

**HAMILTON COUNTY WATER &  
WASTEWATER TREATMENT AUTHORITY**

**FINANCIAL STATEMENTS**

**June 30, 2012**

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

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## Governing Board for the Fiscal Year Ended June 30, 2012



Mr. Ed Watt  
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Cleveland Grimes, Executive Director



Commissioner Don Haynes



Commissioner John McPherson, Lakesite  
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County Appointee Mike Moon



Commissioner Ansley Moses, Lookout Mountain  
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Commissioner Don Seagle, East Ridge  
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Commissioner Jim Adams, Soddy-Daisy  
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Commissioner Billy Cooper, Ridgeside  
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Dick Gee, Councilmember,  
Signal Mountain  
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Commissioner Louis Wright



Cherie Jewell, County Appointee

## **REPORT OF INDEPENDENT ACCOUNTANTS**

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

We have audited the accompanying statements of net assets of Hamilton County Water & Wastewater Treatment Authority (a component unit of Hamilton County, Tennessee) (the Authority) as of June 30, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hamilton County Water & Wastewater Treatment Authority as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012, on our consideration of the Authority's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary schedules on pages 22 through 27 are presented for 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 audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Joseph Decasimo and Company, PLLC*

Chattanooga, Tennessee  
November 30, 2012

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**STATEMENTS OF NET ASSETS**

**June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,903,853	\$ 2,994,273
Accounts receivable	875,327	1,082,805
PSLP receivable - restricted	186,660	182,529
Interest receivable	-	2,528
Prepaid expenses	27,751	19,819
Inventory	<u>101,465</u>	<u>154,813</u>
Total current assets	<u>4,095,056</u>	<u>4,436,767</u>
<b>NONCURRENT ASSETS</b>		
Cash and cash equivalents - restricted	3,472,695	3,010,905
Other receivables - restricted	4,420	4,680
Loan reserve - restricted	386,261	103,517
Bond discount and issuance cost, net	71,336	122,235
Contractor note receivable	<u>79,657</u>	<u>159,257</u>
Total noncurrent assets	<u>4,014,369</u>	<u>3,400,594</u>
<b>CAPITAL ASSETS</b>		
Cost of plant in service	113,271,736	111,202,326
Land improvements	11,829	5,200
Buildings	151,991	153,836
Machinery and equipment	683,229	687,808
Automobiles	758,349	703,287
Other assets	70,447	-
Construction in progress	6,811,481	2,955,945
Accumulated depreciation	<u>(26,831,584)</u>	<u>(23,678,357)</u>
Capital assets, net	<u>94,927,478</u>	<u>92,030,045</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>103,036,903</u></b>	<b>\$ <u>99,867,406</u></b>

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

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	2012	2011
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Due to Hamilton County, Tennessee	\$ 192,776	\$ 204,155
Due to other governments	603,231	595,023
Accounts payable	214,768	120,207
Accrued interest	150,797	195,887
Reserve for grinder pump maintenance	236,104	205,515
Reserve for overflow	49,072	36,561
Current portion of long-term debt	763,086	540,808
Current portion of advance from Hamilton County, Tennessee	<u>300,000</u>	<u>230,000</u>
Total current liabilities	<u>2,509,834</u>	<u>2,128,156</u>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net	13,243,914	13,863,841
Advance from Hamilton County, Tennessee	14,460,000	14,827,841
Accrued liability for pollution remediation	<u>6,277,820</u>	<u>2,376,000</u>
Total noncurrent liabilities	<u>33,981,734</u>	<u>31,067,682</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	59,882,658	60,191,555
Restricted	4,050,036	3,301,631
Unrestricted	<u>2,612,641</u>	<u>3,178,382</u>
Total net assets	<u>66,545,335</u>	<u>66,671,568</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>103,036,903</u></b>	<b>\$ <u>99,867,406</u></b>

