

**HAMILTON COUNTY WATER &
WASTEWATER TREATMENT AUTHORITY**

FINANCIAL STATEMENTS

June 30, 2013

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

CONTENTS

INDEPENDENT AUDITORS' REPORT	1/2
STATEMENTS OF NET POSITION	3/4
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	5
STATEMENTS OF CASH FLOWS	6/7
NOTES TO FINANCIAL STATEMENTS	8/20

SUPPLEMENTARY SCHEDULES

Schedule of Actual to Budget Comparison	22/24
Schedules of Operating Expenses	25/26
Schedule of Wastewater Rates	27

INTERNAL CONTROL AND COMPLIANCE

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29/30
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Cleveland Crimes, Executive Director



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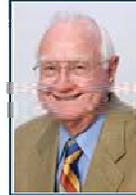
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Cherie Jewell, County Appointee

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Hamilton County Water & Wastewater Treatment Authority (a component unit of Hamilton County, Tennessee) (the Authority) which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1.B, the Authority has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; Statement No. 61, *The Financial Reporting Entity: Omnibus*; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and Statement No. 63, *Reporting Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which became effective for the year ended June 30, 2013. The Authority early implemented Statement No. 65, *Items Previously Reported as Assets and Liabilities* which has an effective date of June 30, 2014.

Other Matters*Required Supplementary Information*

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.

Other 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2014, 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.



Chattanooga, Tennessee
January 17, 2014

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY**

STATEMENTS OF NET POSITION

June 30, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,612,560	\$ 2,903,853
Accounts receivable	1,295,405	875,327
PSLP receivable - restricted	292,309	186,660
Prepaid expenses	17,365	27,751
Inventory	<u>15,353</u>	<u>101,465</u>
Total current assets	<u>4,232,992</u>	<u>4,095,056</u>
NONCURRENT ASSETS		
Cash and cash equivalents - restricted	4,460,226	3,472,695
Other receivables - restricted	-	4,420
Loan reserve - restricted	386,261	386,261
Bond discount, net	8,612	9,266
Bond issuance cost, net	-	62,070
Contractor note receivable	<u>26,057</u>	<u>79,657</u>
Total noncurrent assets	<u>4,881,156</u>	<u>4,014,369</u>
CAPITAL ASSETS		
Cost of plant in service	116,610,871	113,271,736
Land improvements	11,829	11,829
Buildings	151,991	151,991
Machinery and equipment	824,243	683,229
Automobiles	833,983	758,349
Other assets	90,072	70,447
Construction in progress	8,273,107	6,811,481
Accumulated depreciation	<u>(30,070,260)</u>	<u>(26,831,584)</u>
Capital assets, net	<u>96,725,836</u>	<u>94,927,478</u>
TOTAL ASSETS	\$ <u>105,839,984</u>	\$ <u>103,036,903</u>

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

	2013	2012
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Due to Hamilton County, Tennessee	\$ 414,285	\$ 192,776
Due to other governments	711,674	603,231
Accounts payable	656,954	214,768
Accrued interest	146,297	150,797
Reserve for grinder pump maintenance	250,452	236,104
Reserve for overflow	31,574	49,072
Current portion of long-term debt	846,308	763,086
Current portion of advance from Hamilton County, Tennessee	<u>310,000</u>	<u>300,000</u>
Total current liabilities	<u>3,367,544</u>	<u>2,509,834</u>
NONCURRENT LIABILITIES		
Long-term debt, net	12,393,246	13,243,914
Advance from Hamilton County, Tennessee	13,915,000	14,225,000
Accrued liability for pollution remediation	<u>6,277,820</u>	<u>6,277,820</u>
Total noncurrent liabilities	<u>32,586,066</u>	<u>33,746,734</u>
DEFERRED INFLOWS OF RESOURCES		
Difference from bond refunding	<u>222,632</u>	<u>235,000</u>
Total liabilities and deferred inflows of resources	<u>36,176,242</u>	<u>36,491,568</u>
NET POSITION		
Net investment in capital assets	62,760,830	59,882,658
Restricted	5,138,796	4,050,036
Unrestricted	<u>1,764,116</u>	<u>2,612,641</u>
Total net position	<u>69,663,742</u>	<u>66,545,335</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ <u>105,839,984</u>	\$ <u>103,036,903</u>

