

*ANDERSON COUNTY WATER AUTHORITY  
Clinton, Tennessee*

*COMPREHENSIVE ANNUAL  
FINANCIAL REPORT*

*For the Years Ended  
June 30, 2010 and 2009*

*PREPARED BY:*

*David Carr, CPA  
WLC CPAs, PC*

*TECHNICAL ASSISTANCE PROVIDED BY:*

*John Sutton, CPA  
Bacon, Howard and Company, CPAs*

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*FINANCIAL REPORT*  
*June 30, 2010 and 2009*

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# **INTRODUCTORY SECTION**



**P. O. Box 70  
Clinton, Tennessee 37717**

**Anderson County Water Authority**

**(865) 457-3033**

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November 10, 2010

Board of Commissioners of  
Anderson County Water Authority  
Clinton, Tennessee

State law and the Comptroller of the Treasury, State of Tennessee, requires that every political subdivision or municipal corporation publish within six months of the close of each fiscal year-end, a complete set of audited financial statements. This Comprehensive Annual Financial Report (CAFR) of the Anderson County Water Authority (the Authority) is published to fulfill these requirements for the fiscal years ended June 30, 2010 and 2009.

#### Internal Controls

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatements.

#### Comprehensive Annual Financial Report

The CAFR is presented in four sections: Introductory, Financial, Required Supplementary, Other Supplementary, Statistical and Internal Control and Compliance. The Introductory Section includes this Letter of Transmittal, a Roster of Authority Officials and Others, and our Organizational Chart. The Financial Section includes the Independent Auditor's Report, Management's Discussion and Analysis (MD&A), Basic Financial Statements and Notes. The other sections include Required Supplementary Information, Other Supplementary Information and the Statistical Section which provides selected multi-year unaudited financial information.

### Independent Audit

Bacon, Howard and Company, CPAs have issued an unqualified (“clean”) opinion on the Authority’s financial statements for the years ended June 30, 2010 and 2009. As stated in the independent auditor’s report, the audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. The independent auditor’s report is located at the front of the financial section of this report.

### Management’s Discussion and Analysis (MD&A)

Generally Accepted Accounting Principles require that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of MD&A. The Letter of Transmittal is designed to complement MD&A and should be read in conjunction with it. The Authority’s MD&A can be found immediately following the Independent Auditor’s Report.

### Profile of the Authority

The Authority was created by the Tennessee General Assembly Private Act No. 40 and approved by the Anderson County Commission on July 16, 2007. The Authority started organizing activities on July 16, 2007, and began significant operations on January 1, 2009. The purpose of the Authority is to “acquire, construct, improve, extend, operate, and maintain a water system.” The Authority serves 9,136 water and 1,063 wastewater customers in Anderson County. The Authority’s primary source of water is drawn from the Clinch River.

The Authority is governed by a Board of Commissioners composed of five citizens who live or own real estate within the territory. Board members are appointed by the Anderson County Mayor for a term of four years.

The Authority’s primary capital assets consists of two water treatment plants, one office building, one wastewater treatment plant, and sixteen water reservoir tanks.

The Authority receives no financial support from Anderson County, Tennessee and has no taxing authority. The Authority’s revenues are derived from water and wastewater charges based upon metered water consumption of customers. The water and wastewater rates are established by the Board of Commissioners.

### Budgeting

The Authority adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with GAAP. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contributions, grants, borrowings and certain revenues for capital projects.

### Local Economy

The Authority is located within the Knoxville Metropolitan Statistical Area (MSA) which includes Knox, Blount, Anderson, Sevier, Loudon and Union Counties. The Knoxville MSA is also the trade center for several counties in East Tennessee, and parts of Kentucky, Virginia and North Carolina.

For June 2010, the unemployment rates according to the U.S. Bureau of Labor Statistics for Anderson County, Tennessee, and the Nation were 9.4%, 10.0% and 9.6%, respectively.

Per capita income in 2009 for Anderson County, Tennessee, and the Nation was \$28,780, \$34,245, and \$39,626, respectively.

The Knoxville MSA has several large employers including the Tennessee Valley Authority, U.S. Department of Energy, Alcoa Aluminum, several hospitals, Clayton Homes, Denso, the University of Tennessee, and several regional shopping malls and centers.

### Long-Term Financial Planning

The Authority has projected a 2% annual increase in the number of customers over the next several years. The Authority is planning several capital improvements including upgrading water and sewer lines, pump stations, and building additional water lines to provide new water service to various areas.

The financing of the Authority's capital improvements is by internally generated cash flows and the issuance of long-term debt.

### Relevant Financial Policies

The combination of continued customer growth and moderate rate increases are projected to provide the Authority with adequate resources to provide for the delivery of water and wastewater services and for capital improvements.

### Major Initiatives

In September 2010, the Board of Commissioners tentatively approved plans to refinance our Series 2008 Bonds and issue \$2.7 million in additional debt to provide financing to replace all water meters with the “radio read” electronic meters that should result in substantial long-term cost savings to the Authority. Also, part of the bond proceeds will be used to construct a new reservoir, new pump station, and make other system improvements. In addition, the Authority plans to extend water service to Park Road which could add 200 additional water customers.

### Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting. In order to be awarded a Certificate of Achievement, the Authority must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of only one year. We believe that our current comprehensive annual financial report will meet the Certificate of Achievement Program’s requirements and are submitting it to the GFOA to determine its eligibility for the award.

### Acknowledgments

The preparation of this CAFR results from the combined efforts of our staff, accountant, and technical assistance provided by our independent auditors. Those involved have our sincere appreciation for the individual and collective contributions made in preparation of the report. Thank you very much for your professional dedication.



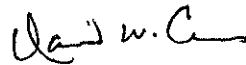
Board of Commissioners  
Anderson County Water Authority  
Page Five