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

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

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

	<b>2012</b>	<b>2011</b>
<b>OPERATING REVENUES</b>		
Sewer revenue	\$ 8,230,984	\$ 8,213,617
PSLP revenue	2,275,240	2,108,851
Grinder pump revenue	59,800	74,750
Inspection fees	<u>30,080</u>	<u>22,320</u>
Total operating revenues	<u>10,596,104</u>	<u>10,419,538</u>
<b>OPERATING EXPENSES</b>		
Personnel costs	1,508,873	1,616,155
Wheelage and treatment service	3,646,947	3,268,988
PSLP expense	1,811,165	998,942
Other operating expense	<u>1,199,317</u>	<u>1,014,925</u>
Total operating expenses	<u>8,166,302</u>	<u>6,899,010</u>
<b>OPERATING INCOME</b>	<b>2,429,802</b>	<b>3,520,528</b>
<b>OTHER OPERATING REVENUES (EXPENSES)</b>		
Depreciation	(3,155,283)	(3,078,730)
PSLP depreciation	(5,200)	(5,200)
Other income	<u>3,001</u>	<u>3,234</u>
<b>TOTAL OPERATING INCOME (LOSS)</b>	<u>(727,680)</u>	<u>439,832</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	4,178	8,473
Tap on fees	378,665	268,660
Interest expense	<u>(770,996)</u>	<u>(799,179)</u>
Total nonoperating revenues (expenses)	<u>(388,153)</u>	<u>(522,046)</u>
<b>LOSS BEFORE CAPITAL CONTRIBUTIONS</b>	<b>(1,115,833)</b>	<b>(82,214)</b>
Capital contributions	<u>989,600</u>	<u>1,121,794</u>
<b>CHANGE IN NET ASSETS</b>	<b>(126,233)</b>	<b>1,039,580</b>
<b>NET ASSETS - beginning of year</b>	<u>66,671,568</u>	<u>65,631,988</u>
<b>NET ASSETS - end of year</b>	<u>\$ 66,545,335</u>	<u>\$ 66,671,568</u>

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

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**STATEMENTS OF CASH FLOWS**

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

	<b>2012</b>	<b>2011</b>
<b>OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ 10,802,711	\$ 10,177,430
Payments to suppliers	<u>(7,861,109)</u>	<u>(6,803,617)</u>
<b>Net cash flows from operating activities</b>	<b><u>2,941,602</u></b>	<b><u>3,373,813</u></b>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(1,166,493)	(794,110)
Tap on fees	378,665	268,660
Principal payments on long-term debt	(10,200,787)	(788,799)
Principal payments on advance from Hamilton County, Tennessee	(230,000)	(220,000)
Restricted loan reserve	(282,744)	-
Bond issue costs	(74,392)	-
Proceeds from long-term debt	9,807,498	-
Payments received from contractor	79,600	68,800
Interest paid on long-term debt	<u>(888,285)</u>	<u>(804,329)</u>
<b>Net cash flows from capital and related financing activities</b>	<b><u>(2,576,938)</u></b>	<b><u>(2,269,778)</u></b>
<b>INVESTING ACTIVITIES</b>		
Interest received	<u>6,706</u>	<u>8,473</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>371,370</b>	<b>1,112,508</b>
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<b><u>6,005,178</u></b>	<b><u>4,892,670</u></b>
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<b><u>\$ 6,376,548</u></b>	<b><u>\$ 6,005,178</u></b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR CONSIST OF -</b>		
Unrestricted cash and cash equivalents	\$ 2,903,853	\$ 2,994,273
Restricted cash and cash equivalents	<u>3,472,695</u>	<u>3,010,905</u>
	<b><u>\$ 6,376,548</u></b>	<b><u>\$ 6,005,178</u></b>

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

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**STATEMENTS OF CASH FLOWS**

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

	<b>2012</b>	<b>2011</b>
<b>RECONCILIATION OF TOTAL OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Total operating income (loss)	\$ (727,680)	\$ 439,832
Adjustments to reconcile total operating income (loss) to net cash flows from operating activities -		
Depreciation	3,160,483	3,083,930
Amortization	152,476	5,824
Bond premium	-	(9,238)
Reserve for grinder pump maintenance	30,589	5,214
Reserve for overflow	12,511	2,241
Changes in operating assets and liabilities -		
Accounts receivable	207,478	(233,615)
PSLP receivable - restricted	(4,131)	(7,046)
Other receivables - restricted	260	(4,680)
Prepaid expenses	(35,116)	4,630
Inventory	53,348	68,977
Amounts due other governments	(3,177)	68,977
Accounts payable	<u>94,561</u>	<u>17,744</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b><u>\$ 2,941,602</u></b>	<b><u>\$ 3,442,790</u></b>
<b>NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital contributions of wastewater treatment capital assets	\$ 989,600	\$ 1,121,794
Capital addition included in accrued liability for pollution remediation	\$ 3,901,820	\$ -
Deferred amount from advance refunding of advance from Hamilton County	\$ 235,000	\$ -
Advance refunding of advance from Hamilton County	\$ 8,260,000	\$ -

