

**ANDERSON COUNTY WATER AUTHORITY**  
Clinton, Tennessee

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**For the Years Ended  
June 30, 2012 and 2011**

**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**

November 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, 2012 and 2011.

#### 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 years ended June 30, 2012 and 2011. As stated in the independent auditor's report, the audit was conducted in accordance with U.S. 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) requires 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 9,126 water and 928 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 thirteen 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 2012, the unemployment rates according to the U.S. Bureau of Labor Statistics for Anderson County, Tennessee, and the Nation were 8.6%, 8.1% and 8.2%, respectively.

Per capita income in 2011 for Anderson County, Tennessee, and the Nation was \$34,358, \$34,921, and \$39,937, 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 late FY 2013 the Authority plans to start construction of a 12 mile forced wastewater main line that will connect all of the Authority's sewer customers directly to the Clinton Utilities Board wastewater treatment plant which will reduce monthly treatment costs by 50%. This project is to be financed by a \$3,400,000 thirty year low interest rate loan, that includes a 20% principal debt forgiveness, with the State of Tennessee Revolving Loan Fund and is expected to save an estimated \$24,000 annually (net of debt service payments) in operating costs.

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. A majority of these initiatives were completed during fiscal year 2012 with the remaining to be completed in FY 2013.

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 second time for the FYE June 30, 2011. 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.

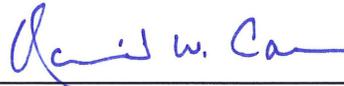
Recognition and appreciation are also extended to the Board for its continued guidance of the operation of the Authority in a financially responsible and progressive manner.

Respectfully submitted,



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Larry Clowers  
General Manager



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David Carr, CPA  
Accountant  
WLC Certified Public Accountants, PC

**ANDERSON COUNTY WATER AUTHORITY**  
**ORGANIZATIONAL CHART**  
*June 30, 2012*

**ACWA BOARD OF COMMISSIONERS**

↓  
**Larry Clowers**  
 General Manager



**John Mitchell**  
 Supt. Of Operations  
 Chief WTP Operator #1



Randy Hensley  
 Wayne Smith  
 David Noonan  
 Jon Martin



**Robert Lancaster**  
 NACUD System Forman



Harold Bray  
 Kirk Bray  
 Jerry Lindsey  
 Jamie Craig  
 Clayton Haney  
 Kevin Jeffers  
 Jimmy Spears  
 Travis Nelson  
 Steve Phillips  
 Gary Sharp  
 Mike Manning  
 Tony Parks  
 Chris Giles  
 Sawyer Reed



**Vestel Mitchell**  
 ACUB System Forman

↓  
**Annelle Brown**  
 HR Director

**Jeff Elliott**  
 Chief WTP Operator #2



Walter Sharp

↓  
**Teresa Ridenour**  
 Office Manager



Tina Spears

Jeannie Gregory

Lori Noonan

**ANDERSON COUNTY WATER AUTHORITY**  
**ROSTER OF AUTHORITY OFFICIALS AND OTHERS**  
**June 30, 2012**

**Board of Commissioners**

	<b><u>Expiration of Term</u></b>
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

**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, 2011

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.



*Christopher P. Morrell*

President

*Jeffrey R. Emen*

Executive Director

**FINANCIAL SECTION**

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TOLL FREE 800-332-7021

## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Anderson County Water Authority  
Clinton, Tennessee

We have audited the accompanying balance sheets of Anderson County Water Authority (the Authority) as of June 30, 2012 and 2011, 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 previously present fairly, in all material respects, the financial position of Anderson County Water Authority as of June 30, 2012 and 2011 and the changes in financial position and 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 a report dated November 12, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 audits were conducted for the purpose of forming an opinion on the basic financial statements. The supplementary schedules of debt service requirements, rates and statistics and unaccounted for water are presented for purposes of additional analysis and are not a required part of the financial statements. Such information 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 supplementary schedules of debt service requirements, rates and statistics and unaccounted for water are fairly stated in all material respects in relation to the financial statements as a whole.

Our audits were conducted for the purpose of forming an opinion on the financial statements. The introductory and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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 it.

*Pugh & Company, P.C.*

Certified Public Accountants  
Knoxville, Tennessee  
November 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, 2012, 2011, and 2010. 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. The following are key financial highlights:

- The Authority sold 708, 669 and 659 million gallons of water in 2012, 2011 and 2010.
- Total assets at June 30, 2012, 2011 and 2010 were \$24,466,934, \$24,298,215 and \$20,247,607 and exceeded liabilities, net assets, by \$16,078,442, \$15,863,687 and \$15,851,606, respectively. Of the total net assets, \$2,636,625, \$2,650,670 and \$2,646,678 were unrestricted and were available to support short-term operations for 2012, 2011 and 2010. Net assets increased (decreased) in 2012 by \$214,755, 2011 by \$12,081 and 2010 by \$(189,741).
- Operating revenues were \$5,009,135, \$4,620,181 and \$4,604,572 for 2012, 2011 and 2010.
- Operating expenses before depreciation were \$3,785,778, \$3,625,626 and \$3,753,702 for 2012, 2011 and 2010.
- Operating income (loss) was \$259,423, \$79,177 and \$(50,605) for 2012, 2011 and 2010.
- The ratios of operating income (loss) to total operating revenues were 5.2%, 1.7% and (1.1)% for 2012, 2011 and 2010.
- Debt service coverage ratio was 2.33 for 2012, 2.38 for 2011 and 2.16 for 2010.
- Cash capital contributions for 2012, 2011 and 2010 were \$121,799, \$236,800 and \$145,000, respectively. There were no noncash contributions in 2012, 2011 and 2010.
- The Authority is in the process of completing \$4,000,000 in capital improvements. At year-end 2012 and 2011, construction in progress was \$739,002 and \$1,439,986 consisting of several water and wastewater line extensions to new customers, three new water reservoir tanks, system wide water meter replacements and renovations and improvements to water treatment plant number one and two.

