

**HAMILTON COUNTY WATER &
WASTEWATER TREATMENT AUTHORITY**

FINANCIAL REPORT

JUNE 30, 2015

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY

FINANCIAL REPORT

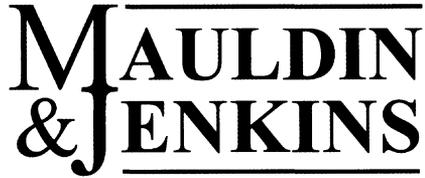
JUNE 30, 2015

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ROSTER OF THOSE CHARGES WITH GOVERNANCE AND MANAGEMENT OFFICIALS

Cherie Jewell, WWTa Chair
Cleveland Grimes, WWTa Executive Chair
Bill McGriff, WWTa Treasurer
Chris Clem, Attorney
Commissioner Jim Adams, Soddy Daisy
Commissioner Peter Avisto, County Appointee
Commissioner Rick Causer, Red Bank
Commissioner Billy Cooper, Ridgeside
Commissioner Dick Gee, Signal Mountain
Commissioner Walker Jones, Lookout Mountain
Commissioner John McPherson, Lakesite
Commissioner Mike Moon, County Appointee
Commissioner Don Seagle, East Ridge
Commissioner Ed Watt, County Appointee



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the **Hamilton County Water & Wastewater Authority** (the "Authority"), a component unit of Hamilton County, Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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.

Auditor's 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 that 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 the Hamilton County Water & Wastewater Treatment Authority as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the 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 GASB who considers it to be an essential part of the 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of actual to budget comparison and schedule of wastewater rates are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of actual to budget comparison and schedule of wastewater rates have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Chattanooga, Tennessee
December 14, 2015

Hamilton County Water & Wastewater Treatment Authority
(A Component Unit of Hamilton County, Tennessee)
STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 6,652,921
Cash and cash equivalents- restricted	5,176,822
Receivables, net of allowance for uncollectibles:	
Accounts	2,889,752
PSLP receivable	763,911
Prepaid expenses	1,302
Inventory	74,710
Total current assets	<u>15,559,418</u>
 NON-CURRENT ASSETS	
Loan reserve- restricted	<u>386,261</u>
 CAPITAL ASSETS	
Cost of plant in service	125,250,712
Land improvements	11,829
Buildings	151,991
Machinery and equipment	1,148,893
Automobiles	883,901
Other assets	195,735
Construction in progress	3,580,450
Less accumulated depreciation	<u>(36,806,720)</u>
Capital assets, net	<u>94,416,791</u>
 Total assets	 <u>110,362,470</u>

See Notes to Financial Statements.

LIABILITIES	
CURRENT LIABILITIES	
Due to Hamilton County, Tennessee	341,201
Due to other governments	787,664
Accounts Payable	510,980
Accrued interest	132,097
Reserve for overflow	67,854
Current portion of long-term debt	907,024
Current portion of advance from Hamilton County, Tennessee	330,000
Total current liabilities	<u>3,076,820</u>
 NON-CURRENT LIABILITIES	
Long-term debt, net	10,966,244
Advance from Hamilton County, Tennessee	13,265,000
Total non-current liabilities	<u>24,231,244</u>
 Total liabilities	 <u>27,308,064</u>
 DEFERRED INFLOWS OF RESOURCES	
Difference from bond refunding	<u>197,895</u>
 NET POSITION	
Net investment in capital assets	68,948,523
Restricted	6,326,994
Unrestricted	7,580,994
Total net position	<u>82,856,511</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	 <u><u>\$ 110,362,470</u></u>

Hamilton County Water & Wastewater Treatment Authority
(A Component Unit of Hamilton County, Tennessee)
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2015

Operating revenues:	
Sewer revenue	\$ 13,226,461
PSLP revenue	2,668,212
Grinder pump revenue	138,540
Inspection fees	28,516
Other income	378,115
Total operating revenues	16,439,844
Operating expenses:	
Personnel costs	1,667,839
Wheelage and treatment service	3,562,378
Depreciation	3,415,586
PSLP expense	685,042
PSLP depreciation	72,129
Other operating expense	1,864,543
Total operating expenses	11,267,517
Total operating income	5,172,327
Non-operating revenues (expenses):	
Interest income	17,394
Tap on fees	376,500
Loss on sale of capital assets	(329,257)
Interest expense	(553,930)
Total non-operating revenues (expenses), net	(489,293)
Income before capital contributions	4,683,034
Capital contributions	3,110,491
Change in net position	7,793,525
Net position, beginning of year	75,062,986
Net position, end of year	\$ 82,856,511

See Notes to Financial Statements.