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Sewer revenue	\$ 9,493,275	\$ 8,230,984
PSLP revenue	2,362,331	2,275,240
Grinder pump revenue	95,680	59,800
Inspection fees	<u>32,493</u>	<u>30,080</u>
Total operating revenues	<u>11,983,779</u>	<u>10,596,104</u>
OPERATING EXPENSES		
Personnel costs	1,653,591	1,508,873
Wheelage and treatment service	3,890,840	3,646,947
PSLP expense	1,829,962	1,811,165
Other operating expense	<u>1,465,236</u>	<u>1,199,317</u>
Total operating expenses	<u>8,839,629</u>	<u>8,166,302</u>
OPERATING INCOME	3,144,150	2,429,802
OTHER OPERATING REVENUES (EXPENSES)		
Depreciation	(3,222,145)	(3,155,283)
PSLP depreciation	(16,530)	(5,200)
Other income	<u>13,873</u>	<u>3,001</u>
TOTAL OPERATING LOSS	<u>(80,652)</u>	<u>(727,680)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	7,255	4,178
Tap on fees	656,770	378,665
Interest expense	<u>(676,346)</u>	<u>(770,996)</u>
Total nonoperating revenues (expenses)	<u>(12,321)</u>	<u>(388,153)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(92,973)	(1,115,833)
Capital contributions	<u>3,211,380</u>	<u>989,600</u>
CHANGE IN NET POSITION	3,118,407	(126,233)
NET POSITION - beginning of year	<u>66,545,335</u>	<u>66,671,568</u>
NET POSITION - end of year	<u>\$ 69,663,742</u>	<u>\$ 66,545,335</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, 2013 and 2012

	2013	2012
OPERATING ACTIVITIES		
Cash receipts from customers	\$ 11,476,342	\$ 10,802,711
Payments to suppliers	<u>(7,923,786)</u>	<u>(7,861,109)</u>
Net cash flows from operating activities	<u>3,552,556</u>	<u>2,941,602</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(1,825,652)	(1,166,493)
Tap on fees	656,770	378,665
Principal payments on long-term debt	(763,087)	(10,200,787)
Principal payments on advance from Hamilton County, Tennessee	(300,000)	(230,000)
Restricted loan reserve	-	(282,744)
Bond issue costs	-	(74,392)
Proceeds from long-term debt	-	9,807,498
Payments received from contractor	53,600	79,600
Interest paid on long-term debt	<u>(685,204)</u>	<u>(888,285)</u>
Net cash flows from capital and related financing activities	<u>(2,863,573)</u>	<u>(2,576,938)</u>
INVESTING ACTIVITIES		
Interest received	<u>7,255</u>	<u>6,706</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	696,238	371,370
CASH AND CASH EQUIVALENTS - beginning of year	<u>6,376,548</u>	<u>6,005,178</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 7,072,786</u>	<u>\$ 6,376,548</u>
CASH AND CASH EQUIVALENTS - END OF YEAR CONSIST OF -		
Unrestricted cash and cash equivalents	\$ 2,612,560	\$ 2,903,853
Restricted cash and cash equivalents	<u>4,460,226</u>	<u>3,472,695</u>
	<u>\$ 7,072,786</u>	<u>\$ 6,376,548</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, 2013 and 2012

	2013	2012
RECONCILIATION OF TOTAL OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Total operating loss	\$ (80,652)	\$ (727,680)
Adjustments to reconcile total operating loss to net cash flows from operating activities -		
Depreciation	3,238,675	3,160,483
Amortization	50,355	152,476
Reserve for grinder pump maintenance	14,348	30,589
Reserve for overflow	(17,498)	12,511
Changes in operating assets and liabilities -		
Accounts receivable	(420,078)	207,478
PSLP receivable - restricted	(105,649)	(4,131)
Other receivables - restricted	4,420	260
Prepaid expenses	10,386	(35,116)
Inventory	86,112	53,348
Amounts due other governments	329,951	(3,177)
Accounts payable	<u>442,186</u>	<u>94,561</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 3,552,556</u>	<u>\$ 2,941,602</u>
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions of wastewater treatment capital assets	\$ 3,211,380	\$ 989,600
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