## 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 9,126 water customers and 928 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 433 miles of water lines, two water treatment plants, one office building, one wastewater treatment facility, and 13 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, 2012, 2011 and 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>			
Current Assets	\$ 3,137	\$ 6,000	\$ 2,945
Capital Assets:			
Producing - Net	21,204	18,164	17,191
Other Assets - Net	<u>126</u>	<u>134</u>	<u>111</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>24,467</u></b>	<b>\$ <u>24,298</u></b>	<b>\$ <u>20,247</u></b>
<b>LIABILITIES</b>			
Current Liabilities	\$ 581	\$ 491	\$ 543
Bonds Payable - Net of Current Portion	<u>7,807</u>	<u>7,944</u>	<u>3,852</u>
Total Liabilities	<u>8,388</u>	<u>8,435</u>	<u>4,395</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	13,425	13,197	13,135
Restricted for:			
Debt Service	17	16	25
Capital Assets	0	0	45
Unrestricted	<u>2,637</u>	<u>2,650</u>	<u>2,647</u>
Total Net Assets	<u>16,079</u>	<u>15,863</u>	<u>15,852</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>24,467</u></b>	<b>\$ <u>24,298</u></b>	<b>\$ <u>20,247</u></b>

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, 2012, 2011, and 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Operating Revenues</b>			
Water - Net	\$ 3,965	\$ 3,713	\$ 3,895
Wastewater - Net	733	641	578
Connection Fees	123	105	51
Customer Forfeited Discounts	111	87	33
Tap Fees	69	56	41
Other Charges and Fees	<u>8</u>	<u>18</u>	<u>7</u>
Total Operating Revenues	<u>5,009</u>	<u>4,620</u>	<u>4,605</u>
<b>Operating Expenses</b>			
Water Treatment, Transmission and Distribution	2,539	2,358	2,403
Wastewater Treatment	533	463	450
Customer Billing and Accounting	31	101	190
General and Administrative	682	704	711
Depreciation	<u>964</u>	<u>915</u>	<u>901</u>
Total Operating Expenses	<u>4,749</u>	<u>4,541</u>	<u>4,655</u>
<b>Operating Income (Loss)</b>	<u>260</u>	<u>79</u>	<u>(50)</u>
<b>Non-Operating Revenues (Expenses)</b>			
Gain (Loss) on Disposal of Capital Assets	37	12	(16)
Investment Income (Loss)	(2)	24	15
Interest Expense	<u>(201)</u>	<u>(340)</u>	<u>(283)</u>
Total Non-Operating Revenues (Expenses) - Net	<u>(166)</u>	<u>(304)</u>	<u>(284)</u>
Increase (Decrease) in Net Assets Before Capital Contributions	94	(225)	(334)
<b>Capital Contributions</b>			
Cash	<u>122</u>	<u>236</u>	<u>145</u>
Increase (Decrease) in Net Assets	216	11	(189)
Net Assets, Beginning of Year	<u>15,863</u>	<u>15,852</u>	<u>16,041</u>
Net Assets, End of Year	<u>\$ 16,079</u>	<u>\$ 15,863</u>	<u>\$ 15,852</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### OTHER SELECTED INFORMATION

#### Selected Data:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Full-Time Equivalent Employees at Year-End	29	31.5	28.5
Full-Time Average Employees for the Year	30.25	30	28.5
Customers at Year-End:			
Water	9,126	9,132	9,136
Wastewater	928	1,059	1,063
Water (Millions of Gallons)			
Treated and Purchased	1,132	1048	1015
Sold	708	669	659
Per Average Employee:			
Operating Revenues	\$ 165,591	\$ 154,006	\$ 161,564
Operating Expenses	157,015	151,367	163,340
Realized Rate per 1,000 Gallons of Water Consumed:	6.09	5.55	6.01
Ratio of Operating Revenues to:			
Operating Expenses	1.05	1.02	0.99
Operating Expenses Excluding Depreciation	1.32	1.27	1.23
Total Assets	0.20	0.19	0.23
Net Assets	0.31	0.29	0.29
Debt Related Ratios:			
Long-Term Debt to Net Assets	0.49	0.50	0.24
Long-Term Debt to Total Assets	0.32	0.33	0.19
Operating Coverage	2.33	2.38	2.16

### 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 2012, 2011, and 2010 was \$700,945, \$670,894 and \$651,442. At year-end 2012, 2011, and 2010, 68%, 60% and 66% of accounts receivable were current within 30 days. The Authority's provision for bad debt expense was \$7,568, \$40,216 and \$30,021 for 2012, 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 2012, the Authority lowered the minimum monthly water billings from 2,000 to 1,500 gallons.

There was no increase in water rates during 2012, 2011, and 2010.

The average realized rate from water sales was \$6.09, \$5.55 and \$6.01 per thousand gallons in 2012, 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 2012, 2011, and 2010, consisted of the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash:			
Anderson County	\$ 121,799	\$ 79,300	\$ 45,000
Greenview Village Development, LLC	0	157,500	0
BWXT Y-12, LLC	<u>0</u>	<u>0</u>	<u>100,000</u>
Total	<u>\$ 121,799</u>	<u>\$ 236,800</u>	<u>\$ 145,000</u>

**Operating Expenses**

Operating expenses, excluding depreciation, increased (decreased) by \$160,152 in 2012, \$(125,939) in 2011, and \$1,607,515 in 2010. This was a result of increases and (decreases) during 2012 and 2011 in:

	<u>2012</u>	<u>2011</u>
Salaries and Benefits	\$ 183,000	\$ (125,939)
Wastewater Treatment Costs	111,771	28,587
Meter Reading Services	(79,010)	(3,845)
Chemicals	(12,895)	(31,821)
Other	<u>(42,714)</u>	<u>7,079</u>
Total	<u>\$ 160,152</u>	<u>\$ (125,939)</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**RESULTS OF OPERATIONS (Continued)**

**Operating Expenses (Continued)**

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

	<u>2010</u>
Legal and Professional	\$ 10,000
Computer Software and Consulting	35,000
Salaries and Benefits for Overtime	<u>212,000</u>
Total	<u>\$ 257,000</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 2012, 2011, and 2010, the Authority increased its capital assets before depreciation by \$3,264,798, \$448,444 and \$1,158,160. This increase is due to the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Office Building and Land	\$ 15,000	\$ 21,398	\$ 690,627
Water Reservoirs, Line Improvements & Extensions	2,361,086	246,205	180,365
Water Treatment Plant Improvements	801,928	146,454	194,811
Vehicles and Equipment	80,979	23,091	43,625
Office Furniture and Equipment	<u>5,805</u>	<u>11,296</u>	<u>48,732</u>
Total	<u>\$ 3,264,798</u>	<u>\$ 448,444</u>	<u>\$ 1,158,160</u>

The Authority's capital asset activity for 2012 and 2011 is described in Notes 3 and 4 to the financial statements.

**MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)**

**DEBT**

At June 30, 2012, 2011, and 2010, the Authority had \$8,012,227, \$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 2012, 2011, and 2010, the Authority had \$201,554, \$340,149 and \$283,081 in interest expense.

The long-term debt to total assets ratio was .32, .33 and .19 at year-end 2012, 2011, and 2010, respectively.

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

**ECONOMIC FACTORS AND FISCAL YEAR 2013**

- Number of water customers is projected to increase by 2% during 2013 due to the completion of the Park Road water line extension.
- Management will request an increase in water and wastewater rates by 2% to 3% during FY 2013.
- FY 2013 Budget:

Revenues	\$	5,199,000
Expenses		<u>(5,199,000)</u>
Increase in Net Assets	\$	<u><u>0</u></u>

- The budget includes increases of 4% for salaries and 6% in employee health insurance for during 2013.
- The Authority plans to start construction of a 12 mile forced wastewater main line that directly connects the Authority’s sewer customers to the Clinton Utilities Board wastewater treatment plant which will reduce monthly treatment costs by 50%. This project is to be financed by a \$3,400,000 thirty year low interest rate loan with the State of Tennessee Revolving Loan Fund and is expected to 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>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,908,276	\$ 1,863,882
Cash and Cash Equivalents - Restricted	277,199	74,567
Investments, at Fair Value	200,116	200,116
Investments, at Fair Value - Restricted	0	3,140,284
Accounts Receivable - Customers (Net of Allowance for Uncollectible Accounts of \$90,000 for 2012 and \$174,126 for 2011.)	700,945	670,894
Accrued Interest Receivable	264	262
Prepaid Expenses	<u>50,106</u>	<u>50,106</u>
<b>Total Current Assets</b>	<u>3,136,906</u>	<u>6,000,111</u>
<b>NON-CURRENT ASSETS</b>		
Capital Assets - Net	21,204,279	18,164,414
Bond Issuance Costs - Net	125,114	133,055
Utility Deposits	<u>635</u>	<u>635</u>
<b>Total Non-Current Assets</b>	<u>21,330,028</u>	<u>18,298,104</u>
<b>TOTAL ASSETS</b>	<u>\$ 24,466,934</u>	<u>\$ 24,298,215</u>

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

ANDERSON COUNTY WATER AUTHORITY

BALANCE SHEETS (Continued)

	As of June 30,	<u>2012</u>	<u>2011</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable		\$ 128,227	\$ 62,982
Accrued Liabilities		55,675	47,999
Accrued Bond Interest Payable		27,434	27,432
Compensated Absences Payable		38,502	34,997
Customer Deposits		126,427	122,302
Bonds Payable - Current Portion		<u>205,000</u>	<u>195,000</u>
<b>Total Current Liabilities</b>		581,265	490,712
<b>NON-CURRENT LIABILITIES</b>			
Bonds Payable - Net of Current Portion		<u>7,807,227</u>	<u>7,943,816</u>
<b>Total Liabilities</b>		<u>8,388,492</u>	<u>8,434,528</u>
<b>NET ASSETS</b>			
Invested in Capital Assets - Net of Related Debt		13,425,235	13,196,514
Restricted:			
Debt Service		16,582	16,503
Unrestricted		<u>2,636,625</u>	<u>2,650,670</u>
<b>Total Net Assets</b>		<u>16,078,442</u>	<u>15,863,687</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<u>\$ 24,466,934</u>	<u>\$ 24,298,215</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>2012</u>	<u>2011</u>
<b>OPERATING REVENUES</b>			
Water - Net	\$	3,965,496	\$ 3,713,110
Wastewater - Net		732,686	641,015
Connection Fees		123,143	105,190
Customer Forfeited Discounts		111,258	87,518
Tap Fees		68,650	55,620
Other Charges and Fees		7,901	17,728
<b>Total Operating Revenues</b>		<u>5,009,134</u>	<u>4,620,181</u>
<b>OPERATING EXPENSES</b>			
Water Treatment, Transmission, and Distribution		2,539,744	2,357,799
Wastewater Treatment		533,027	462,561
Customer Billing and Accounting		31,152	100,940
General and Administrative		681,855	704,326
Depreciation		963,933	915,378
<b>Total Operating Expenses</b>		<u>4,749,711</u>	<u>4,541,004</u>
<b>OPERATING INCOME (LOSS)</b>		<u>259,423</u>	<u>79,177</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Gain (Loss) on Disposal of Capital Assets		36,915	12,000
Investment Income (Loss)		(1,828)	24,253
Interest Expense		(201,554)	(340,149)
<b>Total Non-Operating Revenues (Expenses) - Net</b>		<u>(166,467)</u>	<u>(303,896)</u>
<b>INCREASE (DECREASE) IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS</b>		<u>92,956</u>	<u>(224,719)</u>
<b>CAPITAL CONTRIBUTIONS</b>			
Cash		121,799	236,800
<b>Total Capital Contributions</b>		<u>121,799</u>	<u>236,800</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>		214,755	12,081
<b>NET ASSETS, BEGINNING OF YEAR</b>		<u>15,863,687</u>	<u>15,851,606</u>
<b>NET ASSETS, END OF YEAR</b>	\$	<u>16,078,442</u>	\$ <u>15,863,687</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>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers and Users	\$ 4,992,427	\$ 4,574,372
Payments to Employees	(1,636,798)	(1,586,747)
Payments to Suppliers	<u>(2,081,775)</u>	<u>(2,098,171)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>1,273,854</u>	<u>889,454</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Contributions	121,799	281,800
Acquisition and Construction of Capital Assets	(4,003,798)	(1,888,430)
Interest Paid on Revenue Bonds	(125,200)	(244,729)
Principal Paid on Revenue Bonds	(195,000)	(4,715,000)
Proceeds from Revenue Bond Issues	0	8,874,739
Call Premium Paid on Refunded Bonds	0	(45,500)
Payment of Bond Issuance Costs	0	(138,413)
Proceeds from Disposal of Capital Assets	<u>36,915</u>	<u>12,000</u>
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(4,165,284)</u>	<u>2,136,467</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received on Investments	19,194	24,253
Maturity (Purchase) of Investments	<u>3,119,262</u>	<u>(3,140,284)</u>
<b>Net Cash Provided (Used) by Capital and Related Investing Activities</b>	<u>3,138,456</u>	<u>(3,116,031)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	247,026	(90,110)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,938,449</u>	<u>2,028,559</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 2,185,475</u>	<u>\$ 1,938,449</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>2012</u>	<u>2011</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF:</b>			
Unrestricted Cash and Cash Equivalents	\$	1,908,276	\$ 1,863,882
Restricted Cash and Cash Equivalents		<u>277,199</u>	<u>74,567</u>
<b>Total</b>	<b>\$</b>	<b><u>2,185,475</u></b>	<b><u>\$ 1,938,449</u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating Income (Loss)	\$	259,423	\$ 79,177
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation		963,933	915,378
Provision for Uncollectible Receivables		7,569	40,216
Changes in:			
Accounts Receivable, Net of Charge Offs		(37,622)	(59,668)
Other Current Assets		0	(30,585)
Accounts Payable		65,245	(37,844)
Other Accrued Liabilities		7,676	11,290
Payroll and Related Liabilities		3,505	(6,073)
Customer Deposits		<u>4,125</u>	<u>(22,437)</u>
<b>Net Cash Provided by Operating Activities</b>	<b>\$</b>	<b><u>1,273,854</u></b>	<b><u>\$ 889,454</u></b>
<b>NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Amortization of Bond Premiums	\$	12,893	\$ 6,547
Amortization of Bond Issuance Costs		7,941	5,358
Amortization of Deferred Cost of Defeased Bonds		65,368	68,452
Amortization of Deferred Cost of Refunded Bonds		15,936	16,688