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

Respectfully submitted,



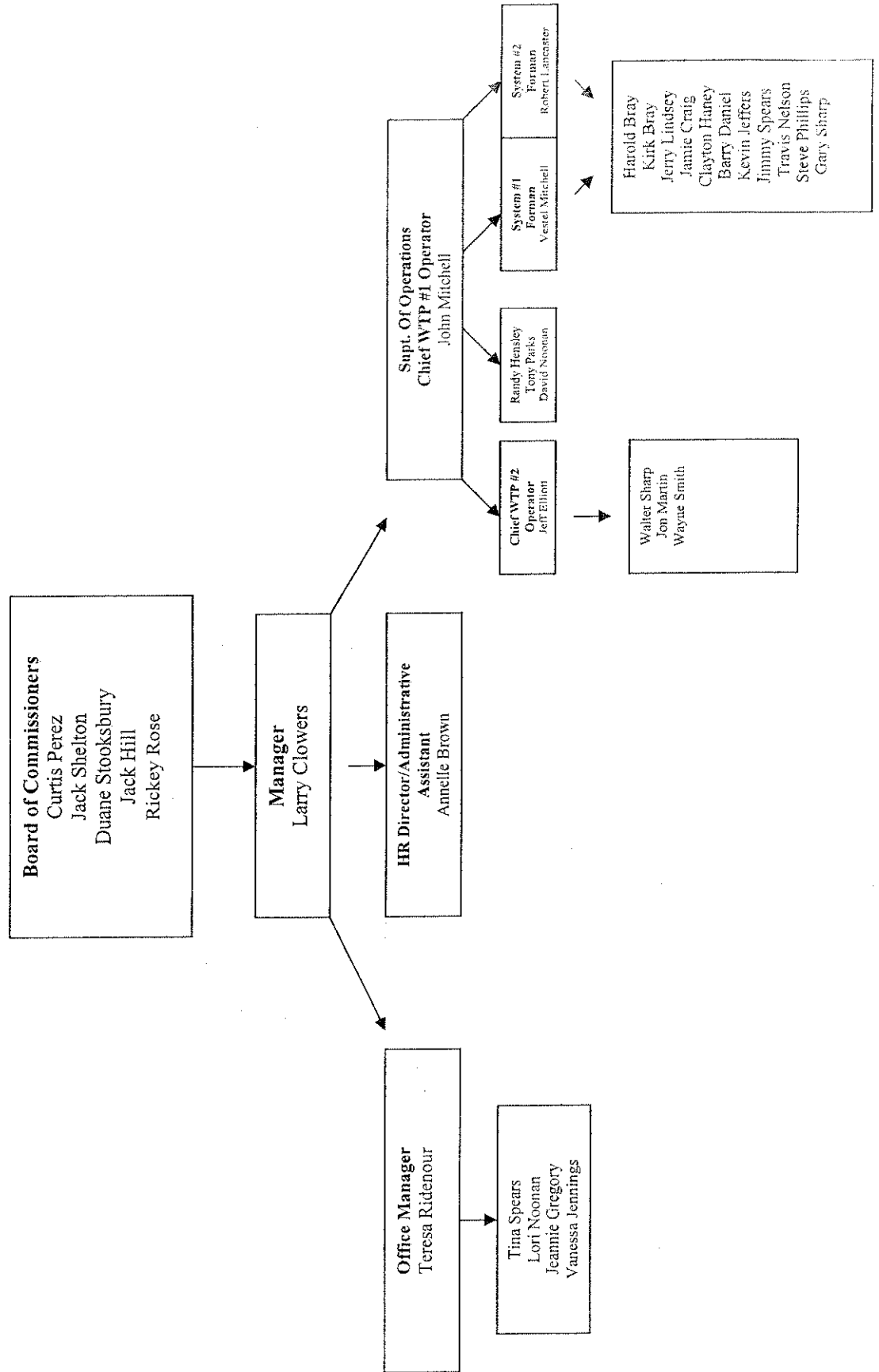
Larry Clowers  
General Manager



David Carr, CPA  
Accountant  
WLC CPAs, PC

# Anderson County Water Authority

## Organizational Chart June 2010



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*ANDERSON COUNTY WATER AUTHORITY*  
*ROSTER OF AUTHORITY OFFICIALS AND OTHERS*  
*June 30, 2010*

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<u>Board of Commissioners</u>	<u>Expiration of Term</u>
Zenith R. Rose, Chairman	September 30, 2011
Jack Shelton, Vice Chairman	September 30, 2011
Duane Stooksbury, Secretary	September 30, 2010
Jack D. Hill	September 30, 2012
Curtis Perez	September 30, 2013

Management

Larry Clowers, General Manager

Independent Auditor

John Sutton, CPA  
Bacon, Howard and Company, CPA's  
Knoxville, Tennessee

Accountant

David Carr, CPA  
WLC CPAs, PC  
Oak Ridge, Tennessee

Bond Counsel

Bass, Berry and Sims, PLC  
Attorneys at Law  
Nashville, Tennessee

General Counsel

C. Coulter Gilbert, Esquire  
Kennerly, Montgomery & Finley, PLLC  
Knoxville, Tennessee

Consulting Engineer

Robert G. Campbell  
Robert B. Campbell & Associates, LP  
Knoxville, Tennessee

# **FINANCIAL SECTION**



John W. Bacon, CPA

Calvin C. Howard, CPA

Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Anderson County Water Authority  
Clinton, Tennessee

We have audited the accompanying balance sheets of Anderson County Water Authority (the Authority) as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Anderson County Water Authority as of June 30, 2010 and 2009, and changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 10, 2010, on our consideration of the Authority's internal control over financial reporting and 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 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.

Accounting principles generally accepted in the United States of America, require that the Management's Discussion and Analysis on pages 3 through 12, the Schedule of Employer Pension Contributions on page 51, and the Schedule of Employer Pension Funding Progress on page 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The introductory, supplementary, and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary section is the responsibility of management and was derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections 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.

*Bacon Howard and Company*

Knoxville, Tennessee  
November 10, 2010

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of Anderson County Water Authority's (the Authority) financial condition and results of operations for the years ending June 30, 2010, 2009, and 2008. This information should be read in conjunction with the accompanying financial statements.

The Authority was created on July 16, 2007, by the Anderson County Commission and significant operations began on January 1, 2009. On July 10, 2008, the Board of Commissioners for the North Anderson County Utility District (NACUD) and Anderson County Utilities Board (ACUB), a part of Anderson County, entered into a consolidation agreement to merge their operations into the Authority with an effective date of January 1, 2009.

### INDEPENDENT AUDIT

The unqualified opinion of our independent auditors, Bacon, Howard and Company, CPAs, is included in this report on pages 2 and 3.

### FINANCIAL HIGHLIGHTS

Management believes the Authority's financial position is strong and results of operations continue to improve.

The Authority maintained good debt service coverage and was in compliance with all debt covenants. Fiscal year 2010 was for twelve months of operations and 2009 was for six months of operations. The following are key financial highlights:

- The Authority sold 659 and 314 million gallons of water in 2010 and 2009.
- Total assets at June 30, 2010 and 2009 were \$20,247,607 and \$20,565,569, and exceeded liabilities (net assets) by \$15,851,606 and \$16,041,347, respectively. Of the total net assets, \$2,646,678 and \$2,630,990 were unrestricted and were available to support short-term operations for 2010 and 2009. Net assets increased (decreased) in 2010 by \$(189,741) and in 2009 by \$16,026,524. The 2009 increase was due to the consolidation of North Anderson County Utility District (NACUD) and Anderson County Utilities Board (ACUB), a part of Anderson County, operations resulting in \$16,402,621 in capital contributions.
- Operating revenues were \$4,604,572 and \$2,324,329 for 2010 and 2009.
- Operating expenses before depreciation were \$3,753,702 and \$2,146,187 for 2010 and 2009.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### FINANCIAL HIGHLIGHTS (Continued)

- Operating income (loss) was \$(50,605) and \$(258,205) for 2010 and 2009.
- The ratios of operating income (loss) to total operating revenues were (1.1)% for 2010 and (11.1)% for 2009.
- Debt service coverage was 216% for 2010 and 80% for 2009.
- Cash capital contributions for 2010 and 2009 were \$145,000 and \$2,988,916, respectively. Noncash contributions were \$13,413,705 in 2009. The 2009 capital contributions were related to the merger.

### OVERVIEW OF THE ANNUAL FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's budget, bond resolutions and other management information were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities.

The financial statements include a balance sheet; a statement of revenues, expenses and changes in net assets; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the Authority on a full accrual basis of accounting. While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs.

The statement of cash flows presents cash receipt and cash disbursement information and changes in cash and cash equivalents resulting from operational, financing and investing activities.



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

### **OVERVIEW OF THE ANNUAL FINANCIAL STATEMENTS (Continued)**

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The supplementary information provides information on debt service requirements, insurance coverage and schedule of water rates and statistics.