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, 2013, Hamilton County, the City of Lake Site, the City of Ridgeside, the City of Soddy Daisy, the City of East Ridge, the Town of Signal Mountain, the City of Red Bank and the Town of Lookout Mountain are the only participating governments. The governing body of the Authority is the Board of Commissioners consisting of five individuals appointed by the executive officer of Hamilton County and approved by the County's Board of Commissioners. The County's Board of Commissioners does not approve the Authority's budget, but the County does finance debt for the Authority's capital projects at its discretion. The Authority's Board of Commissioners has final decision-making authority for the entity.

B. ACCOUNTING PRONOUNCEMENTS

The Authority adopted GASB 60, *Accounting and Reporting for Service Concession Arrangements*, in the year ended June 30, 2013. This Statement sets standard accounting treatment for various public-private or public-public partnerships. The adoption of this Statement did not have a significant impact on the Authority's financial statements.

The Authority adopted GASB 61, *The Financial Reporting Entity: Omnibus*, in the year ended June 30, 2013. This Statement strives to improve the financial reporting for a governmental financial reporting entity by further defining when and how a component unit should be presented in the financial statements. The adoption of this Statement did not have a significant impact on the Authority's financial statements.

The Authority adopted GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, in the year ended June 30, 2013. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance issued before November 30, 1989, by the Financial Accounting Standards Board, the Accounting Principles Board, and the American Institute of Certified Public Accountants. The adoption of this Statement did not have a significant impact on the Authority's financial statements.

The Authority adopted GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in the year ended June 30, 2013. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, financial statement elements which are distinct from assets and liabilities. The adoption of this Statement did not have a significant impact on the Authority's financial statements.

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The Authority adopted GASB 65, *Items Previously Reported as Assets and Liabilities*, in the year ended June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Based on the requirements of the standard, the Authority is now reporting the deferred amounts related to the bond refunding with Hamilton County separately from the debt balance. In addition, the Authority has written off previously unamortized issuance costs of \$62,070 to amortization expense in the current year. A prior period adjustment was not made as the amounts do not materially impact 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.

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 POSITION - The Authority has adopted the provisions of GASB 34, *Proprietary Fund Accounting and Financial Reporting*, as amended by GASB 63, *Reporting Outflows, Deferred Inflows, and Net Position*, which establishes standards for external financial reporting and disclosure for all state and local governmental entities, which include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. Statement 34 requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets - This component of net position 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. Deferred outflows of resources and deferred inflows of resources that are

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. 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 position component as the unspent proceeds.

- **Restricted Net Position** - This component of net position 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 unrestricted assets first, as appropriate opportunities arise.
- **Unrestricted Net Position** - This component of net position consists of net position that do not meet the definition of restricted or invested in capital assets, net of related debt. While management may have categorized and segmented portions for various purposes, the Authority has the unrestricted authority to revisit or alter these managerial decisions.

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

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

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

BOND PREMIUM, DISCOUNTS AND REACQUISITION PRICE DIFFERENCES - Bond premiums and discounts are stated at unamortized cost and are being amortized over the life of the bonds using the straight-line method. In the event of a bond refunding, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow or inflow of resources and amortized over the life of the bond. Amortization expense related to bond discounts and reacquisition price differences totaled \$13,022 in 2013 and \$125,291 in 2012 and is estimated to be \$13,000 for 2014 through 2018. Bond premium amortization reported as a reduction in interest totaled \$4,359 for 2013 and \$72,200 for 2012. The bond premium as of June 30, 2013 and 2012, totaled \$15,982 and \$20,341 respectively.