Hamilton County Water & Wastewater Treatment Authority
(A Component Unit of Hamilton County, Tennessee)
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015

Cash flows from operating activities	
Cash receipts from customers	\$ 15,299,622
Payments to suppliers	(6,321,732)
Payments to personnel	(1,676,022)
Net cash provided by operating activities	<u>7,301,868</u>
 Cash flows from capital and related financing activities	
Purchases of capital assets	(3,092,428)
Proceeds from sale of capital assets	75,838
Proceeds from tap on fees	376,500
Principal payments on long-term borrowings	(1,209,565)
Interest paid on long-term debt	(578,657)
Net cash used in capital and related financing activities	<u>(4,428,312)</u>
 Cash flows from investing activities	
Interest received	<u>17,394</u>
Net cash provided by investing activities	<u>17,394</u>
Net change in cash and cash equivalents	2,890,950
 Cash and cash equivalents:	
Beginning of year	<u>8,938,793</u>
End of year	<u>\$ 11,829,743</u>
 Classified as:	
Unrestricted cash and cash equivalents	\$ 6,652,921
Restricted cash and cash equivalents	5,176,822
	<u>\$ 11,829,743</u>

Hamilton County Water & Wastewater Treatment Authority
(A Component Unit of Hamilton County, Tennessee)
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 5,172,327
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	3,487,715
Amortization	654
Changes in assets and liabilities:	
Increase in accounts receivable	(814,321)
Increase in PSLP receivable- restricted	(325,901)
Decrease in prepaid expenses	29
Increase in inventory	(33,440)
Increase in amounts due other governments	9,594
Increase in accounts payable	60,520
Decrease in reserve for grinder pump maintenance	(268,211)
Increase in reserve for overflow	12,902
Net cash provided by operating activities	<u>\$ 7,301,868</u>

NONCASH INVESTING ACTIVITIES

Capital contributions of wastewater treatment capital assets	<u>\$ 3,110,491</u>
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See Notes to Financial Statements.

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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 (the "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, 2015, Hamilton County, the City of Lakesite, 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 mayor 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. 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 service lateral program ("PSLP") fees 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
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF FINANCIAL STATEMENT PRESENTATION - continued

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: net investment in capital assets; 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 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 net investment in capital assets. 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 net investment in capital assets. 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.

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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.

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 2015 financial statements include 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. During the year ended June 30, 2015, the Authority capitalized \$145,483 of interest 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.

OPERATING AND NONOPERATING REVENUES - Operating revenues and expenses reported in the Authority's financial statements include activities related to the primary, continuing operations of the Authority. Other revenues are classified as non-operating in the financial statements.

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.

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 2 - FORMATION AND OPERATION OF THE AUTHORITY - continued

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.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following as of June 30, 2015:

Trade receivables	\$2,889,752
PSLP receivables	\$ 763,911

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, 2015. All accounts or portions thereof considered uncollectible are written off to bad debt expense.

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 4 - RESTRICTED NET POSITION

The Authority's restricted net position as of June 30, 2015 consist of the following:

Cash and cash equivalents – Private Lateral Service Program	\$5,176,822
Red Bank unapplied reserve	\$ 103,517
State Revolving Loan Fund unapplied reserve	\$ 282,744
Receivable – Private Lateral Service Program	<u>\$ 763,911</u>
Total	<u>\$6,326,994</u>

NOTE 5 - DUE TO HAMILTON COUNTY, TENNESSEE

The amounts due to Hamilton County, Tennessee, as of June 30, 2015 totaled \$341,201. 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 amount due to other governments represents amounts owed to the City of Chattanooga for wheel age and treatment expenses as of June 30, 2015, in the amounts of \$787,664.