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

**ANDERSON COUNTY WATER AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

**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:

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

**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, 2012 and 2011, the Authority had the following bank deposits and investments:

	<u>2012</u>	<u>2011</u>
Deposits:		
Demand Deposits	\$ 2,185,475	\$ 1,938,449
Certificates of Deposit	200,116	200,116
	<u>2,385,591</u>	<u>2,138,565</u>
Investments:		
State and Municipal Bonds	0	2,440,298
U.S. Treasury Bills	0	699,986
	<u>0</u>	<u>3,140,284</u>
 Total	 <u>\$ 2,385,591</u>	 <u>\$ 5,278,849</u>

A summary of the bank deposits and investments on the balance sheets at June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash and Cash Equivalents	\$ 1,908,276	\$ 1,863,882
Cash and Cash Equivalents - Restricted	277,199	74,567
Investments	200,116	200,116
Investments - Restricted	0	3,140,284
	<u>2,385,591</u>	<u>5,278,849</u>
 Total	 <u>\$ 2,385,591</u>	 <u>\$ 5,278,849</u>

**Restricted Cash Equivalents and Investments** - The restricted cash and 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 \$2,385,591 and \$2,138,565 at June 30, 2012 and 2011, 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, 2012 and 2011, with carrying amounts of \$0 and \$3,140,284 were in obligations of states, municipalities and the 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 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Interest Income	\$ 21,022	\$ 24,253
Realized Gain (Losses)	<u>(22,850)</u>	<u>0</u>
Total	<u>\$ (1,828)</u>	<u>\$ 24,253</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 Raymond James, Inc. (formerly 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, 2012 was as follows:

	Balance 7/1/11	Additions and Transfers	Deletions, Retirements and Transfers	Balance 06/30/12
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 375,134	\$ 15,000	\$ 0	\$ 390,134
Construction in Progress	<u>1,439,986</u>	<u>739,002</u>	<u>(1,439,986)</u>	<u>739,002</u>
Total Capital Assets Not Being Depreciated	<u>1,815,120</u>	<u>754,002</u>	<u>(1,439,986)</u>	<u>1,129,136</u>
Capital Assets Being Depreciated:				
Water System:				
Mains, Lines and Reservoirs	7,970,536	2,361,086	1,241,600	11,573,222
Treatment Facilities	18,659,384	801,928	198,386	19,659,698
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	537,025	0	0	537,025
Machinery and Equipment	302,996	4,054	0	307,050
Vehicles	605,459	76,925	0	682,384
Office Furniture and Equipment	<u>178,512</u>	<u>5,805</u>	<u>0</u>	<u>184,317</u>
Total Capital Assets Being Depreciated	<u>32,603,074</u>	<u>3,249,798</u>	<u>1,439,986</u>	<u>37,292,858</u>
Less Accumulated Depreciation:				
Water System:				
Mains, Lines and Reservoirs	4,160,560	253,798	0	4,414,358
Treatment Facilities	9,962,091	489,357	0	10,451,448
Wastewater System:				
Collection Lines and Equipment	1,225,914	101,111	0	1,327,025
Treatment Facilities	135,215	6,687	0	141,902
Other:				
Building and Improvements	14,322	13,797	0	28,119
Machinery and Equipment	225,344	25,352	0	250,696
Vehicles	410,736	57,890	0	468,626
Office Furniture and Equipment	<u>119,598</u>	<u>15,943</u>	<u>0</u>	<u>135,541</u>
Total Accumulated Depreciation	<u>16,253,780</u>	<u>963,935</u>	<u>0</u>	<u>17,217,715</u>
Total Capital Assets Being Depreciated - Net	<u>16,349,294</u>	<u>2,285,863</u>	<u>1,439,986</u>	<u>20,075,143</u>
Total Capital Assets	<u>\$ 18,164,414</u>	<u>\$ 3,039,865</u>	<u>\$ 0</u>	<u>\$ 21,204,279</u>

Depreciation expense was \$963,933 for 2012.

**NOTE 3 - CAPITAL ASSETS (Continued)**

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

	Balance 07/01/10	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	0	1,439,986	0	1,439,986
<b>Total Capital Assets Not Being Depreciated</b>	<b>375,134</b>	<b>1,439,986</b>	<b>0</b>	<b>1,815,120</b>
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	18,659,384
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	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	167,216	11,296	0	178,512
<b>Total Capital Assets Being Depreciated</b>	<b>32,154,630</b>	<b>448,444</b>	<b>0</b>	<b>32,603,074</b>
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:				
Buildings 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	104,478	15,120	0	119,598
<b>Total Accumulated Depreciation</b>	<b>15,338,402</b>	<b>915,378</b>	<b>0</b>	<b>16,253,780</b>
<b>Total Capital Assets Being Depreciated - Net</b>	<b>16,816,228</b>	<b>(466,934)</b>	<b>0</b>	<b>16,349,294</b>
<b>Total Capital Assets</b>	<b>\$ 17,191,362</b>	<b>\$ 973,052</b>	<b>\$ 0</b>	<b>\$ 18,164,414</b>

Depreciation expense was \$915,378 for 2011.