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

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### A. REPORTING ENTITY

Hamilton County Water & Wastewater Treatment Authority, a component unit of Hamilton County, Tennessee, is legally separate from the County, but the County is considered to be financially accountable for the Authority. The Authority is organized under the Water and Wastewater Treatment Authority Act of the State of Tennessee. The Authority began operations on July 1, 1994, for the purpose of providing wastewater treatment service to residents of unincorporated areas of Hamilton County, Tennessee. Under the Act, Hamilton County is authorized to form the Authority, and other local governments in Hamilton County may join the Authority at their discretion. As of June 30, 2012, Hamilton County, the City of Lake Site, the City of Ridgeside, the City of Soddy Daisy, the City of East Ridge, the Town of Signal Mountain, the City of Red Bank and the Town of Lookout Mountain are the only participating governments. The governing body of the Authority is the Board of Commissioners consisting of six individuals appointed by the executive officer of Hamilton County and approved by the County's Board of Commissioners. The County's Board of Commissioners does not approve the Authority's budget, but the County does finance debt for the Authority's capital projects at its discretion. The Authority's Board of Commissioners has final decision-making authority for the entity.

#### B. ACCOUNTING PRONOUNCEMENTS

The Authority adopted GASB 49, *Pollution Remediation Obligations*, in the year ended June 30, 2010. This Statement sets uniform standards requiring more timely and complete reporting of pollution remediation obligations. Based upon the Statement's requirements relating to recording an estimated liability related to the costs associated with pollution remediation, the Authority recognized a liability of \$2,376,000 as an estimation of the liability in fiscal year 2010 and increased the estimate to \$6,277,820 in fiscal year 2012. The required disclosures are found in Note 13 of the financial statements.

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

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

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to government units. Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the cash flows.

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

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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

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

**BOND PREMIUM, DISCOUNTS AND BOND ISSUANCE COSTS** - Bond premiums and discounts, as well as issuance costs, are stated at unamortized cost and are being amortized over the life of the bonds using the straight-line method. In 2012, the Authority had two debt balances defeased (see Note 8). As a result, the outstanding deferred bond issue costs of \$119,536 related to the Hamilton County bond and Red Bank A2H bond were written off to issuance costs. The outstanding deferred revenue of \$64,374 was written off to bond premium amortization expense. Amortization expense related to bond discounts and issuance costs totaled \$125,291 for 2012 and \$5,824 for 2011, and is estimated to be \$4,758 for 2013 through 2017. Bond premium amortization, reported as a reduction in interest, totaled \$72,200 for 2012 and 9,238 for 2011. The bond premium as of June 30, 2012 and 2011, totaled \$20,341 and \$92,541, respectively.

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

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

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

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

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

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

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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

**CAPITALIZED INTEREST** - The Authority capitalizes interest costs net of interest earned as part of the cost of construction, when material. As of June 30, 2012 and 2011, the Authority had no capitalized costs as part of the cost of construction.

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

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

**SUBSEQUENT EVENTS** - The Authority has evaluated subsequent events for potential recognition and disclosure through November 30, 2012, the date the financial statements were available to be issued, as disclosed in Note 14.

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

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

The amounts initially contributed to the Authority were as follows:

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

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

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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

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

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

### NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2012	2011
Trade receivables	\$ 838,582	\$ 1,054,708
Other accounts receivable	<u>36,745</u>	<u>28,097</u>
	<u>\$ 875,327</u>	<u>\$ 1,082,805</u>

The Authority performs ongoing credit evaluations of its customers' financial condition but does not require collateral to support receivables. The Authority has determined that an allowance for doubtful accounts for accounts receivable is not necessary as of June 30, 2012 or 2011. All accounts or portions thereof considered uncollectible are written off to bad debt expense.