NOTE 7 - CAPITAL ASSETS

A summary of the changes in capital assets for the year ended June 30, 2015, is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Retirements & Transfers</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 4,341,310	\$ 2,630,294	\$ (3,391,154)	\$ 3,580,450
Capital assets, being depreciated:				
Cost of plant in service	118,992,711	3,353,892	2,904,109	125,250,712
Land improvements	11,829	-	-	11,829
Buildings	151,991	-	-	151,991
Machinery and equipment	1,001,052	157,824	(9,983)	1,148,893
Software	134,826	60,909	-	195,735
Automobiles	883,901	-	-	883,901
Total	<u>121,176,310</u>	<u>3,572,625</u>	<u>2,894,126</u>	<u>127,643,061</u>
Less accumulated depreciation for:				
Cost of plant in service	(32,037,886)	(3,243,437)	82,119	(35,199,204)
Land improvements	(3,913)	(677)	-	(4,590)
Buildings	(54,653)	(6,350)	-	(61,003)
Machinery and equipment	(512,741)	(169,944)	9,814	(672,871)
Software	(72,414)	(19,787)	-	(92,201)
Automobiles	(729,331)	(47,520)	-	(776,851)
Total	<u>(33,410,938)</u>	<u>(3,487,715)</u>	<u>91,933</u>	<u>(36,806,720)</u>
Total capital assets, being depreciated, net	<u>87,765,372</u>	<u>84,910</u>	<u>2,986,059</u>	<u>90,836,341</u>
Total capital assets, net	<u>\$ 92,106,682</u>	<u>\$ 2,715,204</u>	<u>\$ (405,095)</u>	<u>\$ 94,416,791</u>

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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 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 position.

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 \$158,150 as of June 30, 2015.

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, 2015 was \$169,798.

(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, 2015 was \$2,342,222.

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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. 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, 2015, \$372,598 had been disbursed.

A summary of the changes in long-term debt for the year ended June 30, 2015, is as follows:

	June 30, 2014	Additions	Deductions	June 30, 2015	Amounts Due in One Year
Advances from Hamilton County					
\$6.5 million bond	\$ 6,500,000	\$ -	\$ -	\$ 6,500,000	\$ -
\$10 million bond	7,415,000	-	320,000	7,095,000	330,000
Collegedale bond payable	181,863	-	23,713	158,150	24,331
State of Tennessee Revolving Loan					
Fund - Red Bank	2,738,450	-	396,228	2,342,222	411,360
State of Tennessee Revolving Loan					
Fund	372,598	-	-	372,598	-
Red Bank 1996 bond payable	269,507	-	99,709	169,798	101,418
Premium on bond payable	11,624	-	4,359	7,265	-
Revenue Refunding Bond Series 2011	9,200,454	-	369,915	8,830,539	369,915
Discount on bond payable	(7,958)	-	(654)	(7,304)	-
Total long-term debt	<u>\$ 26,681,538</u>	<u>\$ -</u>	<u>\$ 1,213,270</u>	<u>\$ 25,468,268</u>	<u>\$ 1,237,024</u>

Debt service requirements for the years subsequent to June 30, 2015, are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2016	1,237,024	708,322	1,945,346
2017	1,255,654	658,688	1,914,342
2018	1,234,258	608,577	1,842,835
2019	1,287,457	557,128	1,844,585
2020	1,346,191	504,142	1,850,333
2021-2025	4,823,531	1,962,187	6,785,718
2026-2030	7,041,594	668,593	7,710,187
2031-2032	742,598	62,907	805,505
Total	<u>\$ 18,968,307</u>	<u>\$ 5,730,544</u>	<u>\$ 24,698,851</u>

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 8 - LONG-TERM DEBT - continued

The debt service requirement schedule on the previous page does not include any payments on the \$6,500,000 advance from Hamilton County. Currently, there is no debt service requirement for the repayment of the advance.

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, 2015, 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, 2015 totaled \$5,238.

HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 12 - 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 3,600 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 outlays for infrastructure construction totaled \$6,697,596 as of June 30, 2015. The Authority has acquired property with suspected pollution that was expected to be remediated. The remediation activities have been delayed while awaiting another governmental entity to approve the pollution remediation plan. Therefore, the remediation outlays will be capitalized as the costs are incurred.