The internal control and compliance section includes the auditor’s report on the Authority’s internal controls and compliance. Also included is the auditor’s schedule of audit findings and recommendations.

### **SUMMARY OF ORGANIZATION AND BUSINESS**

The Authority was created under the authority of the Tennessee General Assembly Private Act No. 40 and approved by the Anderson County Commission on July 16, 2007. The Authority began significant operations on January 1, 2009. The purpose of the Authority is to “acquire, construct, improve, extend, operate, and maintain a water system” in the unincorporated areas of Anderson County. The Authority serves approximately 9,136 water customers and 1,063 wastewater customers in Anderson County. The Authority’s primary source of water is drawn from the Clinch River that forms Norris and Melton Hill lakes.

The Authority is governed by a Board of Commissioners composed of five citizens who live or own real estate within the Authority. All Board members are appointed by the Anderson County Mayor for a term of four years.

The Authority's main capital assets consist of approximately 422 miles of water lines, two water treatment plants, one office building, one wastewater treatment facility, and 16 water reservoir tanks.

The Authority receives no financial support from Anderson County, Tennessee and has no taxing authority. The Authority's revenues are derived from water charges based upon metered water consumption of customers. The water and wastewater rates are established by the Board of Commissioners.

### **FINANCIAL ANALYSIS**

The following comparative condensed financial statements and other selected information provides key financial data and indicators for management, monitoring, and planning. Net assets may serve over time as a useful indicator of the Authority’s financial position.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### FINANCIAL ANALYSIS (Continued)

Condensed Balance Sheets  
(In Thousands of Dollars)  
June 30, 2010, 2009 and 2008

	2010	2009	2008
<b>ASSETS</b>			
Current Assets	\$ 2,945	\$ 3,492	\$ 15
Capital Assets:			
Producing – Net	17,191	16,947	-
Construction in Progress	-	3	-
Other Assets – Net	111	123	-
<b>TOTAL ASSETS</b>	<b>\$ 20,247</b>	<b>\$ 20,565</b>	<b>\$ 15</b>
<b>LIABILITIES</b>			
Current Liabilities	\$ 544	\$ 539	\$ -
Bonds Payable – Net of Current Portion	3,852	3,985	-
Total Liabilities	4,396	4,524	-
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	13,135	12,765	-
Restricted for:			
Debt Service	25	18	-
Capital Activity	45	627	-
Unrestricted	2,646	2,631	15
Total Net Assets	15,851	16,041	15
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 20,247</b>	<b>\$ 20,565</b>	<b>\$ 15</b>

The largest portion of the Authority's net assets reflects its investment in capital assets, less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to repay long-term debt.

The unrestricted net assets may be used to meet the obligations to employees and creditors and provide current operating resources.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### FINANCIAL ANALYSIS (Continued)

Condensed Statements of Revenues, Expenses  
and Changes in Net Assets  
(In Thousands of Dollars)  
For The Years Ended June 30, 2010 and 2009 and the  
Period of Inception July 16, 2007 to June 30, 2008

	<u>2010</u> (12 Months)	<u>2009</u> (Six Months)	<u>2008</u>
<b>Operating Revenues</b>			
Water – Net	\$ 3,895	\$ 1,874	\$ -
Wastewater – Net	578	339	-
Connection Fees	51	11	-
Customer Forfeited Discounts	33	41	-
Tap Fees	41	16	-
Other Charges and Fees	7	43	-
	<hr/>	<hr/>	<hr/>
Total Operating Revenues	4,605	2,324	-
	<hr/>	<hr/>	<hr/>
<b>Operating Expenses</b>			
Water Treatment, Transmission and Distribution	2,403	1,403	-
Wastewater Treatment	450	246	-
Customer Billing and Accounting	190	119	-
General and Administrative	712	378	5
Depreciation	901	436	-
	<hr/>	<hr/>	<hr/>
Total Operating Expenses	4,656	2,582	5
	<hr/>	<hr/>	<hr/>
<b>Operating Income (Loss)</b>	(51)	(258)	(5)
	<hr/>	<hr/>	<hr/>
<b>Non-Operating Revenues (Expenses)</b>			
Gain (Loss) on Disposal of Capital Assets	(16)	10	-
Investment Income	15	20	-
Interest (Expense)	(283)	(148)	-
	<hr/>	<hr/>	<hr/>
Total Non-Operating Revenues (Expenses) – Net	(284)	(118)	-
	<hr/>	<hr/>	<hr/>
Increase (Decrease) in Net Assets Before Capital Contributions	(335)	(376)	(5)
	<hr/>	<hr/>	<hr/>
<b>Capital Contributions</b>			
Cash	145	2,989	20
Non-Cash	-	13,413	-
	<hr/>	<hr/>	<hr/>
Total Capital Contributions	145	16,402	20
	<hr/>	<hr/>	<hr/>
Increase (Decrease) in Net Assets	(190)	16,026	15
	<hr/>	<hr/>	<hr/>
Net Assets, Beginning of Year	16,041	15	-
	<hr/>	<hr/>	<hr/>
Net Assets, End of Year	\$ 15,851	\$ 16,041	\$ 15
	<hr/>	<hr/>	<hr/>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### OTHER SELECTED INFORMATION

#### Selected Data:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Employees at Year-End	28.5	28.5	-
Average Employees	28.5	28.5	-
Customers at Year-End:			
Water	9,136	8,990	-
Wastewater	1,063	1,089	-
Water (Millions of Gallons)			
Treated and Purchased	1,015	495	-
Sold	659	314	-
Per Average Employee:			
Operating Revenues	\$ 161,564	\$ 81,555	\$ -
Operating Expenses	163,340	90,615	-
Realized Rate per 1,000 Gallons of Water Consumed:	6.01	6.00	-
Ratio of Operating Revenues to:			
Operating Expenses	.99	.90	-
Operating Expenses – Net of Depreciation	1.23	1.08	-
Total Assets	.23	.11	-
Net Assets	.29	.15	-
Debt Related Ratios:			
Long-Term Debt to Net Assets	.24	.28	-
Long-Term Debt to Total Assets	.19	.20	-
Operating Coverage	2.16	.80	-

### GENERAL TRENDS AND SIGNIFICANT EVENTS

Customer growth in the Authority has remained strong over the last several years, especially in the eastern area of the district primarily in the Andersonville and Bethel area near I-75.

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

### **FINANCIAL CONDITION**

The Authority's financial condition remained strong at year-end with adequate current assets and a reasonable level of unrestricted net assets. The current financial condition, staff capabilities, operating plans and upgrade plans to meet future water quality requirements are well balanced and under control.

Accounts receivable, at year-end 2010 and 2009 was \$651,442 and \$520,722. At 2010 and 2009 year-end, 66% and 70% of accounts receivable were current within 30 days. The Authority's provision for bad debt expense was \$30,021 and \$72,501 for 2010 and 2009.

### **RESULTS OF OPERATIONS**

#### **Operating Revenues**

Revenues from operations fall into three general categories: water and wastewater service and ancillary charges. Ancillary charges include connection fees, account set up and customer forfeited discounts, and charges for miscellaneous billed services. The Authority has two classes of customers based upon the former NACUD and ACUB territories. Over a period of several years and customer rate adjustments, the Authority will merge the two classes of customers into one.

There was no increase in water rates during 2010 and 2009.

The average realized rate from water sales was \$6.01 and \$6.00 per thousand gallons in 2010 and 2009.