**NOTE 4 - CONSTRUCTION IN PROGRESS**

Construction in progress at June 30 consisted of:

Projects	2012		2011	
	Actual To Date	Remaining Commitment	Actual To Date	Remaining Commitment
Water Treatment Plant #2 Improvements	\$ 0	\$ 0	\$ 79,366	\$ 0
Meter Replacements - System Wide	0	0	1,046,495	200,000
Claxton Wastewater Line	0	0	128,090	0
Mt. Olive Water Line	48,642	0	37,909	20,000
Old Vaspar Road Water Line	0	0	2,750	0
Ross Cemetery Water Line	0	0	5,087	0
Park Road Water Line	474,516	0	497	300,000
Water Treatment Plant #1 Improvements	0	0	119,020	400,000
Sewer Mapping	77,133	0	13,850	0
Laurel Road Pump Station	106,763	0	0	0
Various Projects	31,948	0	6,922	0
<b>Total Construction in Progress</b>	<b>\$ 739,002</b>	<b>\$ 0</b>	<b>\$ 1,439,986</b>	<b>\$ 920,000</b>

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

The Authority's gain (loss) on disposal of capital assets for 2012 and 2011 was as follows:

	2012	2011
Sales Proceeds	\$ 36,915	\$ 12,000
Less: Net Book Value of Capital Asset	0	0
<b>Gain (Loss)</b>	<b>\$ 36,915</b>	<b>\$ 12,000</b>

The sales in 2012 and 2011 were old customer water meters that were part of the system wide water meter replacement program.

**NOTE 6 - DEFERRED CHARGES**

The Authority incurred bond issuance costs in connection with various debt issues. At June 30, 2012 and 2011, the net unamortized bond issuance costs were as follows:

	2012	2011
Revenue Bonds Series 2010	\$ 138,413	\$ 138,413
Less: Accumulated Amortization	(13,299)	(5,358)
<b>Total</b>	<b>\$ 125,114</b>	<b>\$ 133,055</b>

The bond issuance costs are amortized over the life of the bonds using the stated interest rate method. The amount recorded as part of interest expense was \$7,941 and \$5,358 for 2012 and 2011.

**NOTE 7 - ACCRUED LIABILITIES**

Accrued liabilities at year-end 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Sales Taxes Payable	\$ 35,023	\$ 33,372
Accrued Salaries and Payroll Taxes	<u>20,652</u>	<u>14,627</u>
Total	<u>\$ 55,675</u>	<u>\$ 47,999</u>

**NOTE 8 - LONG-TERM DEBT**

Long-term debt at June 30, 2012 and 2011, consisted of the following

**Revenue Bonds**

	<u>2012</u>	<u>2011</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.	\$ 8,290,000	\$ 8,485,000
Less: Unamortized Deferred Cost of Defeased Bonds	(359,486)	(424,854)
Less: Unamortized Deferred Cost of Refunding	(123,586)	(139,522)
Add: Unamortized Bond Premium	<u>205,299</u>	<u>218,192</u>
Total	<u>\$ 8,012,227</u>	<u>\$ 8,138,816</u>
Current Portion	\$ 205,000	\$ 195,000
Long-Term	<u>7,807,227</u>	<u>7,943,816</u>
Total	<u>\$ 8,012,227</u>	<u>\$ 8,138,816</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 a bond covenant, which requires a minimum debt service coverage ratio of 1.2, the ratio for 2012 and 2011 was 2.33 and 2.38.

**NOTE 8 - LONG-TERM DEBT (Continued)**

**Activity**

The following is a summary of changes in long-term debt for 2012 and 2011:

<u>2012</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Revenue Bonds	\$ 8,485,000	\$ 0	\$ (195,000)	\$ 8,290,000	\$ 205,000
Less: Deferred Cost of Defeasance	(424,854)	0	65,368	(359,486)	0
Less: Deferred Cost of Refunding	(139,522)	0	15,936	(123,586)	0
Add: Bond Premium	<u>218,192</u>	<u>0</u>	<u>(12,893)</u>	<u>205,299</u>	<u>0</u>
Total	<u>\$ 8,138,816</u>	<u>\$ 0</u>	<u>\$ (126,589)</u>	<u>\$ 8,012,227</u>	<u>\$ 205,000</u>
<u>2011</u>					
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	<u>0</u>	<u>224,739</u>	<u>(6,547)</u>	<u>218,192</u>	<u>0</u>
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>

**Debt Service**

The Annual debt service requirements of the bonds payable as of June 30, 2012, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>555,000</u>	<u>27,750</u>	<u>582,750</u>
Total	<u>\$ 8,290,000</u>	<u>\$ 5,241,715</u>	<u>\$ 13,531,715</u>

**NOTE 8 - LONG-TERM DEBT (Continued)**

**Interest Expense**

Interest expense for 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Interest Paid	\$ 329,188	\$ 262,947
Less: Capitalization of Construction Period Interest	(206,055)	(18,217)
Amortization of Bond Issuance Costs	7,941	5,358
Amortization of Bond Premium	(12,893)	(6,547)
Accrued Interest Payable - Net Change	0	11,468
Amortization of Deferred Cost of Defeasance	65,368	68,452
Amortization of Refunding Costs	15,936	16,688
Debt Servicing Fees	<u>2,069</u>	<u>0</u>
Total	<u>\$ 201,554</u>	<u>\$ 340,149</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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Bond Principal and Interest Payment Account	<u>\$ 44,016</u>	<u>\$ 43,935</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, 2012 and 2011:

	<u>2012</u>	<u>2011</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>\$ 2,225,000</u>	<u>\$ 2,520,000</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, 2012 and 2011, were as follows:

	<u>2012</u>	<u>2011</u>
Invested in Capital Assets, Net of Related Debt:		
Net Property, Plant and Equipment in Service	\$ 21,204,279	\$ 18,164,414
Less: Revenue Bonds Payable - Net of		
Unamortized Cost of Defeasance	(8,012,227)	(8,138,816)
Add: Debt Proceeds to be Used for Capital Assets	<u>233,183</u>	<u>3,170,916</u>
	<u>13,425,235</u>	<u>13,196,514</u>
Restricted for Debt Service:		
Restricted Cash and Cash Equivalents	44,016	43,935
Less: Accrued Interest Payable - Revenue Bonds	<u>(27,434)</u>	<u>(27,432)</u>
	<u>16,582</u>	<u>16,503</u>
Restricted for Capital Asset Activity:		
Restricted Cash and Cash Equivalents	233,183	30,632
Restricted Investments	0	3,140,284
Less: Debt Proceeds to be Used for Capital Assets	<u>(233,183)</u>	<u>(3,170,916)</u>
Accounts Receivable - Capital Contribution	<u>0</u>	<u>0</u>
	<u>0</u>	<u>0</u>
Unrestricted	<u>2,636,625</u>	<u>2,650,670</u>
Total	<u>\$ 16,078,442</u>	<u>\$ 15,863,687</u>

**NOTE 11 - CAPITAL CONTRIBUTIONS**

**Cash**

During 2012, the Authority received \$121,799 from Anderson County to extend water service to Park Road which is part of construction in progress at year-end 2012.