NOTE 13 - 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 \$12 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.

The Authority is also negotiating with a construction company to settle a matter over additional billings by the construction company. The Authority estimates the claim to be settled with a range of loss between \$0 and approximately \$200,000.

SUPPLEMENTARY SCHEDULES

Hamilton County Water & Wastewater Treatment Authority
(A Component Unit of Hamilton County, Tennessee)
SCHEDULE OF ACTUAL TO BUDGET COMPARISON
YEAR ENDED JUNE 30, 2015

	<u>2015</u> <u>Actual</u>	<u>2015</u> <u>Budget</u>	<u>Variance</u>	<u>% Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
Operating revenues:				
Sewer revenues	\$ 13,226,461	\$ 12,724,124	\$ 502,337	4%
PSLP revenue	2,668,212	2,371,835	296,377	12%
Grinder pump revenue	138,540	86,000	52,540	61%
Inspection fees	28,516	25,000	3,516	14%
Total operating revenues	<u>16,061,729</u>	<u>15,206,959</u>	<u>854,770</u>	6%
PSLP expense	685,042	1,842,701	1,157,659	63%
Operating expense	7,094,760	8,080,734	985,974	12%
Depreciation	3,487,715	3,486,507	(1,208)	0%
Other income	<u>378,115</u>	<u>93,060</u>	<u>285,055</u>	306%
Total operating income	<u>5,172,327</u>	<u>1,890,077</u>	<u>3,282,250</u>	174%
Nonoperating revenues (expenses)				
Interest income	17,394	4,000	13,394	335%
Tap on fees	376,500	600,000	(223,500)	-37%
Loss on disposal of capital assets	(329,257)	-	(329,257)	100%
Interest expense	<u>(553,930)</u>	<u>(712,036)</u>	<u>(158,106)</u>	22%
Total nonoperating revenues (expenses)	<u>(489,293)</u>	<u>(108,036)</u>	<u>(381,257)</u>	-353%
Capital contributions	<u>3,110,491</u>	<u>2,159,355</u>	<u>951,136</u>	44%
Change in net position	<u>\$ 7,793,525</u>	<u>3,941,396</u>	<u>3,852,129</u>	98%

Hamilton County Water & Wastewater Treatment Authority
(A Component Unit of Hamilton County, Tennessee)
SCHEDULE OF ACTUAL TO BUDGET COMPARISON
YEAR ENDED JUNE 30, 2015

	2015 Actual	2015 Budget	Variance	% Variance Favorable (Unfavorable)
Expenses				
Personnel costs	\$ 1,661,090	\$ 1,822,385	\$ 161,295	9%
Uniform expense	6,749	5,000	(1,749)	-35%
Travel, training and meetings	8,960	12,000	3,040	25%
Repairs and maintenance	92,322	85,000	(7,322)	-9%
Auto expense	91,643	103,750	12,107	12%
Comcast	2,761	2,500	(261)	-10%
Telephone	52,804	58,500	5,696	10%
Electricity	194,796	199,000	4,204	2%
Natural gas	2,934	3,000	66	2%
Water	19,271	25,500	6,229	24%
Sewer fees	185	192	7	4%
Grinder pump repair	(268,203)	30,000	298,203	994%
Wheelage and treatment	3,562,368	4,725,000	1,162,632	25%
Sludge hauling	68,298	73,500	5,202	7%
Tenn one call system	12,918	10,500	(2,418)	-23%
Cost of grinder pumps	139,260	84,058	(55,202)	-66%
Inspection expenses	8,772	38,000	29,228	77%
Engineering studies	17,192	10,000	(7,192)	-72%
Permits	6,670	6,670	-	0%
Recording fee for easements	565	1,000	435	44%
Odor control	207,617	175,000	(32,617)	-19%
D&O insurance	5,238	5,800	562	10%
Property insurance	11,990	14,200	2,210	16%
Operating - miscellaneous	-	500	500	100%
Legal services	218,821	86,000	(132,821)	-154%
Other professional services	13,952	40,000	26,048	65%
Accounting and auditing	32,000	32,000	-	0%
Amortization - bond issue	654	654	-	0%
Bank charges	8,969	13,750	4,781	35%
Advertising	2,604	2,500	(104)	-4%
Board meetings	4,958	5,000	42	1%
Office expense	53,611	60,000	6,389	11%
Postage	2,138	3,000	862	29%
Billing expense	267,670	250,000	(17,670)	-7%
Collections expense	11,367	-	(11,367)	-100%
Settlement claims	31,505	30,000	(1,505)	-5%
Association dues	18,982	8,200	(10,782)	-131%
Office rent	21,508	24,000	2,492	10%
Parking	16,130	19,775	3,645	18%
License renewal	1,621	800	(821)	-103%
TAW shut on/off	50,730	14,000	(36,730)	-262%
Bad debt expense	431,340	-	(431,340)	-100%
PSLP expense:				
Repairs and maintenance	577,155	1,500,000	922,845	62%
Personnel costs	97,567	234,095	136,528	58%
TN one call system	1,149	2,000	851	43%
Legal service	49,947	42,000	(7,947)	-19%
Office expense	500	9,500	9,000	95%
Postage	173	-	(173)	-100%
SLP expense:				
Postage	157	5,866	5,709	97%
Recording easements	(41,606)	44,940	86,546	193%
TN one call system	-	4,300	4,300	100%
Total expenses	\$ 7,779,802	\$ 9,923,435	\$ 2,143,633	22%