### NOTE 4 - RESTRICTED NET ASSETS

The Authority's restricted net assets as of June 30, 2012 and 2011, consist of the following:

	2012	2011
Cash and cash equivalents - Private Lateral Service Program	\$ 3,472,695	\$ 3,010,905
Red Bank Unapplied Reserve	103,517	103,517
State Revolving Fund Unapplied Reserve	282,744	-
Receivable - Private Lateral Service Program	186,660	182,529
Receivable - Inspection Fees	<u>4,420</u>	<u>4,680</u>
	<u>\$ 4,050,036</u>	<u>\$ 3,301,631</u>

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

The amounts due to Hamilton County, Tennessee, as of June 30, 2012 and 2011, totaled \$192,776 and \$204,155, respectively. The amounts represent operating expenses incurred by the Authority which are reimbursed to Hamilton County, Tennessee, on a monthly basis.

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6 - DUE TO OTHER GOVERNMENTS

The majority of the amount due to other governments represent amounts owed to the City of Chattanooga for wheelage and treatment expenses as of June 30, 2012 and 2011, in the amounts of \$603,231 and \$595,023, respectively.

### NOTE 7 - CAPITAL ASSETS

A summary of the changes in capital assets for the year ended June 30, 2012, is as follows:

	June 30, 2011	Additions	Reclassifications	Deletions	June 30, 2012
<b>Capital assets being depreciated</b>					
Cost of plant in service	\$ 111,202,326	\$ 2,069,410	\$ -	\$ -	\$ 113,271,736
Land improvements	5,200	1,220	5,409	-	11,829
Buildings	153,836	-	(1,845)	-	151,991
Machinery and equipment	687,808	103,022	(100,345)	(7,256)	683,229
Software	-	1,275	69,172	-	70,447
Automobiles	<u>703,287</u>	<u>27,453</u>	<u>27,609</u>	<u>-</u>	<u>758,349</u>
Total capital assets being depreciated	112,752,457	2,202,380	-	(7,256)	114,947,581
<b>Capital assets not being depreciated</b>					
Construction in progress	<u>2,955,945</u>	<u>4,824,884</u>	<u>-</u>	<u>(969,348)</u>	<u>6,811,481</u>
Total capital assets	<u>115,708,402</u>	<u>7,027,264</u>	<u>-</u>	<u>(976,604)</u>	<u>121,759,062</u>
<b>Accumulated depreciation</b>					
Cost of plant in service	22,699,804	3,039,672	10,679	-	25,750,155
Land improvements	542	634	1,347	-	2,523
Buildings	36,276	6,350	(672)	-	41,954
Machinery and equipment	326,276	80,214	(81,739)	(7,256)	317,495
Software	-	4,419	57,882	-	62,301
Automobiles	<u>615,459</u>	<u>29,194</u>	<u>12,503</u>	<u>-</u>	<u>657,156</u>
Total accumulated depreciation	<u>23,678,357</u>	<u>3,160,483</u>	<u>-</u>	<u>(7,256)</u>	<u>26,831,584</u>
<b>Capital assets, net</b>	<u>\$ 92,030,045</u>	<u>\$ 3,866,781</u>	<u>\$ -</u>	<u>\$ (969,348)</u>	<u>\$ 94,927,478</u>

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7 - CAPITAL ASSETS - continued

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

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

The Authority has determined that capital expenditures relating to the pollution remediation at Signal Mountain will have a future use after the completion of the remediation issues. An asset in the amount of \$6,277,820 in 2012 and \$2,376,000 in 2011 is recorded in construction in progress for these pollution remediation costs. See Note 13 for additional information. During the year, the Authority reclassified some assets between categories to better align the individual assets with the description.

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 8 - LONG-TERM DEBT

#### **Hamilton County**

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

In November 2011, Hamilton County issued \$81,845,000 in General Obligation Bonds with varying interest rates from 3% to 5% of which the Authority has agreed to repay \$8,025,000. The bonds are to be repaid through 2031. Interest is payable semiannually on the first day of January and July and mature serially on January 1 of each year based on agreements. The bonds were issued to advance refund \$8,557,841 of outstanding 2004 Series bonds with varying interest rates from 4.0% to 5.0%. As a result, the 2004 Series bonds are considered to be defeased and the liability for those bonds has been removed from the statements of net assets.

The advance refunding resulted in a difference between the carrying balance of amounts due to Hamilton County and the new bond issue, which was recorded as a deferred amount of \$235,000 to be amortized over the life of the bond as reported in the financial statements.