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.

	<u>2012</u>	<u>2011</u>
Greenview Development, LLC	\$ 0	\$ 157,500
Anderson County, TN	<u>121,799</u>	<u>79,300</u>
Total	<u>\$ 121,799</u>	<u>\$ 236,800</u>

**NOTE 12 - OPERATING REVENUES – NET**

Operating revenues during 2012 and 2011 consisted of the following:

	<u>Water</u>	<u>Wastewater</u>	<u>Other Charges</u>	<u>Total</u>
<b><u>2012</u></b>				
Gross Revenues	\$ 3,971,885	\$ 733,866	\$ 310,952	\$ 5,016,703
Less: Provision for Bad Debt Expense	<u>(6,389)</u>	<u>(1,180)</u>	<u>0</u>	<u>(7,569)</u>
Total Operating Revenues - Net	<u>\$ 3,965,496</u>	<u>\$ 732,686</u>	<u>\$ 310,952</u>	<u>\$ 5,009,134</u>
<b><u>2011</u></b>				
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>

**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 \$1.24 (2012) and \$1.20 (2011) per 1,000 gallons. During 2012 and 2011, the revenues earned under these billings were \$192,012 and \$186,052.

**NOTE 14 - RETIREMENT PLANS**

**A. 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)**

**A. Defined Benefit Plan (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 the 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.tn.gov/treasury/tcrs/ps](http://www.tn.gov/treasury/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, 2012 and 2011 was 7.43% 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, 2012 and 2011, the Authority's annual pension cost of \$75,333 and \$67,830 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 3.0% annual rate of inflation, (c) 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), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% 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 ten 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, 2011, which established employer contribution rates effective July 1, 2012, which is 5.77% for FY 2013 and 2014.

**Trend Information**

Fiscal Years Ending June 30,	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
2012	\$ 75,333	100.00%	\$ 0
2011	67,830	100.00%	0
2010	65,937	100.00%	0

**NOTE 14 - RETIREMENT PLANS (Continued)**

**A. Defined Benefit Plan (Continued)**

**Funded Status and Funding Progress**

As of July 1, 2011, the most recent actuarial valuation date, the plan was 54% funded. The actuarial accrued liability for benefits was \$690,000 and the actuarial value of assets was \$371,000 resulting in an unfunded actuarial accrued liability (UAAL) of \$319,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$913,000 and the ratio of the UAAL to the covered payroll was 35%.

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.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2011	\$ 371,000	\$ 690,000	\$ 319,000	54%	\$ 913,000	35%
7/1/2009	0	0	0	0%	0	0%

Since the Authority started participation in the TCRS defined benefit plan on January 1, 2009, the first actuarial valuation was completed as of July 1, 2011.

**B. 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 2012 and 2011, 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 2012 and 2011, the Authority contributed \$19,414 and \$17,969 to the plan on behalf of its employees.

During FY 2012 the Board of Commissioners approved a resolution to terminate the defined contribution plan effective June 30, 2013. Employees participating in this plan will be required to enroll in the TCRS defined benefit plan as described in section (A) above.

**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 2012 and 2011, 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. At June 30, 2012 and 2011, the Authority served 9,126 and 9,132 water customers located in a rural area 25 miles from Knoxville, Tennessee. The Authority's ten largest customers accounted for 9% and 11% of water sales during 2012 and 2011.

**NOTE 17 - SUBSEQUENT EVENTS**

Effective October 1, 2012, Mr. Jack Hill was reappointed to the Board of Commissioners for a four year term that will expire on September 30, 2016.

In October 2012, the Authority submitted plans for approval for a \$3.4 million low interest loan from the State of Tennessee Revolving Loan Fund. Terms of the loan include a 20% principal forgiveness over a 30 year period. The loan will be used for the construction of a 12 mile forced wastewater main line to connect sewer customers directly with the Clinton Utilities Board wastewater treatment plant.

**REQUIRED SUPPLEMENTARY INFORMATION**

**ANDERSON COUNTY WATER AUTHORITY**  
**SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS**  
**Last Four 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%
2012	75,333	75,333	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 Two Valuation Dates**

Actuarial Valuation Date	<u>7/1/2011</u>	<u>7/1/2009</u>
Actuarial Value of Assets	\$ 371,000	\$ 0
Actuarial Accrued Liability	<u>690,000</u>	<u>0</u>
Total Unfunded Actuarial Accrued Liability	<u>\$ 319,000</u>	<u>\$ 0</u>
Funded Ratio (Actuarial Value of Assets as a Percentage of the Actuarial Accrued Liability)	54%	0%
Annual Covered Payroll	\$ 913,000	\$ 0
Ratio of the Unfunded Actuarial Liability to Annual Covered Payroll	35%	0%

Note: Since the Authority started participation in the TCRS defined benefit plan on January 1, 2009, the first actuarial valuation was completed as of July 1, 2011.

**SUPPLEMENTARY INFORMATION**

**ANDERSON COUNTY WATER AUTHORITY**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS**

**June 30, 2012**

Years Ending June 30,	Revenue Term Bonds Series 2010		Total
	Principal	Interest	
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	\$ 8,290,000	\$ 5,241,715	\$ 13,531,715

**ANDERSON COUNTY WATER AUTHORITY**

**SCHEDULE OF RATES AND STATISTICS**

**June 30, 2012**

1. Monthly Water Rates

(Effective March 1, 2011 to September 30, 2011)

(Effective October 1, 2011 to June 30, 2012)

All Customers:

1st 2,000 gallons - \$18.00 minimum bill.  
All over 2,000 gallons - \$5.50 per 1,000 gallons.

1,500 gallons - \$18.00 minimum bill.  
1,500 gallons - \$5.50 per 1,000 gallons.

2. Monthly Wastewater Rates

(Effective March 1, 2011 to September 30, 2011)

(Effective October 1, 2011 to June 30, 2012)

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.

1,500 gallons of water used - \$19.48 minimum bill.  
1,500 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.