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

PRODUCT WARRANTIES - The Authority sells grinder pumps to customers together with conditional repair or replacement warranties. The accompanying financial statements include and for 2013 and 2012, respectively, for estimated warranty claims, based on the Company's claims experience. Provisions for warranty costs are recognized in the same period as the related revenue. It is reasonably possible that future warranty losses could differ materially from management's current estimates.

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

CAPITALIZED INTEREST - The Authority capitalizes interest costs net of interest earned as part of the cost of construction, when material. As of June 30, 2013, the Authority had \$114,305 of 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.

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 January 17, 2014, 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.

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.

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2013	2012
Trade receivables	\$ 1,272,084	\$ 838,582
PSLP receivables	292,309	186,660
Other accounts receivable	<u>23,321</u>	<u>36,745</u>
	<u>\$ 1,587,714</u>	<u>\$ 1,061,987</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, 2013 or 2012. 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, 2013 and 2012, consist of the following:

	2013	2012
Cash and cash equivalents - Private Lateral Service Program	\$ 4,460,226	\$ 3,472,695
Red Bank Unapplied Reserve	103,517	103,517
State Revolving Fund Unapplied Reserve	282,744	282,744
Receivable - Private Lateral Service Program	292,309	186,660
Receivable - Inspection Fees	-	4,420
	<u>\$ 5,138,796</u>	<u>\$ 4,050,036</u>

NOTE 5 - DUE TO HAMILTON COUNTY, TENNESSEE

The amounts due to Hamilton County, Tennessee, as of June 30, 2013 and 2012, totaled \$414,285 and \$192,776, respectively. The amounts represent operating expenses incurred by the Authority which are reimbursed to Hamilton County, Tennessee, on a monthly basis.

NOTE 6 - DUE TO OTHER 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, 2013 and 2012, in the amounts of \$711,674 and \$603,231, respectively.

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - CAPITAL ASSETS

A summary of the changes in capital assets for the year ended June 30, 2013, is as follows:

	June 30, 2012	Additions	Deletions	June 30, 2013
Capital assets being depreciated				
Cost of plant in service	\$ 113,271,736	\$ 3,339,135	\$ -	\$ 116,610,871
Land improvements	11,829	-	-	11,829
Buildings	151,991	-	-	151,991
Machinery and equipment	683,229	141,014	-	824,243
Software	70,447	19,625	-	90,072
Automobiles	<u>758,349</u>	<u>75,634</u>	-	<u>833,983</u>
Total capital assets being depreciated	114,947,581	3,575,408	-	118,522,989
Capital assets not being depreciated				
Construction in progress	<u>6,811,481</u>	<u>1,543,440</u>	<u>(81,814)</u>	<u>8,273,107</u>
Total capital assets	<u>121,759,062</u>	<u>5,118,848</u>	<u>(81,814)</u>	<u>126,796,096</u>
Accumulated depreciation				
Cost of plant in service	25,750,155	3,102,292	-	28,852,447
Land improvements	2,523	695	-	3,218
Buildings	41,954	6,350	-	48,304
Machinery and equipment	317,495	95,986	-	413,481
Software	62,301	3,703	-	66,004
Automobiles	<u>657,156</u>	<u>29,650</u>	-	<u>686,806</u>
Total accumulated depreciation	<u>26,831,584</u>	<u>3,238,676</u>	<u>-</u>	<u>30,070,260</u>
Capital assets, net	<u>\$ 94,927,478</u>	<u>\$ 1,880,172</u>	<u>\$ (81,814)</u>	<u>\$ 96,725,836</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, 2012, is as follows:

	June 30, 2011	Additions	Reclassifications	Deletions	June 30, 2012
Capital assets being depreciated					
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
Capital assets not being depreciated					
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>
Accumulated depreciation					
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>
Capital assets, net	<u>\$ 92,030,045</u>	<u>\$ 3,866,781</u>	<u>\$ -</u>	<u>\$ (969,348)</u>	<u>\$ 94,927,478</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 2013 and 2012, is recorded in construction in progress for these pollution remediation costs. See Note 13 for additional information.