#### **Collegedale**

In October 1997, the Authority entered into a Loan Agreement (the Agreement) with the City of Collegedale to jointly fund and construct a sewer project located along Ooltewah-Ringgold Road in the Rabbit Valley Basin. In June 2001, the City of Collegedale procured a State Revolving Fund Loan. The Authority is obligated under the Agreement to repay the Loan in installments consisting of (i) principal repayments payable monthly for a 20-year term in certain amounts and on certain dates as specified in the Agreement, and (ii) interest and certain expenses calculated and billed at the rate or rates and on the date or dates as specified in the Agreement. The Authority's share on this note totaled \$227,505 and \$249,462 as of June 30, 2012 and 2011, respectively.

#### **Red Bank**

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

- (i) 1993 City of Red Bank Sewer Revenue and Tax Bonds in the principal amount of \$2,160,000. The bonds were repaid in March 2009.
- (ii) Red Bank Sewer Revenue and Tax Bonds Series A-2-H in the principal amount of \$3,340,000. The bonds bear interest at a variable rate of 3.25% as of June 30, 2011. Interest only is payable quarterly on the 25th day of February, May, August and November each year through 2010, with bonds payable through June 2017. The principal balance as of June 30, 2011, was \$3,005,000. This amount was repaid in July 2011 as part of a debt defeasance. See details below.

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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

- (iii) 1996 Tennessee Local Development Authority Sewer Treatment Water Works loan in the principal amount of \$1,126,338. Interest rate is variable, currently at 1.7%. Principal and interest in the amount of \$8,626 are payable in monthly installments through March 2017. The principal balance as of June 30, 2012 and 2011, was \$484,256 and \$583,369, respectively.
- (iv) State of Tennessee Revolving Fund Loan in the original principal amount of \$6,917,000, bearing interest at 3.752%. Principal and interest are payable in monthly installments through August 2020. The principal balance as of June 30, 2012 and 2011, was \$3,487,742 and \$3,841,850, respectively.

### Revenue Refund Bond Series 2011

On July 27, 2011, the Authority issued \$9,807,497 in Revenue Refunding Bond Series 2011 with an interest rate of 3.78% payable through August 2026. After interest only payments through August 2012, the principal and interest payments of \$58,567 are payable in monthly installments. The net proceeds after \$60,056 of issuance costs were used to pay \$6,745,900 of the note with First Tennessee Bank and advance refund \$3,005,000 of outstanding Series A-2-H Bonds.

### Other Notes

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

On June 6, 2012, the Authority finalized an agreement with the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to provide financing of the SLP program (see Note 13). The funding sources consist of \$6,000,000 from the State Revolving Fund Loan with \$1,200,000 subject to principal forgiveness. Payments are to begin substantially after the project is complete. The terms of the loan are for 20 years bearing interest at 2.56%. As of June 30, 2012, no funds had been disbursed.

A summary of the changes in long-term debt for the year ended June 30, 2012, is as follows:

	June 30, 2011	Additions	Reductions	Amortization of Bond Premium	June 30, 2012
<b>Advance from Hamilton County</b>					
-					
Advance from Hamilton County \$6.5 Million Bond	\$ 6,500,000	\$ -	\$ -	\$ -	\$ 6,500,000
Advance from Hamilton County \$10 Million Bond	8,557,841	8,025,000	(8,490,000)	(67,841)	8,025,000
Plus deferred amounts on refunding	<u>-</u>	<u>235,000</u>	<u>-</u>	<u>-</u>	<u>235,000</u>
	15,057,841	8,260,000	(8,490,000)	(67,841)	14,760,000
Due within 1 year	<u>(230,000)</u>	<u>(70,000)</u>	<u>-</u>	<u>-</u>	<u>(300,000)</u>
Due in more than 1 year	<u>\$ 14,827,841</u>	<u>\$ 8,190,000</u>	<u>\$ (8,490,000)</u>	<u>\$ (67,841)</u>	<u>\$ 14,460,000</u>

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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