1,500 gallons of water used - \$18.50 minimum bill.  
1,500 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.

1,500 gallons of water used - \$14.40 minimum bill.  
1,500 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.

1,500 gallons of water used - \$21.50 minimum bill.  
1,500 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.

1,500 gallons of water used - \$21.50 minimum bill.  
1,500 gallons of water used - \$10.00 per 1,000 gallons.

3. Service Charges:

Residential Connection Fee	\$ 40
Customer Deposits - Residential Renters	100
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:

¾"	\$ 600
1"	800
1 ½"	2,000
2"	2,500
Above 2"	1,000
	Plus actual costs

5. There were 9,126 and 9,132 water and 928 and 1,059 wastewater customers at June 30, 2012 and 2011.

**ANDERSON COUNTY WATER AUTHORITY**  
**SCHEDULE OF UNACCOUNTED FOR WATER**  
**For the Year Ended June 30, 2012**

(All amounts in gallons)

**Water Treated and Purchased:**

Water Pumped (Potable)	1,065,511,000	
Water Purchased	<u>66,415,880</u>	
		1,131,926,880

**Accounted for Water:**

Water Sold	707,840,700	
Metered for Consumption (in house usage)	0	
Fire Department(s) Usage	149,200	
Flushing	40,789,324	
Tank Cleaning/Filling	0	
Street Cleaning	0	
Bulk Sales	0	
Water Bill Adjustments	<u>0</u>	
<b>Total Accounted for Water</b>		<u>748,779,224</u>
<b>Unaccounted for Water</b>		383,147,656
<b>Percent Unaccounted for Water</b>		33.85%

**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, 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>	
		<u>688,207,100</u>
<b>Total Accounted for Water</b>		<b>688,207,100</b>
		<u>359,361,170</u>
<b>Unaccounted for Water</b>		<b>359,361,170</b>
<b>Percent Unaccounted for Water</b>		<b>34.30%</b>

**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. ....	38-39
Revenue Capacity	
These schedules contain information to help the reader assess the Authority's operating revenues and customer statistics. ....	40-44
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. ....	45-46
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. ....	47-48
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. ....	49-50

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 Five 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
2012	13,425,235	16,582	0	2,636,625	16,078,442

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 Five Fiscal Years

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenues					
Water - Net	\$ 3,965,496	\$ 3,713,110	\$ 3,894,825	\$ 1,873,956	\$ 0
Wastewater - Net	732,686	641,015	578,260	339,171	0
Connection Fees	123,143	105,190	50,810	11,201	0
Customer Forfeited Discounts	111,258	87,518	32,743	41,300	0
Tap Fees	68,650	55,620	40,550	15,500	0
Other Charges and Fees	<u>7,901</u>	<u>17,728</u>	<u>7,384</u>	<u>43,201</u>	<u>0</u>
Total Operating Revenues	<u>5,009,134</u>	<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	2,539,744	2,357,799	2,402,701	1,402,607	0
Wastewater Treatment	533,027	462,561	449,829	246,428	0
Customer Billing and Accounting	31,152	100,940	189,670	119,442	0
General and Administrative	681,855	704,326	711,506	377,710	5,200
Depreciation	<u>963,933</u>	<u>915,378</u>	<u>901,475</u>	<u>436,347</u>	<u>0</u>
Total Operating Expenses	<u>4,749,711</u>	<u>4,541,004</u>	<u>4,655,181</u>	<u>2,582,534</u>	<u>5,200</u>
Operating Income (Loss)	<u>259,423</u>	<u>79,177</u>	<u>(50,609)</u>	<u>(258,205)</u>	<u>(5,200)</u>
Non-Operating Revenues (Expenses)					
Gain (Loss) on Disposal of Capital Assets	36,915	12,000	(15,721)	10,281	0
Investment Income	(1,828)	24,253	14,669	20,484	23
Interest (Expense)	<u>(201,554)</u>	<u>(340,149)</u>	<u>(283,081)</u>	<u>(148,657)</u>	<u>0</u>
Non-Operating Revenues (Expenses) - Net	<u>(166,467)</u>	<u>(303,896)</u>	<u>(284,133)</u>	<u>(117,892)</u>	<u>23</u>
Increase (Decrease) in Net Assets Before Capital Contributions	<u>92,956</u>	<u>(224,719)</u>	<u>(334,742)</u>	<u>(376,097)</u>	<u>(5,177)</u>
Capital Contributions					
Cash	121,799	236,800	145,000	2,988,916	20,000
Non-Cash	<u>0</u>	<u>0</u>	<u>0</u>	<u>13,413,705</u>	<u>0</u>
Total Capital Contributions	<u>121,799</u>	<u>236,800</u>	<u>145,000</u>	<u>16,402,621</u>	<u>20,000</u>
Change in Net Assets	<u>\$ 214,755</u>	<u>\$ 12,081</u>	<u>\$ (189,742)</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 Four Fiscal Years**

<u>Fiscal Year</u>	<u>Water Customers</u>	<u>Former ACUB Territory</u>		<u>Former NACUD Territory</u>		<u>Annual Tap Sales</u>
		<u>Minimum Bill (A)</u>	<u>Rate Per 1,000 Gallons</u>	<u>Minimum Bill (A)</u>	<u>Rate Per 1,000 Gallons</u>	
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 (D)	9,132	18.00	5.50	18.00	5.50	93
2012 (E)	9,126	18.00	5.50	18.00	5.50	107

- Notes:
- (A) Minimum bill is based upon the first 2,000 and 1,500 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.
  - (E) During fiscal year 2012, the Authority reduced the monthly minimum billing to 1,500 gallons.

**ANDERSON COUNTY WATER AUTHORITY**  
**WATER TREATED, SOLD, AND CONSUMED**  
**Last Four 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	359,361	34.3%
2012	1,131,927	748,779	383,148	33.8%

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

**ANDERSON COUNTY WATER AUTHORITY**

**ANNUAL TAP SALES**

**Last Four 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
2012	95	12	107

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 Four 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
2012	9,126	928

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 Three Fiscal Years Ago

Customer	Type of Business	2012		2009 (B)	
		(A) Total Annual Sales	Percentage of Total Sales	(A) Total Annual Sales	Percentage of Total Sales
City of Lake City	Municipality	\$ 127,449	3.21%	\$ 49,634	2.65%
Clinton Utility Board	Municipality	53,798	1.36%	15,186	0.81%
Stardust Marina	Recreation	50,836	1.28%	16,268	0.87%
Waterside Marina	Recreation	31,073	0.78%	16,043	0.86%
Mariner Health	Health Care	24,864	0.63%	26,488	1.41%
Thor Industries	Manufacturing	15,860	0.40%	38,517	2.06%
TVA	Electrical Power Distributor	12,909	0.33%	26,684	1.42%
Rocky Top Marina	Recreation	12,773	0.32%	11,843	0.63%
City of Caryville	Municipality	11,676	0.29%	5,851	0.31%
Norris Dam State Park	Recreation	3,893	0.00%	1,696	0.09%
Oliver Springs	Municipality	0	0.00%	0	0.00%
Total		\$ 345,131	8.61%	\$ 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 Four 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
2012	8,012,227	9,126	878

- 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 , Clinton, and Norris, TN, is not available.