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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 \$204,978 and \$227,505 as of June 30, 2013 and 2012, 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) 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, 2013 and 2012, was \$383,519 and \$484,256 respectively.
- (ii) 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, 2013 and 2012, was \$3,120,110 and \$3,487,742, respectively.

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM DEBT - continued

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

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. 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 after the project is substantially complete. The terms of the loan are for 20 years bearing interest at 2.56%. As of June 30, 2013, no funds had been disbursed.

A summary of the changes in long-term debt for the year ended June 30, 2013, is as follows:

	June 30, 2012	Additions	Reductions	Amortization of Bond Premium	June 30, 2013
Advance from Hamilton County -					
Advance from Hamilton County \$6.5 Million Bond	\$ 6,500,000	\$ -	\$ -	\$ -	\$ 6,500,000
Advance from Hamilton County \$10 Million Bond	<u>8,025,000</u>	<u>-</u>	<u>(300,000)</u>	<u>-</u>	<u>7,725,000</u>
	<u>14,525,000</u>	<u>-</u>	<u>(300,000)</u>	<u>-</u>	<u>14,225,000</u>
Due within 1 year	<u>(300,000)</u>	<u>(10,000)</u>	<u>-</u>	<u>-</u>	<u>(310,000)</u>
Due in more than 1 year	<u>\$ 14,225,000</u>	<u>\$ (10,000)</u>	<u>\$ (300,000)</u>	<u>\$ -</u>	<u>\$ 13,915,000</u>
	June 30, 2012	Additions	Reductions	Amortization of Bond Premium	June 30, 2013
Other long-term debt -					
Collegedale Bond Payable	\$ 227,505	\$ -	\$ (22,528)	\$ -	\$ 204,977
State of Tennessee Revolving Fund Loan	3,487,742	-	(367,632)	-	3,120,110
Red Bank 1996 Bond Payable	484,256	-	(96,378)	(4,359)	383,519
Revenue Refunding Bond Series 2011	<u>9,807,497</u>	<u>-</u>	<u>(276,549)</u>	<u>-</u>	<u>9,530,948</u>
	<u>14,007,000</u>	<u>-</u>	<u>(763,087)</u>	<u>(4,359)</u>	<u>13,239,554</u>
Current portion	<u>(763,086)</u>	<u>(83,222)</u>	<u>-</u>	<u>-</u>	<u>(846,308)</u>
Other long-term debt	<u>\$ 13,243,914</u>	<u>\$ (83,222)</u>	<u>\$ (763,087)</u>	<u>\$ (4,359)</u>	<u>\$ 12,393,246</u>

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM DEBT - continued

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

	June 30, 2011	Additions	Reductions	Amortization of Bond Premium	June 30, 2012
Advance from Hamilton County -					
Advance from Hamilton County \$6.5 Million Bond	\$ 6,500,000	\$ -	\$ -	\$ -	\$ 6,500,000
Advance from Hamilton County \$10 Million Bond	<u>8,557,841</u>	<u>8,025,000</u>	<u>(8,490,000)</u>	<u>(67,841)</u>	<u>8,025,000</u>
	15,057,841	8,025,000	(8,490,000)	(67,841)	14,525,000
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>\$ 7,955,000</u>	<u>\$ (8,490,000)</u>	<u>\$ (67,841)</u>	<u>\$ 14,225,000</u>
Other long-term debt -					
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>
	14,404,649	9,807,497	(10,200,787)	(4,359)	14,007,000
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>

Debt service requirements for the years subsequent to June 30, 2013, are as follows:

	Principal	Interest
Year ending		
June 30, 2014	\$ 1,156,308	\$ 772,927
June 30, 2015	1,196,555	730,277
June 30, 2016	1,237,024	683,806
June 30, 2017	1,255,654	634,172
June 30, 2018	1,234,258	584,061
June 30, 2019 - 2030	<u>14,868,773</u>	<u>3,411,734</u>
	20,948,572	6,816,977
Advance from Hamilton County, Tennessee	<u>6,500,000</u>	<u>-</u>
Debt service requirement	27,448,572	6,816,977
Plus bond premium	<u>15,982</u>	<u>-</u>
Net debt service requirement	<u>\$ 27,464,554</u>	<u>\$ 6,816,977</u>

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - CREDIT RISK

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

Credit risk - As of June 30, 2013, the Authority's investments consist of moneys invested in the state investment pool, which is a 2a7-like pool. The state investment pool is not rated. Withdrawals from the state investment pool are made upon demand.