#### **Capital Contributions**

The Authority collects water connection fees in order to ensure that current customers do not bear the burden of growth. These fees are paid by new customers and represent the cost of water capacity of the new customer. These fees are paid at the time a new water customer is connected to the system. In addition, the Authority accepts new water lines that are donated by residential and commercial real estate developers.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### RESULTS OF OPERATIONS (Continued)

#### Capital Contributions (Continued)

Capital contributions during 2010, 2009, and 2008, consisted of the following:

	<u>2010</u>		<u>2009</u>		<u>2008</u>
Cash:					
Anderson County	\$ 45,000	\$	-	\$	-
BWXT Y-12, LLC	100,000		-		-
ACUB – Anderson County (Merger)	-		1,437,941		10,000
NACUD (Merger)	-		1,550,975		10,000
	<u>145,000</u>		<u>2,988,916</u>		<u>20,000</u>
Total Cash					
Non-Cash:					
ACUB – Anderson County (Merger)	-		10,249,683		-
NACUD (Merger)	-		3,164,022		-
	<u>-</u>		<u>13,413,705</u>		<u>-</u>
Total Non-Cash					
Total	\$ <u>145,000</u>	\$	\$ <u>16,402,621</u>	\$	\$ <u>20,000</u>

#### Expenses

Operating expenses, excluding depreciation, increased by \$1,607,515 in 2010, \$2,577,334 in 2009, and \$5,200 in 2008. During 2010, the Authority had 12 months of significant operations vs. six months in 2009.

During 2010 and 2009, the Authority incurred the following additional estimated expenses related to the consolidation and merger of the two districts.

	<u>2010</u>		<u>2009</u>
Legal and Professional	\$ 10,000	\$	57,000
Computer Software and Consulting	35,000		42,000
Salaries and Benefits for Overtime	212,000		93,000
Materials and Supplies	-		109,000
Property and Casualty Insurance	-		58,000
	<u>-</u>		<u>58,000</u>
Total	\$ <u>257,000</u>	\$	\$ <u>359,000</u>

A majority of these additional costs are not expected in succeeding years.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CAPITAL ASSETS

The Authority is improving its water distribution and storage system to reduce water line loss and provide adequate capacity for future customer growth.

During 2010 and 2009, the Authority increased its capital assets before depreciation by \$1,158,160 and \$751,539. This increase is due to the following:

	2010	2009
Office Building and Land	\$ 690,627	\$ -
New River Line Extension Project	-	408,101
Norris Booster – Vowell Mt.	-	101,132
Other Water Line Improvements and Extensions	180,365	108,172
Water Plant Improvements	194,811	75,721
Vehicles and Equipment	43,625	50,225
Office Furniture and Equipment	48,732	8,188
Total	<u>\$ 1,158,160</u>	<u>\$ 751,539</u>

The Authority's capital asset activity for 2010 and 2009 is described in Notes 4 and 5 to the financial statements

### DEBT

At June 30, 2010 and 2009, the Authority had \$4,056,694 and \$4,185,233 in bonds payable.

During 2009, the Authority issued \$4,900,000 Series 2008 Revenue Term Bonds to retire \$4,316,835 in debt assumed from the consolidation and to provide financing for the construction of a new office building.

During 2010 and 2009, the Authority had \$283,081 and \$148,657 in interest expense.

The long-term debt to total assets ratio was .19 and .20 at year-end 2010 and 2009.

During 2009, the Authority incurred approximately \$359,000 in additional operating expenses due to the merger and resulted in debt service coverage ratio of .80. If the \$350,000 in additional merger related expenses had not been incurred, the debt service ratio for 2009 would have approximated 2.23.

More detailed information about the Authority's debt is described in Notes 9 and 10 to the financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### ECONOMIC FACTORS AND FISCAL YEAR 2011

- With the slowing of the economy the Authority does not anticipate any significant customer growth in the 2011 fiscal year. There are no plans for a rate increase during FY 2011.
- The current recession has caused labor rates to soften and the Authority is considering replacing some of the older, smaller water lines. This will be done if favorable material prices are received and will be financed by cash flows from current operations.
- Number of customers is projected to remain stable during 2011.
- Health insurance premiums are projected to remain stable during FY 2011.
- FY 2011 Budget:

Revenues	\$	4,876,500
Expenses		<u>4,801,500</u>
Income	\$	<u><u>75,000</u></u>

- The budget includes a 2% salary rate increase for employees during 2011.
- The Authority is planning a new bond issue with \$2.7 million in additional funding to replace all water meters with a "radio read" version with electronic meter reading which should result in significant long-term cost savings. Other capital improvements consist of a new water reservoir, pump station, and a water line extension to provide service to an additional 200 customers.

### CONTACTING THE AUTHORITY

This comprehensive annual financial report (CAFR) is designed to provide our customers, creditors and regulatory agencies with a general overview of the Authority's finances. If you have any questions about this report or need additional information, you may contact the Authority:

Mr. Larry Clowers, General Manager  
Anderson County Water Authority  
P.O. Box 70  
Clinton, TN 37716  
865-457-3033



**BASIC  
FINANCIAL  
STATEMENTS**

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*ANDERSON COUNTY WATER AUTHORITY*

*BALANCE SHEETS*

*June 30, 2010 and 2009*

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**ASSETS**

	<u>2010</u>	<u>2009</u>
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 1,987,336	\$ 2,105,050
Cash and Cash Equivalents – Restricted	41,223	61,862
Investments, at Fair Value	200,116	200,116
Investments, at Fair Value – Restricted	-	599,995
Accounts Receivable – Customers (Net of Allowance for Uncollectible Accounts of \$182,452 for 2010 and \$152,452 for 2009.)	638,186	502,775
Accounts Receivable – Wholesale Customers	13,256	17,947
Accounts Receivable – Capital Contribution	45,000	-
Accrued Interest Receivable	264	3,869
Prepaid Expenses	19,519	-
Total Current Assets	<u>2,944,900</u>	<u>3,491,614</u>
<b>Non-Current Assets</b>		
Capital Assets – Net	17,191,362	16,950,398
Bond Issuance Costs – Net	110,710	123,057
Utility Deposits	635	500
Total Non-Current Assets	<u>17,302,707</u>	<u>17,073,955</u>
<b>TOTAL ASSETS</b>	<u>\$ 20,247,607</u>	<u>\$ 20,565,569</u>

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

## LIABILITIES AND NET ASSETS

	2010	2009
<b>Current Liabilities</b>		
Accounts Payable	\$ 100,826	\$ 83,665
Accrued Liabilities	36,709	47,306
Accrued Bond Interest Payable	15,963	16,665
Compensated Absences Payable	41,070	38,191
Customer Deposits	144,739	153,162
Bonds Payable – Current Portion	205,000	200,000
Total Current Liabilities	544,307	538,989
<b>Non-Current Liabilities</b>		
Bonds Payable – Net of Current Portion	3,851,694	3,985,233
Total Liabilities	4,396,001	4,524,222
<b>Net Assets</b>		
Invested in Capital Assets – Net of Related Debt	13,134,668	12,765,165
Restricted:		
Debt Service	25,260	17,862
Capital Activity	45,000	627,330
Unrestricted	2,646,678	2,630,990
Total Net Assets	15,851,606	16,041,347
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 20,247,607	\$ 20,565,569