**ANDERSON COUNTY WATER AUTHORITY**

**PLEDGED REVENUE COVERAGE**

**Last Four 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	4,619,241	3,753,706	865,535	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
2012	5,007,306	3,785,778	1,221,528	195,000	329,188	524,188	2.33

- 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 2010, covenants requires a coverage ratio of 1.20.

**ANDERSON COUNTY WATER AUTHORITY**  
**DEMOGRAPHIC AND ECONOMIC INDICATORS (E)**

**Last Five 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	2,580,901	34,358	39.9	8,186	9.40%	9.80%
2012	75,233	N/A	N/A	39.5	8,141	8.60%	8.10%

- Notes: (A) U.S. Department of Commerce Bureau of Economic Analysis 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.  
(F) N/A data not yet available.

**ANDERSON COUNTY WATER AUTHORITY**

**PRINCIPAL EMPLOYERS**

**Current Fiscal Year and Three Fiscal Years Ago**

Customer	2012			2009		
	Employees	Rank	Percentage of County Workforce	Employees	Rank	Percentage of County Workforce
BWXT - Y12	4,600	1	12.54%	4,500	1	12.56%
UT Battelle (Oak Ridge National Laboratory)	4,200	2	11.45%	4,200	2	11.73%
Anderson County Government	1,803	3	4.91%	1,542	3	4.30%
Covenant Health Systems (Methodist Medical Center)	1,350	4	3.68%	1,306	4	3.65%
Bechtel Jacobs Co., LLC	1,337	5	3.64%	1,337	5	3.73%
SAIC	1,100	6	3.00%	902	8	2.52%
Wackenhut	902	7	2.46%	902	7	2.52%
Oak Ridge Associated Universities (ORAU)	850	8	2.32%	600	10	1.68%
Sitel	500	9	1.36%	0	0	0.00%
City of Oak Ridge	464	10	1.26%	1,053	6	2.94%
Eagle Bend Manufacturing	0	0	0.00%	624	9	1.74%
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%
<b>Total</b>	<b>17,106</b>		<b>46.62%</b>	<b>17,876</b>		<b>49.92%</b>

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 Four Fiscal Years**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>WATER AND WASTEWATER</b>				
Water and Wastewater Systems	<u>22</u>	<u>24</u>	<u>21</u>	<u>20</u>
<b>ADMINISTRATION</b>				
Billing and Customer Service	2	2	2	4.5
Finance & Accounting	2	2.5	2.5	2
Administrative	<u>3</u>	<u>3</u>	<u>3</u>	<u>2</u>
	<u>7</u>	<u>7.5</u>	<u>7.5</u>	<u>8.5</u>
<b>TOTAL EMPLOYEES</b>	<u>29</u>	<u>31.5</u>	<u>28.5</u>	<u>28.5</u>

ANDERSON COUNTY WATER AUTHORITY

OPERATING AND CAPITAL INDICATORS

Last Four Fiscal Years

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Area in Square Miles:	220	220	220	220
Water System:				
Miles of Water Mains	433	426	422	420
Number of:				
Water Service Connections	9,126	9,132	9,136	8,990
Wastewater Service Connections	928	1,059	1,063	1,089
Office Building	1	1	1	0
Water Treatment Plants	2	2	2	2
Wastewater Treatment Plants	1	1	1	1
Reservoirs	13	16	16	16
Water Pumping Stations	24	24	24	24
Wastewater Pumping Stations	19	19	19	19
Fire Hydrants	330	327	325	325
Daily Average Water Treatment in Gallons (MGD)	2.90	2.69	2.61	2.58
Daily Average Water Purchases in Gallons (MGD)	0.18	0.18	0.17	0.12
Daily Average Water Sales and Consumption in Gallons (MGD)	1.87	1.86	1.87	1.84
Water Reservoir Storage Capacity (Millions of Gallons)	6.00	4.38	4.38	4.38

Notes: (A) MGD = Million of gallons per day

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

**INTERNAL CONTROL AND COMPLIANCE SECTION**

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  
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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, 2012, and for the year then ended, and have issued our report thereon dated November 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 previously.



### **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 Government Auditing Standards.

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  
November 12, 2012

**ANDERSON COUNTY WATER AUTHORITY**  
**DISPOSITION OF PRIOR YEAR AUDIT FINDINGS**  
**June 30, 2012**

**2010-1 Individual Cashier Drawers**

**Condition** - During FY 2011 and 2010, 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.

**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 Update** - This finding is resolved. During the current year we noted that management has implemented the recommendations noted above.

**2011-1 Commissioner's Approval of Capital Asset Purchases**

**Condition** - During FY 2011 it was noted that the Authority made three purchases of capital assets, materials and contracts in excess of \$10,000 that did not have Board of Commissioners' approval.

**Recommendation** - We recommend that the general manager present a summary of the bids and quotes along with a recommendation to the Board of Commissioners for approval as required by the Authority's purchasing policy.

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

**Current Year Update** - This finding is resolved. During the current year we noted that the general manager is presenting summary information of bids and quotes to the Board of Commissioners for approval of capital assets, materials and contracts in excess of \$10,000. These approvals are being documented in the minutes of the monthly meetings of the Board of Commissioners.

ANDERSON COUNTY WATER AUTHORITY

DISPOSITION OF PRIOR YEAR AUDIT FINDINGS (Continued)

June 30, 2012

**2011-2 Billing and Accounts Receivable Software**

**Condition** - During FY 2011, 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.

**Recommendations** - We recommend the Authority consider:

- a. The radio-read water meter software should 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 recommendation in FY 2012.

**Current Year Update** - This finding is resolved. During the current year, management purchased and installed the point of sale software module and implemented the recommendations noted above.