NOTE 10 - RISK FINANCING AND INSURANCE-RELATED ACTIVITIES

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

NOTE 11 - INSURANCE FOR OFFICERS AND DIRECTORS

The Authority maintains insurance for officers and directors to a \$3,000,000 limit with \$25,000 deductible and a \$25,000 EPLI deductible. The cost for the years ended June 30, 2013 and 2012, totaled \$4,942 and \$4,564, respectively.

NOTE 12 - RELATED PARTY TRANSACTIONS

There were no related party transactions for the years ended June 30, 2013 and 2012.

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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 in the Management, Operation, and Maintenance (MOM) Program submitted to the Environmental Protection Agency (EPA) Region 4 and Tennessee Department of Environment and Conservation (TDEC) on May 1, 2012. The Authority's \$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 as of June 30, 2013 and 2012. The obligation was increased in 2012 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.

NOTE 14 - CONTINGENCIES

The Authority is currently defending a court case that seeks to declare the \$8 monthly fee charged for the Private Service Lateral Program (PSLP) funding as unlawful. Further, the case seeks to certify a class action suit on behalf of all customers of the Authority. The Authority is contesting the lawsuit vigorously, but no outcome is certain. Should the courts rule against the Authority, the Authority may be required to refund approximately \$8 million in fees. In addition, if the Authority receives an unfavorable ruling, the Authority will require an increase in the variable rate in order to fund the PSLP as the program is necessary to comply with the Clean Water Act.

SUPPLEMENTARY SCHEDULES

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY**

SCHEDULE OF ACTUAL TO BUDGET COMPARISON

Year Ended June 30, 2013

	2013 Actual	2013 Budget	Variance	% Variance Favorable (Unfavorable)
OPERATING REVENUES				
Sewer revenue	\$ 9,493,275	\$ 10,125,773	\$ (632,498)	(6)%
PSLP revenue	2,362,331	2,171,459	190,872	9 %
Grinder pump revenue	95,680	68,770	26,910	39 %
Inspection fees	<u>32,493</u>	<u>20,000</u>	<u>12,493</u>	62 %
Total operating revenues	11,983,779	12,386,002	(402,223)	(3)%
PSLP EXPENSE	1,829,962	1,806,762	(23,200)	(1)%
OPERATING EXPENSE	7,009,667	7,276,686	267,019	4 %
DEPRECIATION	3,238,675	3,365,298	126,623	4 %
OTHER INCOME	<u>13,873</u>	<u>3,000</u>	<u>10,873</u>	362 %
TOTAL OPERATING LOSS	<u>(80,652)</u>	<u>(59,744)</u>	<u>(20,908)</u>	35 %
NONOPERATING REVENUES (EXPENSES)				
Interest income	7,255	4,000	3,255	81 %
Tap on fees	656,770	533,000	123,770	23 %
Interest expense	<u>(676,346)</u>	<u>(838,234)</u>	<u>161,888</u>	(19)%
Total nonoperating revenues (expenses)	<u>(12,321)</u>	<u>(301,234)</u>	<u>288,913</u>	(96)%
CAPITAL CONTRIBUTIONS	<u>3,211,380</u>	<u>688,150</u>	<u>2,523,230</u>	367 %
CHANGE IN NET POSITION	<u>\$ 3,118,407</u>	<u>\$ 327,172</u>	<u>\$ 2,791,235</u>	853 %