	June 30, 2011	Additions	Reductions	Amortization of Bond Premium	June 30, 2012
<b>Other long-term debt -</b>					
Collegedale Bond Payable	\$ 249,462	\$ -	\$ (21,957)	\$ -	\$ 227,505
State of Tennessee Revolving Fund Loan	3,841,850	-	(354,108)	-	3,487,742
Red Bank 1996 Bond Payable	583,369	-	(94,754)	(4,359)	484,256
Red Bank A-2-H Bond Payable	3,005,000	-	(3,005,000)	-	-
Revenue Refunding Bond Series 2011	-	9,807,497	-	-	9,807,497
First Tennessee Line of Credit	<u>6,724,968</u>	<u>-</u>	<u>(6,724,968)</u>	<u>-</u>	<u>-</u>
	<u>14,404,649</u>	<u>9,807,497</u>	<u>(10,200,787)</u>	<u>(4,359)</u>	<u>14,007,000</u>
Current portion	<u>(540,808)</u>	<u>(222,278)</u>	<u>-</u>	<u>-</u>	<u>(763,086)</u>
Other long-term debt	<u>\$ 13,863,841</u>	<u>\$ 9,585,219</u>	<u>\$ (10,200,787)</u>	<u>\$ (4,359)</u>	<u>\$ 13,243,914</u>

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

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

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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

Debt service requirements for the years subsequent to June 30, 2012, are as follows:

	<b>Principal</b>	<b>Interest</b>
<b>Year ending</b>		
June 30, 2013	\$ 1,063,086	\$ 810,830
June 30, 2014	1,156,308	772,928
June 30, 2015	1,196,555	730,276
June 30, 2016	1,237,024	683,806
June 30, 2017	1,255,654	634,172
June 30, 2018 - 2031	<u>16,103,032</u>	<u>3,995,794</u>
	22,011,659	7,627,806
Advance from Hamilton County, Tennessee	<u>6,500,000</u>	-
Debt service requirement	28,511,659	7,627,806
Plus bond premium	255,341	-
Net debt service requirement	<u>\$ 28,767,000</u>	<u>\$ 7,627,806</u>

### NOTE 9 - CREDIT RISK

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

Credit risk - As of June 30, 2012, the Authority's investments consist of moneys invested in the state investment pool, which is a 2a7-like pool. The state investment pool is not rated. Withdrawals from the state investment pool are made upon demand.

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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

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

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

The Authority maintains insurance for officers and directors to a \$3,000,000 limit with \$25,000 deductible and a \$25,000 EPLI deductible. The cost for the years ended June 30, 2012 and 2011, totaled \$4,564 and \$4,647, respectively.

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

There were no related party transactions for the years ended June 30, 2012 and 2011.

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

The Authority is under an Order and Assessment (the Order) from Commissioner of the Tennessee Department of Environment and Conservation (TDEC) requiring the Authority to develop a Management, Operation, and Maintenance (MOM) Program that will eliminate the overflows into the Tennessee River addressed under the Order. To date, the Authority has established the Chronic Overflow sites, made over 30 point repairs, replaced nearly 3600 feet of sewer main, and between the Authority and the Town of Signal Mountain have rehab more than 44,500 feet of main sewer with Cured In Place Pipe (CIPP). Flow monitoring continues to be done throughout the system and the City of Chattanooga has installed a flow meter near the Signal Mountain discharge point for comparison to the flow at the Signal Mountain Wastewater Treatment Plant. The Signal Mountain Area is included as a part of the Management, Operation, and Maintenance (MOM) Program submit Environmental Protection Agency (EPA) Region 4 and Tennessee Department of Environment and Conservation (TDEC) on May 1, 2012. The Authority \$8 sewer service lateral fee is in place to reduce some of the costs associated with the remediation. The Authority expects the fee to offset the cost by approximately \$862,000.

The Authority's estimated potential liability for additional expenditures for infrastructure construction totaled \$6,277,820 and \$2,376,000 as of June 30, 2012 and 2011, respectively. The obligation increased significantly from 2011 due to a change in the Authority's approach to the Service Lateral Program. Whereas the lateral connection, one source of the overflow problem, was owned by the property holder in the prior year, the Authority is acting to take ownership of the lateral connection in order to properly repair and maintain the lateral connections.

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 14 - SUBSEQUENT EVENTS**

On September 19, 2012, the Authority entered into a contract with a third party to provide billing services to customers in the Unincorporated Area of Hamilton County and the municipalities of East Ridge, Lookout Mountain, Red Bank and Ridgeside. The contract is initially for four years. The cost of the service is \$1.42 per bill. The contract was made due to the fact that the Tennessee American Water Company elected to stop billing services. The previous contract cost was \$0.42 per bill.