*ANDERSON COUNTY WATER AUTHORITY*

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

*For The Years Ended June 30, 2010 and 2009*

	<u>2010</u>	<u>2009</u>
<b>Operating Revenues</b>		
Water – Net	\$ 3,894,824	\$ 1,873,956
Wastewater – Net	578,261	339,171
Connection Fees	50,810	11,201
Customer Forfeited Discounts	32,743	41,300
Tap Fees	40,550	15,500
Other Charges and Fees	7,384	43,201
Total Operating Revenues	<u>4,604,572</u>	<u>2,324,329</u>
<b>Operating Expenses</b>		
Water Treatment, Transmission, and Distribution	2,402,701	1,402,607
Wastewater Treatment	449,830	246,428
Customer Billing and Accounting	189,670	119,442
General and Administrative	711,501	377,710
Depreciation	901,475	436,347
Total Operating Expenses	<u>4,655,177</u>	<u>2,582,534</u>
Operating Income (Loss)	<u>(50,605)</u>	<u>(258,205)</u>
<b>Non-Operating Revenues (Expenses)</b>		
Gain (Loss) on Disposal of Capital Assets	(15,721)	10,281
Investment Income	14,666	20,484
Interest (Expense)	(283,081)	(148,657)
Total Non-Operating Revenues (Expenses) – Net	<u>(284,136)</u>	<u>(117,892)</u>
Increase (Decrease) in Net Assets Before Capital Contributions	<u>(334,741)</u>	<u>(376,097)</u>
<b>Capital Contributions</b>		
Cash	145,000	2,988,916
Non-Cash	-	13,413,705
Total Capital Contributions	<u>145,000</u>	<u>16,402,621</u>
Increase (Decrease) in Net Assets	(189,741)	16,026,524
Net Assets, Beginning of Year	<u>16,041,347</u>	<u>14,823</u>
Net Assets, End of Year	<u>\$ 15,851,606</u>	<u>\$ 16,041,347</u>

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

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*ANDERSON COUNTY WATER AUTHORITY*

*STATEMENTS OF CASH FLOWS  
For The Years Ended June 30, 2010 and 2009*

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	<u>2010</u>	<u>2009</u>
<b>Cash Flows from Operating Activities</b>		
Receipts from Customers and Users	\$ 4,493,852	\$ 2,222,601
Payments to Employees	(1,737,405)	(904,325)
Payments to Suppliers	<u>(2,024,774)</u>	<u>(1,248,669)</u>
Net Cash Provided (Used) by Operating Activities	<u>731,673</u>	<u>69,607</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital Contributions by NACUD and ACUB due to Merger	-	2,988,916
Capital Contributions	100,000	-
Acquisition and Construction of Capital Assets	(1,188,187)	(52,592)
Interest Paid on Revenue Bonds	(199,975)	(95,729)
Accrued Interest Paid on Defeased Bonds	-	(15,875)
Principal Paid on Revenue Bonds and Notes	(200,000)	(1,386,835)
Proceeds from Sale and Disposal of Capital Assets	-	12,000
Proceeds from Bond Issues	-	4,900,000
Deposits with Escrow Agent for Defeasance of Bonds	-	(3,355,507)
Payment of Bond Issuance Costs	-	(128,400)
Utility Deposits	<u>(135)</u>	<u>-</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,488,297)</u>	<u>2,865,978</u>
<b>Cash Flows from Investing Activities</b>		
Interest Received on Investments	18,271	16,620
Maturity (Purchase) of Investments	<u>600,000</u>	<u>(800,116)</u>
Net Cash Provided (Used) by Investing Activities	<u>618,271</u>	<u>(783,496)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(138,353)	2,152,089
Cash and Cash Equivalents, Beginning of Year	<u>2,166,912</u>	<u>14,823</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,028,559</u>	<u>\$ 2,166,912</u>

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

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*ANDERSON COUNTY WATER AUTHORITY*

*STATEMENTS OF CASH FLOWS (Continued)*

*For The Years Ended June 30, 2010 and 2009*

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	<u>2010</u>	<u>2009</u>
Cash and Cash Equivalents at End of Year		
Consist of:		
Unrestricted Cash and Cash Equivalents	\$ 1,987,336	\$ 2,105,050
Restricted Cash and Cash Equivalents	<u>41,223</u>	<u>61,862</u>
Total	<u>\$ 2,028,559</u>	<u>\$ 2,166,912</u>
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating Income (Loss)	\$ (50,605)	\$ (258,205)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	901,475	436,347
Bad Debt Expense	30,021	72,501
Changes in:		
Accounts Receivable, Net of Charge Offs	(130,719)	(115,886)
Inventory	-	109,760
Prepaid Expenses	(19,519)	71,020
Accounts Payable	17,161	(214,273)
Accrued Liabilities	(10,597)	(21,940)
Compensated Absences Payable	2,879	-
Customer Deposits	<u>(8,423)</u>	<u>(9,717)</u>
Net Cash Provided by Operating Activities	<u>\$ 731,673</u>	<u>\$ 69,607</u>
 <b>Noncash Investing, Capital and Related Financing Activities</b>		
Amortization of Bond Issuance Costs	\$ 12,347	\$ 5,343
Amortization of Cost of Defeasance	71,461	30,920
Non-Cash Contributed Capital Due to Merger	-	13,413,705

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

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*ANDERSON COUNTY WATER AUTHORITY*

*NOTES TO THE FINANCIAL STATEMENTS*

*June 30, 2010 and 2009*

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

Anderson County Water Authority (the Authority) was created on July 16, 2007 by the Anderson County Commission under the authority of the Tennessee State Legislature Private Act No. 40 (House Bill No. 2388 and Senate Bill No. 2362) passed on May 7, 2007 and signed by the Governor on May 21, 2007.

On July 10, 2008, the Board of Commissioners for the North Anderson County Utility District (NACUD) and Anderson County Utilities Board (ACUB), a part of Anderson County, entered into a consolidation agreement to merge NACUD and ACUB into the Authority with an effective date of January 1, 2009.

The Authority's Board of Commissioners serve staggered four-year terms. The Anderson County Mayor appoints five commissioners. Therefore, the Authority is considered a related organization of Anderson County as defined in Governmental Accounting Standards Board Statement No. 14 paragraph 68. However, Anderson County does not have any fiscal or budgetary control over the Authority. In addition, Anderson County does not approve or pledge assets to secure the debts of the Authority. The operations of the Authority are funded by water and wastewater rates established by the Authority's Board of Commissioners.

A summary of the major accounting policies of the Authority are presented as follows:

A. Basis of Accounting and Presentation

The Authority's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority applies only GASB pronouncements issued after November 30, 1989.

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*ANDERSON COUNTY WATER AUTHORITY*

*NOTES TO THE FINANCIAL STATEMENTS (Continued)*

*June 30, 2010 and 2009*

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

A. Basis of Accounting and Presentation (Continued)

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted components.

B. Budgeting

The Authority adopts a flexible annual operating budget. The budget is adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The Authority's budget is not legally binding.

Management submits a proposed budget to the Authority's Board of Commissioners prior to the July Board meeting. A budget is adopted by resolution prior to July 1.



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*ANDERSON COUNTY WATER AUTHORITY*

*NOTES TO THE FINANCIAL STATEMENTS (Continued)*

*June 30, 2010 and 2009*

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. Cash Equivalents, Deposits and Investments

Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, interest in State Treasurer's Investment Pool, certificates of deposit, and debt security investments with a maturity at purchase of three months or less.