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

SCHEDULE OF ACTUAL TO BUDGET COMPARISON

Year Ended June 30, 2013

	2013 Actual	2013 Budget	Variance	% Variance Favorable (Unfavorable)
OPERATING EXPENSES				
Telephone	\$ 56,249	\$ 57,000	\$ 751	1 %
Cost of grinder pumps	104,312	70,403	(33,909)	(48)%
Electricity	188,703	170,000	(18,703)	(11)%
Natural gas	2,074	2,400	326	14 %
Sewer fees	77	-	(77)	- %
Water	17,440	17,000	(440)	(3)%
Comcast	2,454	2,448	(6)	- %
Repairs and maintenance	72,038	118,500	46,462	39 %
Grinder pump repair	14,348	30,000	15,652	52 %
Wheelage and treatment	3,890,840	3,830,000	(60,840)	(2)%
Inspection expenses	32,762	38,000	5,238	14 %
Engineering studies	4,573	10,000	5,427	54 %
Permits	6,670	7,670	1,000	13 %
Personal costs	1,649,338	1,746,416	97,078	6 %
Uniform expense	4,253	6,000	1,747	29 %
Auto expense	124,998	120,000	(4,998)	(4)%
Sludge hauling	74,951	71,000	(3,951)	(6)%
Property insurance	16,200	16,757	557	3 %
Operating travel and training	6,854	12,000	5,146	43 %
Operating - miscellaneous	-	500	500	100 %
Odor control	203,712	275,000	71,288	26 %
Recording fee for easements	542	-	(542)	- %
Amortization - computer software	34,543	30,935	(3,608)	(12)%
Legal services	60,370	50,000	(10,370)	(21)%
Other professional services	70,689	87,687	16,998	19 %
Accounting and auditing	21,200	21,300	100	- %
Amortization - bond issue costs	62,724	(8,263)	(70,987)	859 %
Bank charges	5,908	22,100	16,192	73 %
Advertising	1,830	13,860	12,030	87 %
Office expense	54,573	35,500	(19,073)	(54)%
Postage	1,722	2,500	778	31 %
Board meetings	2,043	5,000	2,957	59 %
Billings expense	119,083	313,824	194,741	62 %
Settlement claims	45,848	30,000	(15,848)	(53)%
Association dues	8,172	8,350	178	2 %
Office rent	21,375	22,000	625	3 %
Parking	12,161	15,000	2,839	19 %

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY**

SCHEDULE OF ACTUAL TO BUDGET COMPARISON

Year Ended June 30, 2013

	2013 Actual	2013 Budget	Variance	% Variance Favorable (Unfavorable)
OPERATING EXPENSES - continued				
License renewal	\$ 560	\$ 800	\$ 240	30 %
Tennessee One Call System	13,478	25,000	11,522	46 %
PSLP expense -				
Repairs and maintenance	1,483,813	1,500,000	16,187	1 %
Engineering studies	980	-	(980)	- %
Personnel costs	231,754	242,562	10,808	4 %
Inspection expenses	114	-	(114)	- %
Amortization	13,075	6,950	(6,125)	(88)%
Operating travel and training	-	3,000	3,000	100 %
Recording fee for easements	30,527	-	(30,527)	- %
Legal services	57,863	40,000	(17,863)	(45)%
Office expense	2,211	8,000	5,789	72 %
Postage	<u>9,625</u>	<u>6,250</u>	<u>(3,375)</u>	(54)%
	<u>\$ 8,839,629</u>	<u>\$ 9,083,449</u>	<u>\$ 243,820</u>	3 %