On October 18, 2012, the Authority's Board approved a 38.9% increase in rates to raise revenue to fund sewer system upgrades and increased operating costs.

**SUPPLEMENTARY SCHEDULES**

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**SCHEDULE OF ACTUAL TO BUDGET COMPARISON**

**Year Ended June 30, 2012**

	<b>2012 Actual</b>	<b>2012 Budget</b>	<b>Variance</b>	<b>% Variance Favorable (Unfavorable)</b>
<b>OPERATING REVENUES</b>				
Sewer revenue	\$ 8,230,984	\$ 8,226,990	\$ 3,994	- %
PSLP revenue	2,275,240	2,103,744	171,496	8 %
Grinder pump revenue	59,800	68,770	(8,970)	(13)%
Inspection fees	<u>30,080</u>	<u>15,000</u>	<u>15,080</u>	101 %
Total operating revenues	10,596,104	10,414,504	181,600	2 %
<b>PSLP EXPENSE</b>	1,811,165	1,624,019	(187,146)	(12)%
<b>OPERATING EXPENSE</b>	6,355,137	6,609,789	254,652	4 %
<b>DEPRECIATION</b>	3,160,483	3,178,585	18,102	1 %
<b>OTHER INCOME</b>	<u>3,001</u>	<u>3,000</u>	<u>1</u>	- %
<b>TOTAL OPERATING LOSS</b>	<u>(727,680)</u>	<u>(994,889)</u>	<u>267,209</u>	(27)%
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	4,178	8,500	(4,322)	(51)%
Tap on fees	378,665	270,000	108,665	40 %
Interest expense	<u>(770,996)</u>	<u>(759,711)</u>	<u>(11,285)</u>	1 %
Total nonoperating revenues (expenses)	<u>(388,153)</u>	<u>(481,211)</u>	<u>93,058</u>	(19)%
<b>CAPITAL CONTRIBUTIONS</b>	<u>989,600</u>	<u>2,009,858</u>	<u>(1,020,258)</u>	(51)%
<b>CHANGE IN NET ASSETS</b>	<u>\$ (126,233)</u>	<u>\$ 533,758</u>	<u>\$ (659,991)</u>	(124)%

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## SCHEDULE OF ACTUAL TO BUDGET COMPARISON

Year Ended June 30, 2012

	2012 Actual	2012 Budget	Variance	% Variance Favorable (Unfavorable)
<b>OPERATING EXPENSES</b>				
Telephone	\$ 55,255	\$ 57,000	\$ 1,745	3 %
Cost of grinder pumps	62,448	70,403	7,955	11 %
Electricity	167,696	158,000	(9,696)	(6)%
Natural gas	1,437	2,400	963	40 %
Water	16,352	16,000	(352)	(2)%
Comcast	2,181	2,280	99	4 %
Repairs and maintenance	112,525	85,000	(27,525)	(32)%
Emergency repairs	1,928	25,000	23,072	92 %
Grinder pump repair	30,588	30,000	(588)	(2)%
Wheelage and treatment	3,646,947	3,447,000	(199,947)	(6)%
Inspection expenses	12,776	38,000	25,224	66 %
Engineering studies	3,505	10,000	6,495	65 %
Permits	7,670	6,670	(1,000)	(15)%
Personal costs	1,508,873	1,655,363	146,490	9 %
Auto expense	105,781	86,000	(19,781)	(23)%
Sludge hauling	66,394	75,000	8,606	11 %
Liability and property insurance	6,546	8,703	2,157	25 %
Operating travel and training	7,430	12,000	4,570	38 %
Operating - miscellaneous	-	500	500	100 %
Odor control	183,673	275,000	91,327	33 %
Recording fee for easements	377	-	(377)	- %
Flow monitoring	-	140,440	140,440	100 %
Amortization - computer software	27,184	24,662	(2,522)	(10)%
Legal services	50,092	106,000	55,908	53 %
Other professional services	28,765	4,500	(24,265)	(539)%
Accounting and auditing	21,272	21,200	(72)	- %
Amortization - bond issue costs	125,292	127,464	2,172	2 %
Bank charges	1,103	2,000	897	45 %
Advertising	1,796	3,000	1,204	40 %
Office expense	18,565	19,500	935	5 %
Postage	2,171	1,800	(371)	(21)%
Board meetings	2,466	5,000	2,534	51 %
Settlement claims	30,000	30,000	-	- %
Association dues	8,242	7,450	(792)	(11)%
Office rent	13,186	20,000	6,814	34 %
Parking	10,637	10,544	(93)	(1)%