Investments are reported at their fair value. Fair value is based upon quoted market prices. Realized gains and (losses) from the sale of investments are calculated separately from the change in the fair value using the specific identification method. Realized gains or (losses) in the current period include unrealized amounts from prior periods.

D. Restricted Assets

Restricted assets represent cash and investments maintained in accordance with bond resolutions, loan agreements, grant awards and other resolutions and formal actions of the Authority or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the system. Restricted assets are generally not available for current operating expenses.

E. Receivables and Revenues

Revenues are billed monthly to customers on a cyclical meter reading basis. Unbilled revenues are accrued for estimated usage from the last meter reading date to year-end.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Authority provides for estimated uncollectible receivables through a reduction (expense) of gross water revenues and a credit to an allowance based on its assessment of the current status of individual accounts and historical write-off experience. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

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ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

E. Receivables and Revenues (Continued)

Operating revenues consist of net water and wastewater revenues, forfeited discounts, inspection fees and various service fees. Connection (tap) fees are recorded as revenue to the extent of expenses incurred in connecting a customer to the system. Connection fees in excess of costs, if any, are recorded as cash capital contributions.

Non-operating revenue consists of investment income and gains (losses) on the sale or disposal of capital assets. Investment income is interest earned and the change in unrealized gains and losses on the fair value of marketable debt securities.

F. Expenses

Operating expenses consist of the cost of water treatment, storage and distribution. Other operating expenses include customer billing, collections, administrative and general and depreciation on capital assets.

Non-operating expenses consist of interest on long-term liabilities and loss on the disposal or impairment of capital assets.

G. Inventories

Material and supply inventories are stated at the lower of cost (first in, first out method) or market. Incidental supplies and chemicals are not included in inventory.

H. Capital Assets

Property, plant and equipment in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to fair market value.

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ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

H. Capital Assets (Continued)

Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment are expensed as incurred.

Interest is not capitalized on project costs funded by contributed capital, such as grants, gifts and impact fees. Interest costs of tax-exempt borrowings are capitalized net of related investment earnings on the proceeds. Depreciation is not recorded until the assets are actually put into use.

The Authority defines a capital asset as an asset with an initial individual cost, or a project with a cumulative cost of more than \$5,000 and an estimated useful life in excess of one year.

Capital assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

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

I. Long-Term Obligations and Costs

Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts, issuance costs, and gains or losses on advance refundings and defeasances after June 30, 1994, are deferred and amortized over the life of the bonds.

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ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

J. Compensation Absences

Accumulated vacation eligible to be paid to employees at termination is recorded as an expense and liability as the benefits are earned. The Authority has assumed a first-in, first-out method of using accumulated compensated time and the related liability has been recorded as a liability in the financial statements.

K. Contributions

Contributions are recognized in the statement of revenues, expenses and changes in net assets when earned. Contributions include developer contributed utility systems, capacity and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

L. Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital activity and debt service consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted consists of all other net assets not included in the above categories.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

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ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

M. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

N. New GASB Statements

During 2010, the District adopted the following:

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes accounting and financial reporting requirements for intangible assets.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, establishes accounting and financial reporting requirements for derivative instruments entered into by state and local governments.

**NOTE 2: CONSOLIDATION AND MERGER**

On January 1, 2009, the operations of NACUD and ACUB were consolidated and merged with the Authority as described in Note 1. The Authority recorded this transaction in accordance with the Accounting Principles Board (APB) Opinion No. 16, *Business Combinations*, using the pooling of interest method. Since no consideration was given, the Authority assumed all the territory, customers, assets, liabilities, and equity of NACUD and ACUB at net book value.

The Authority's Board of Commissioners were appointed by the Anderson County Mayor and consist of three former ACUB and two former NACUD commissioners. The former ACUB general manager was appointed as the Authority's general manager.

The accompanying balance sheet represents the assumption of all assets, liabilities, and equity as of January 1, 2009:

*ANDERSON COUNTY WATER AUTHORITY*

*NOTES TO THE FINANCIAL STATEMENTS (Continued)*

*June 30, 2010 and 2009*

**NOTE 2: CONSOLIDATION AND MERGER (Continued)**

Balance Sheet	NACUD	ACUB	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,550,975	\$ 1,431,200	\$ 2,982,175
Accounts Receivable – Net	184,734	255,545	440,279
Prepaid Expenses	34,362	36,658	71,020
Inventory – Supplies	109,760	-	109,760
Total Current Assets	<u>1,879,831</u>	<u>1,723,403</u>	<u>3,603,234</u>
Non-Current Assets:			
Capital Assets – Net	5,898,095	11,288,682	17,186,777
Bond Issuance Costs – Net	61,901	-	61,901
Utility Deposits	500	-	500
Total Non-Current Assets	<u>5,960,496</u>	<u>11,288,682</u>	<u>17,249,178</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>7,840,327</u></b>	<b>\$ <u>13,012,085</u></b>	<b>\$ <u>20,852,412</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities:			
Accounts Payable	\$ 65,922	\$ 107,101	\$ 173,023
Accrued Liabilities	37,112	33,267	70,379
Customer Deposits	114,671	48,208	162,879
Total Current Liabilities	217,705	188,576	406,281
Non-Current Liabilities:			
Bonds Payable	2,907,625	1,142,625	4,050,250
Total Liabilities	3,125,330	1,331,201	4,456,531
Net Assets	<u>4,714,997</u>	<u>11,680,884</u>	<u>16,395,881</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>7,840,327</u></b>	<b>\$ <u>13,012,085</u></b>	<b>\$ <u>20,852,412</u></b>

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*ANDERSON COUNTY WATER AUTHORITY*

*NOTES TO THE FINANCIAL STATEMENTS (Continued)*

*June 30, 2010 and 2009*

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**NOTE 3: DEPOSITS AND INVESTMENTS**

Tennessee Code Annotated (TCA) Section 7-82-108 and bond covenants restrict the types of depositories and investment securities available to the Authority. State statutes and bond indentures limit depositories to state or national banks, or credit unions located in the United States. The types of deposits and investments permitted are certificates of deposit, repurchase agreements in governmental obligations, money market accounts, state local government investment pool (SLGIP), obligations of the U.S. Government and federal agency debt securities.

At June 30, 2010 and 2009, the Authority had the following deposits and investments:

	<u>2010</u>	<u>2009</u>
Deposits:		
Demand Deposits	\$ 2,028,559	\$ 2,166,912
Certificates of Deposit	200,116	200,116
	<u>2,228,675</u>	<u>2,367,028</u>
Investments:		
Federal Agency Securities	-	599,995
	<u>-</u>	<u>599,995</u>
Total	\$ <u>2,228,675</u>	\$ <u>2,967,023</u>

A summary of the deposits on the balance sheets at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash and Cash Equivalents	\$ 1,987,336	\$ 2,105,050
Cash and Cash Equivalents – Restricted	41,223	61,862
Investments – Certificate of Deposit	200,116	200,116
	<u>2,228,675</u>	<u>2,367,028</u>
Total	\$ <u>2,228,675</u>	\$ <u>2,367,028</u>

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ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2010 and 2009

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**NOTE 3: DEPOSITS AND INVESTMENTS (Continued)**

A. Restricted Cash Equivalents

The restricted cash equivalents and investments are for 2008 construction projects and also for required reserves by various covenants of the revenue bonds and are to be used solely for the repayment of debt and capital improvements.

