs	20,069	30,000	9,931	33 %
Grinder pump repair	5,168	30,000	24,832	83 %
Wheelage and treatment	3,268,988	3,300,000	31,012	1 %
Inspection expenses	70,222	38,000	(32,222)	(85)%
Engineering studies	10,001	37,000	26,999	73 %
Permits	6,670	6,670	-	-
Personal costs	1,616,155	1,250,263	(365,892)	(29)%
Auto expense	86,646	80,500	(6,146)	(8)%
Sludge hauling	71,345	50,000	(21,345)	(43)%
Liability and property insurance	4,647	4,950	303	6 %
Operating travel and training	5,537	12,000	6,463	54 %
Operating - miscellaneous	-	1,200	1,200	100 %
Odor control	150,137	207,000	56,863	27 %
Recording fee for easements	(1,010)	-	1,010	-
Amortization - computer software	24,261	23,988	(273)	(1)%
Legal services	40,458	35,600	(4,858)	(14)%
Other professional services	-	2,500	2,500	100 %
Accounting and auditing	25,825	26,000	175	1 %
Amortization - bond issue	5,825	5,825	-	-
Bank charges	1,855	2,808	953	34 %
Advertising	5,182	2,225	(2,957)	(133)%
Office expense	19,029	19,500	471	2 %
Postage	1,747	1,440	(307)	(21)%
Board meetings	1,595	7,200	5,605	78 %
Settlement claims	30,000	30,000	-	-

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**SCHEDULE OF ACTUAL TO BUDGET COMPARISON**

**Year Ended June 30, 2011**

	<b>2011 Actual</b>	<b>2011 Budget</b>	<b>Variance</b>	<b>% Variance Favorable (Unfavorable)</b>
Association dues	\$ 7,422	\$ 7,350	\$ (72)	(1)%
Office rent	14,212	60,000	45,788	76 %
Parking	7,431	7,920	489	6 %
License renewal	650	710	60	8 %
Tennessee One Call System	16,609	12,000	(4,609)	(38)%
Repairs and maintenance - PSLP	882,419	1,296,604	414,185	32 %
Engineering studies - PSLP	590	-	(590)	- %
Personnel costs - PSLP	69,741	163,886	94,145	57 %
Auto expense - PSLP	2,712	-	(2,712)	- %
Operating - miscellaneous - PSLP	390	-	(390)	- %
Inspection expenses - PSLP	302	-	(302)	- %
Operating travel and training - PSLP	-	250	250	100 %
Legal services - PSLP	9,251	-	(9,251)	- %
Other professional services - PSLP	29,049	4,408	(24,641)	(559)%
Advertising - PSLP	-	1,125	1,125	100 %
Office expense - PSLP	4,256	1,250	(3,006)	(240)%
Postage - PSLP	131	3,881	3,750	97 %
Settlement claims - PSLP	<u>100</u>	<u>-</u>	<u>(100)</u>	- %
	<u>\$ 6,899,010</u>	<u>\$ 7,163,977</u>	<u>\$ 264,967</u>	4 %

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## SCHEDULES OF OPERATING EXPENSES

Years Ended June 30, 2011 and 2010

	2011	2010
Telephone	\$ 55,739	\$ 55,059
Cost of grinder pumps	77,487	67,634
Electricity	157,329	155,149
Natural gas	2,147	2,830
Water	15,053	15,547
System maintenance	73,358	67,782
Grinder pump repair	5,168	(21,103)
Wheelage and treatment	3,268,988	3,001,474
Inspection expenses	70,222	33,229
Engineering studies	10,001	23,340
Permits	6,670	6,670
Odor control	150,137	107,840
Sludge hauling	71,345	50,095
Personnel costs	1,616,155	1,613,167
Liability and property insurance	4,647	4,880
Auto expense	86,646	78,076
Legal services	40,458	53,275
Emergency repairs	20,069	18,254
Accounting and auditing	25,825	21,882
Amortization - bond issues	5,825	5,825
Amortization - computer software	24,261	21,639
Office expense	22,371	23,852
Office rent	14,212	54,174
Operating travel and training	5,537	6,019
Association dues	7,422	7,350
Settlement claims	30,000	30,000
License renewal	650	710
Tennessee One Call System	16,609	11,997
Recording fee for easements	(1,010)	625
Miscellaneous	16,748	15,388
PSLP expense -		
Repairs and maintenance	882,419	182,571
Personnel costs	69,741	76,815
Legal services	9,251	-
Office expense	4,256	7,313
Auto expense	2,712	-
Engineering studies	590	-
Operating - miscellaneous	390	-
Postage	131	2,249
Uniform expense	-	726
Other professional services	29,049	8,249
Emergency repairs	-	9,709
Operating travel and training	-	669
Advertising	-	225
Inspection expenses	302	590
Settlement claims	100	-
	<b>\$ 6,899,010</b>	<b>\$ 5,821,775</b>

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**SCHEDULE OF WASTEWATER RATES**

**Year Ended June 30, 2011**

The following monthly wastewater rates were in effect as of June 30, 2011:

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

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

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

The minimum monthly bill for Red Bank rates as of June 30, 2011, are as follows:

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

Each customer shall pay monthly according to the following rates:

- (a) For the first 1,500 gallons or less, a minimum charge of \$11.17.
- (b) For all over 1,500 gallons, a charge of \$5.91 per 1,000 gallons. [4,000 gallons = \$11.17 + ((4.0-1.5) x \$5.91) = \$25.95].
- (c) City of Red Bank owned Buildings and Properties shall be charged in accordance to (a) and (b) above; regardless of meter size.

## **INTERNAL CONTROL AND COMPLIANCE**

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

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

We have audited the financial statements of Hamilton County Water & Wastewater Treatment Authority (a component unit of Hamilton County, Tennessee) (the Authority) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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 significant deficiencies or material weaknesses, as defined above.

## Compliance and Other Matters

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

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

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

Chattanooga, Tennessee  
December 6, 2011

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**SCHEDULE OF PRIOR YEAR FINDINGS**

**Year Ended June 30, 2011**

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**PRIOR YEAR FINDINGS REMEDIATED IN CURRENT YEAR**

**2010-01 - INTERNAL CONTROL OVER TAP ON FEES**

*Condition and Criteria:* The same person who sells permits is also the person who makes daily cash deposits. There are no procedures or policies in place to ensure the accuracy of the cash receipts.