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**SCHEDULE OF ACTUAL TO BUDGET COMPARISON**

**Year Ended June 30, 2012**

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	<b>2012 Actual</b>	<b>2012 Budget</b>	<b>Variance</b>	<b>% Variance Favorable (Unfavorable)</b>
<b>OPERATING EXPENSES - continued</b>				
License renewal	\$ 677	\$ 910	\$ 233	26 %
Tennessee One Call System	13,307	25,000	11,693	47 %
PSLP expense -				
Telephone	34	-	(34)	- %
Repairs and maintenance	1,579,360	1,296,604	(282,756)	(22)%
Personnel costs	183,907	248,301	64,394	26 %
Inspection expenses	36	-	(36)	- %
Amortization	6,300	7,200	900	13 %
Legal services	33,204	60,000	26,796	- %
Office expense	7,974	1,440	(6,534)	(454)%
Postage	350	6,250	5,900	94 %
Tennessee One Call System	<u>-</u>	<u>4,224</u>	<u>4,224</u>	100 %
	<u>\$ 8,166,302</u>	<u>\$ 8,233,808</u>	<u>\$ 67,506</u>	1 %

# HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

## SCHEDULES OF OPERATING EXPENSES

Years Ended June 30, 2012 and 2011

	2012	2011
Telephone	\$ 55,255	\$ 55,739
Cost of grinder pumps	62,448	77,487
Electricity	167,696	157,329
Natural gas	1,437	2,147
Water	16,352	15,053
Repairs and maintenance	112,525	73,358
Grinder pump repair	30,588	5,168
Wheelage and treatment	3,646,947	3,268,988
Inspection expenses	12,776	70,222
Engineering studies	3,505	10,001
Permits	7,670	6,670
Odor control	183,673	150,137
Sludge hauling	66,394	71,345
Personnel costs	1,508,873	1,616,155
Liability and property insurance	6,546	4,647
Auto expense	105,781	86,646
Legal services	50,092	40,458
Other professional services	28,765	-
Emergency repairs	1,928	20,069
Accounting and auditing	21,272	25,825
Amortization - bond issue costs	125,292	5,825
Amortization - computer software	27,184	24,261
Office expense	23,202	22,371
Office rent	13,186	14,212
Operating travel and training	7,430	5,537
Association dues	8,242	7,422
Settlement claims	30,000	30,000
License renewal	677	650
Tennessee One Call System	13,307	16,609
Recording fee for easements	377	(1,010)
Miscellaneous	15,717	16,749
PSLP expense -		
Telephone	34	-
Repairs and maintenance	1,579,360	882,418
Personnel costs	183,907	69,741
Legal services	33,204	9,251
Office expense	7,974	4,256
Auto expense	-	2,712
Engineering studies	-	590

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**SCHEDULES OF OPERATING EXPENSES**

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

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	2012	2011
PSLP expense - continued		
Operating - miscellaneous	\$ -	\$ 390
Postage	350	131
Other professional services	-	29,049
Amortization	6,300	-
Inspection expenses	36	302
Settlement claims	-	100
	<u>          </u>	<u>          </u>
	<u>\$ 8,166,302</u>	<u>\$ 6,899,010</u>

**HAMILTON COUNTY WATER & WASTEWATER  
TREATMENT AUTHORITY**

**SCHEDULE OF WASTEWATER RATES**

**June 30, 2012**

The following monthly wastewater rates were in effect as of June 30, 2012:

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

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

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

The minimum monthly bill for Red Bank rates as of June 30, 2012, are as follows:

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

Each customer shall pay monthly according to the following rates:

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

## **INTERNAL CONTROL AND COMPLIANCE**

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

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

We have audited the financial statements of Hamilton County Water & Wastewater Treatment Authority (a component unit of Hamilton County, Tennessee) (the Authority) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be 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 the Board of Commissioners, management, others within the entity, governmental regulatory and granting agencies and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

Chattanooga, Tennessee  
November 30, 2012