Hamilton County Water & Wastewater Treatment Authority
(A Component Unit of Hamilton County, Tennessee)
SCHEDULE OF WASTEWATER RATES
YEAR ENDED JUNE 30, 2015

The following monthly wastewater rates were in effect as of June 30, 2015:

Gallons/Month	Cost/1,000 Gallons
First 100,000	\$ 7.77
Next 650,000	\$ 5.77
Next 1,250,000	\$ 4.69
Over 2,000,000	\$ 3.96

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

Water Meter Size	Minimum Gallons	Minimum Bill
Less than 1"	2,057	\$ 15.98
1"	12,822	\$ 99.63
1-1/2"	28,697	\$ 222.97
2"	50,811	\$ 394.80
3"	125,727	\$ 925.44
4"	261,740	\$ 1,710.24
6"	671,321	\$ 4,073.52
8"	1,320,967	\$ 7,205.34

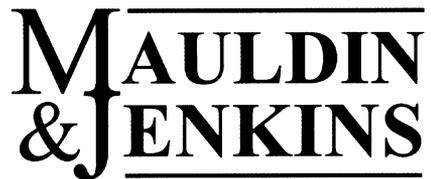
The minimum monthly bill for Red Bank rates as of June 30, 2015, are as follows:

Water Meter Size	Minimum Gallons	Minimum Bill
Less than 1"	1,500	\$ 17.89
1"	11,963	\$ 112.58
1-1/2"	27,460	\$ 254.46
2"	47,076	\$ 430.35
3"	112,475	\$ 1,022.21
4"	206,892	\$ 1,876.69
6"	497,667	\$ 4,508.20
8"	880,932	\$ 7,976.75

Each customer shall pay monthly according to the following rates

- (a) For the first 1,500 gallons or less, a minimum charge of \$17.89
- (b) For all over 1,500 gallons, a charge of \$9.055 per 1,000 gallons
- (c) City of Red Bank owned buildings and properties shall be charged in accordance with (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 of the
Hamilton County Water & Wastewater Treatment Authority
Chattanooga, TN**

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 the Hamilton County Water & Wastewater Treatment Authority (the "Authority"), a component unit of Hamilton County, Tennessee, as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 14, 2015.

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 from 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.

Mauldin & Jenkins, LLC

Chattanooga, Tennessee
December 14, 2015

**HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY
(A Component Unit of Hamilton County, Tennessee)
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED June 30, 2015**

Section II – Financial Statement Findings and Responses

None noted

**HAMILTON COUNTY WATER & WASTEWATER TREATMENT AUTHORITY
(A Component Unit of Hamilton County, Tennessee)**

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED June 30, 2015**

Section III – Federal Awards Findings and Questioned Costs

Not Applicable