As of June 30, 2009, the Authority's investments were in the following:

	<u>2009</u>
Federal Agency Securities	
Federal Home Loan Bank Notes – Due 7/2/2009	<u>\$ 599,995</u>

B. Custodial Credit Risk – Deposits

The Authority's deposits, with a carrying amount of \$2,228,675 and \$2,367,028 at June 30, 2010 and 2009, respectively, were covered by FDIC insurance, pledged investment collateral held in safekeeping by a custodial bank, or by the bank collateral pool administered by the Treasurer of the State of Tennessee. The bank may use one of three different pledged security levels (90, 100 or 105%) depending on the specific bank holding the deposit. Participating banks determine the aggregate balance of their public fund accounts for the Authority. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured and classified as Category 1, under GASB Statement No. 40, for purposes of custodial credit risk disclosure.



ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2010 and 2009

**NOTE 3: DEPOSITS AND INVESTMENTS (Continued)**

C. Investments, at Fair Value

The Authority's investments at June 30, 2009, with a carrying amount of \$599,995 are in Federal Agency Securities and held by the Authority or its agent in the Authority's name. As required by GASB Statement No. 31, the carrying value of the investments are presented at fair value.

D. Investment Income

Investment income for 2010 and 2009 consisted of the following:

	2010	2009
Interest Income	\$ 14,661	\$ 20,489
Unrealized Gains (Losses) – Net	5	(5)
Total	\$ 14,666	\$ 20,484

E. Investment Policies

**Custodial Credit Risk:** The Authority's investment policy requires that investment securities be registered in the name of Anderson County Water Authority. All safekeeping receipts for investment instruments are held in accounts in the Authority's name and all securities are registered in the Authority's name.

**Credit Risk:** The Authority's investment policy and state law limits investments in non-federal obligations to issuers that are rated in the two highest rating categories by a nationally recognized rating agency of such obligations.

At June 30, 2009, the Authority's investments in federal agency debt securities had the following ratings by Moody's:

	2009	
Federal Home Loan Bank Notes	\$ 599,995	Aaa

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ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

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**NOTE 3: DEPOSITS AND INVESTMENTS (Continued)**

F. Investment Policies

**Interest Rate Risk:** The Authority's Investment Policy limits its holdings to obligations having a final maturity on the date of investment of not to exceed forty-eight (48) months. Investments are made based upon prevailing market conditions with the intent to hold the instrument until maturity. If the performance of the portfolio can be improved upon by the sale of an investment prior to maturity, the policy allows for the implementation of this strategy. The Authority uses the specific identification method to manage interest rate risk.

**Concentration of Credit Risk:** The Authority's Investment Policy has no limit to its exposure to obligations of federal government and federal agency debt securities as a whole or individually.

The Authority's Investment Policy does not require diversification among authorized investment broker-dealers. Presently, the Authority has selected Morgan Keegan & Company, Inc. as an authorized broker-dealer.

*ANDERSON COUNTY WATER AUTHORITY*

*NOTES TO THE FINANCIAL STATEMENTS (Continued)*

*June 30, 2010 and 2009*

**NOTE 4: CAPITAL ASSETS**

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2010 was as follows:

2010	Balance 7/1/2009	Additions and Transfers	Deletions, Retirements and Transfers	Balance 6/30/2010
<b>Capital Assets Not Being Depreciated:</b>				
Land and Easements	\$ 200,134	\$ 175,000	\$ -	\$ 375,134
Construction in Progress	2,975	512,652	(515,627)	-
<b>Total Capital Assets Not Being Depreciated</b>	<b>203,109</b>	<b>687,652</b>	<b>(515,627)</b>	<b>375,134</b>
<b>Capital Assets Being Depreciated:</b>				
Mains, Lines and Reservoirs	15,695,181	378,151	-	16,073,332
Treatment Plants Buildings and Improvements	14,570,527	-	515,627	15,086,154
Machinery and Equipment	245,561	-	-	245,561
Vehicles	538,743	43,625	-	582,368
Office Furniture and Equipment	181,366	48,732	(62,883)	167,215
<b>Total Capital Assets Being Depreciated</b>	<b>31,231,378</b>	<b>470,508</b>	<b>452,744</b>	<b>32,154,630</b>

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

**NOTE 4: CAPITAL ASSETS (Continued)**

2010 (Continued)	Balance 7/1/2009	Additions and Transfers	Deletions, Retirements and Transfers	Balance 6/30/2010
Less Accumulated Depreciation:				
Mains, Lines and Reservoirs	6,962,559	423,643	-	7,386,202
Treatment Plants, Buildings and Improvements	6,982,987	367,651	-	7,350,638
Machinery and Equipment	104,430	33,284	-	137,714
Vehicles	306,983	52,387	-	359,370
Office Furniture and Equipment	127,130	24,510	(47,162)	104,478
Total Accumulated Depreciation	<u>14,484,089</u>	<u>901,475</u>	<u>(47,162)</u>	<u>15,338,402</u>
Total Capital Assets Being Depreciated – Net	<u>16,747,289</u>	<u>(430,967)</u>	<u>499,906</u>	<u>16,816,228</u>
Total Capital Assets	\$ <u>16,950,398</u>	\$ <u>256,685</u>	\$ <u>(15,721)</u>	\$ <u>17,191,362</u>

Depreciation Expense was \$901,475 for 2010.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

**NOTE 4: CAPITAL ASSETS (Continued)**

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2009, was as follows:

2009	Balance 7/1/2008	Consolidating Merger 1/1/2009	Additions and Transfers	Deletions, Retirements and Transfers	Balance 6/30/2009
<b>Capital Assets Not Being Depreciated:</b>					
Land and Easements	\$ -	\$ 200,134	\$ -	\$ -	\$ 200,134
Construction in Progress	-	552,828	2,975	(552,828)	2,975
<b>Total Capital Assets Not Being Depreciated</b>	<b>-</b>	<b>752,962</b>	<b>2,975</b>	<b>(552,828)</b>	<b>203,109</b>
<b>Capital Assets Being Depreciated:</b>					
Mains, Lines and Reservoirs	-	15,002,055	693,126	-	15,695,181
Treatment Plants Buildings and Improvements	-	14,570,527	-	-	14,570,527
Machinery and Equipment	-	245,561	-	-	245,561
Vehicles	-	490,236	50,225	(1,718)	538,743
Office Furniture and Equipment	-	173,178	8,188	-	181,366
<b>Total Capital Assets Being Depreciated</b>	<b>-</b>	<b>30,481,557</b>	<b>751,539</b>	<b>(1,718)</b>	<b>31,231,378</b>

*ANDERSON COUNTY WATER AUTHORITY*

*NOTES TO THE FINANCIAL STATEMENTS (Continued)*

*June 30, 2010 and 2009*

**NOTE 4: CAPITAL ASSETS (Continued)**

2009 (Continued)	Balance 7/1/2008	Consolidating Merger 1/1/2009	Additions and Transfers	Deletions, Retirements and Transfers	Balance 6/30/2009
Less Accumulated Depreciation:					
Mains, Lines and Reservoirs	-	6,760,594	201,965	-	6,962,559
Treatment Plants, Buildings and Improvements	-	6,799,273	183,714	-	6,982,987
Machinery and Equipment	-	87,699	16,731	-	104,430
Vehicles	-	283,348	23,635	-	306,983
Office Furniture and Equipment	-	116,828	10,302	-	127,130
Total Accumulated Depreciation	-	14,047,742	436,347	-	14,484,089
Total Capital Assets Being Depreciated – Net	-	16,433,815	315,192	(1,718)	16,747,289
Total Capital Assets	\$ -	\$ 17,186,777	\$ 318,167	\$ (554,546)	\$ 16,950,398

Depreciation Expense was \$436,347 for 2009.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2010 and 2009

**NOTE 5: CONSTRUCTION IN PROGRESS**

Construction in progress at June 30, 2009 consisted of:

Projects	2009	
	Actual To Date	Remaining Commitment
Office Building	\$ 2,975	\$ -

The Authority constructed a new office building that was completed in 2010.