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY**

SCHEDULES OF OPERATING EXPENSES

Years Ended June 30, 2013 and 2012

	2013	2012
Telephone	\$ 56,249	\$ 55,255
Cost of grinder pumps	104,312	62,448
Electricity	188,703	167,696
Natural gas	2,074	1,437
Sewer fees	77	-
Water	17,440	16,352
Repairs and maintenance	72,038	114,453
Grinder pump repair	14,348	30,588
Wheelage and treatment	3,890,840	3,646,947
Inspection expenses	32,762	12,776
Engineering studies	4,573	3,505
Permits	6,670	7,670
Odor control	203,712	183,673
Sludge hauling	74,951	66,394
Personnel costs	1,649,338	1,508,873
Uniform expense	4,253	-
Liability and property insurance	16,200	6,546
Auto expense	124,998	105,781
Legal services	60,370	50,092
Other professional services	70,689	28,765
Accounting and auditing	21,200	21,272
Amortization - bond issue costs	62,724	125,292
Amortization - computer software	34,543	27,184
Office expense	54,573	23,202
Office rent	21,375	13,186
Postage	1,722	-
Board meetings	2,043	-
Billing expense	119,083	-
Operating travel and training	6,854	7,430
Association dues	8,172	8,242
Settlement claims	45,848	30,000
License renewal	560	677
Tennessee One Call System	13,478	13,307
Recording fee for easements	542	377
Miscellaneous	22,353	15,717
PSLP expense -		
Telephone	-	34
Repairs and maintenance	1,483,813	1,579,360
Personnel costs	231,754	183,907
Recording fee for easements	30,527	33,204

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY**

SCHEDULES OF OPERATING EXPENSES

Years Ended June 30, 2013 and 2012

	2013	2012
PSLP expense - continued		
Legal services	\$ 57,863	\$ -
Office expense	2,211	7,974
Engineering studies	980	-
Postage	9,625	350
Amortization	13,075	6,300
Inspection expenses	<u>114</u>	<u>36</u>
	<u>\$ 8,839,629</u>	<u>\$ 8,166,302</u>

**HAMILTON COUNTY WATER & WASTEWATER
TREATMENT AUTHORITY**

SCHEDULE OF WASTEWATER RATES

June 30, 2013

The following monthly wastewater rates were in effect as of June 30, 2013:

Gallons/Month	Cost/1,000 Gallons
First 100,000	\$ 6.43
Next 650,000	\$ 4.72
Next 1,250,000	\$ 3.79
Over 2,000,000	\$ 2.72

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

Water Meter Size	Minimum Gallons	Minimum Bill
Less than 1"	2,000	\$ 12.86
1"	14,301	\$ 91.96
1-1/2"	32,007	\$ 205.81
2"	56,671	\$ 364.39
3"	132,841	\$ 854.17
4"	245,494	\$ 1,578.53
6"	584,729	\$ 3,759.81
8"	1,034,280	\$ 6,650.42

The minimum monthly bill for Red Bank rates as of June 30, 2013, are as follows:

Water Meter Size	Minimum Gallons	Minimum Bill
Less than 1"	1,500	\$ 14.77
1"	13,000	\$ 104.91
1-1/2"	30,000	\$ 237.30
2"	50,000	\$ 399.94
3"	120,000	\$ 950.94
4"	220,000	\$ 1,744.98
6"	530,000	\$ 4,188.49
8"	940,000	\$ 7,421.83

Each customer shall pay monthly according to the following rates:

- (a) For the first 1,500 gallons or less, a minimum charge of \$14.77.
- (b) For all over 1,500 gallons, a charge of \$7.71 per 1,000 gallons. [4,000 gallons = \$14.77 + ((4.0-1.5) x \$7.71) = \$34.05].
- (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

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

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

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

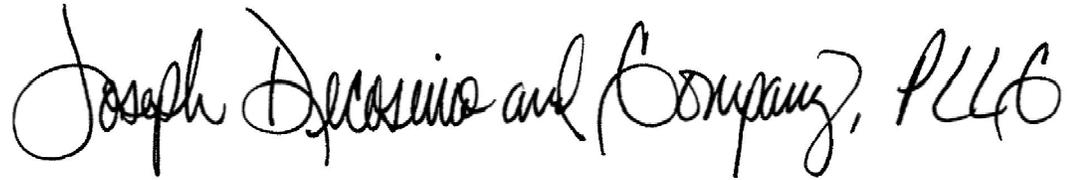
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Chattanooga, Tennessee
January 17, 2014