**NOTE 6: GAIN (LOSS) ON DISPOSAL OF CAPITAL ASSETS**

The Authority's gain (loss) on disposal of capital assets for 2010 and 2009 was as follows:

	2010	2009
Sales Proceeds	\$ -	\$ 12,000
Less: Net Book Value of Capital Asset	(15,721)	(1,719)
Gain (Loss)	\$ (15,721)	\$ 10,281

The charges in 2010 were for obsolete computer software.

**NOTE 7: DEFERRED CHARGES**

In 2009, the Authority incurred bond issuance costs in connection with the Revenue Bond Series 2008 issued on December 30, 2008. At June 30, 2010 and 2009, the net unamortized bond issuance costs were as follows:

	2010	2009
Revenue Bonds Series 2008	\$ 128,400	\$ 128,400
Less: Accumulated Amortization	(17,690)	(5,343)
Total	\$ 110,710	\$ 123,057

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ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

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**NOTE 7: DEFERRED CHARGES (Continued)**

The bond issuance costs are amortized over the life of the bonds using the stated interest required method. The amount recorded as part of interest expense was \$12,347 and \$5,343 for 2010 and 2009.

**NOTE 8: ACCRUED LIABILITIES**

Accrued liabilities at year-end 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Sales Taxes Payable	\$ 28,966	\$ 30,543
Accrued Salaries and Payroll Taxes	<u>7,743</u>	<u>16,763</u>
Total	<u>\$ 36,709</u>	<u>\$ 47,306</u>



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ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

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**NOTE 9: LONG-TERM DEBT**

Long-term debt at June 30, 2010 and 2009, consisted of the following:

A. Revenue Bonds

	<u>2010</u>	<u>2009</u>
Revenue Term Bonds Series 2008 of \$4,900,000 with an interest rate of 4.21%. Semi-annual payments on June 1 and December 1 through June 1, 2026. Principal payments are annually deposited with the bond trustee on June 1, ranging from \$150,000 to \$375,000. Interest is paid semi-annually ranging from \$99,998 to \$7,894.	\$ 4,550,000	\$ 4,750,000
Less: Unamortized Deferred Cost of Defeased Bonds	<u>(493,306)</u>	<u>(564,767)</u>
Total	<u>\$ 4,056,694</u>	<u>\$ 4,185,233</u>
Current Portion	\$ 205,000	\$ 200,000
Long-Term	<u>3,851,694</u>	<u>3,985,233</u>
Total	<u>\$ 4,056,694</u>	<u>\$ 4,185,233</u>

The bond holders have a statutory mortgage lien upon the Authority as created by TCA § 7-82-101, and will remain in effect until the bond issue is paid in full. There is a bond covenant, which is effective for the fiscal year ending June 30, 2010, that requires a minimum debt service coverage ratio of 1.2. The ratio for 2010 and 2009, the ratio was 2.16 and .80.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

**NOTE 9: LONG-TERM DEBT (Continued)**

B. Activity

The following is a summary of changes in long-term debt for 2010 and 2009:

2010	Beginning Balance	Assumed During Merger	Additions	Reductions	Ending Balance	Current Portion
Revenue Bonds and Notes	\$ 4,750,000	\$ -	\$ -	\$ (200,000)	\$ 4,550,000	\$ 205,000
Less: Deferred Cost of Defeasance	<u>(564,767)</u>	<u>-</u>	<u>-</u>	<u>71,461</u>	<u>(493,306)</u>	<u>-</u>
	4,185,233	-	-	(128,539)	4,056,694	205,000
Compensated Absences Payable	<u>38,191</u>	<u>-</u>	<u>70,000</u>	<u>(67,121)</u>	<u>41,070</u>	<u>41,070</u>
Total	<u>\$ 4,223,424</u>	<u>\$ -</u>	<u>\$ 70,000</u>	<u>\$ (195,660)</u>	<u>\$ 4,097,764</u>	<u>\$ 246,070</u>
<u>2009</u>						
Revenue Bonds and Notes	\$ -	\$ 4,316,835	\$ 4,900,000	\$ (4,466,835)	\$ 4,750,000	\$ 200,000
Less: Deferred Cost of Defeasance	<u>-</u>	<u>-</u>	<u>(595,687)</u>	<u>30,920</u>	<u>(564,767)</u>	<u>-</u>
	-	4,316,835	4,304,313	(4,435,915)	4,185,233	200,000
Compensated Absences Payable	<u>-</u>	<u>2,549</u>	<u>35,642</u>	<u>-</u>	<u>38,191</u>	<u>38,191</u>
Total	<u>\$ -</u>	<u>\$ 4,319,384</u>	<u>\$ 4,339,955</u>	<u>\$ (4,435,915)</u>	<u>\$ 4,223,424</u>	<u>\$ 238,191</u>

Compensated absences are considered a current liability due to prior years' experience of paying these amounts within the current year.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

**NOTE 9: LONG-TERM DEBT (Continued)**

C. Debt Service

The Annual debt service requirements of the bonds payable as of June 30, 2010 and 2009, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 205,000	\$ 191,555	\$ 396,555
2012	215,000	182,925	397,925
2013	225,000	173,873	398,873
2014	230,000	164,400	394,400
2015	240,000	154,718	394,718
2016 – 2020	1,375,000	612,345	1,987,345
2021 – 2025	1,685,000	297,436	1,982,436
2026	<u>375,000</u>	<u>15,786</u>	<u>390,786</u>
Total	\$ <u>4,550,000</u>	\$ <u>1,793,038</u>	\$ <u>6,343,038</u>

The Revenue Term Bonds – Series 2008, require the Authority to make mandatory semi-annual sinking fund payments to the bond trustee, Regions Bank, who is responsible for paying the bondholder when the term bond matures on June 1, 2026.

D. Interest Expense

Interest expense for 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Interest Paid	\$ 199,975	\$ 95,729
Amortization of Bond Issuance Costs	12,347	5,343
Accrued Interest Payable – Net Change	(702)	16,665
Amortization of Deferred Cost of Defeasance	<u>71,461</u>	<u>30,920</u>
Total	\$ <u>283,081</u>	\$ <u>148,657</u>

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*ANDERSON COUNTY WATER AUTHORITY*

*NOTES TO THE FINANCIAL STATEMENTS (Continued)*

*June 30, 2010 and 2009*

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**NOTE 9: LONG-TERM DEBT (Continued)**

E. Restricted Cash Equivalents – Debt Service

The Authority is required by various bond covenants to maintain the following restricted cash and cash equivalents at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Bond Principal and Interest Payment Account	\$ <u>41,223</u>	\$ <u>34,527</u>

**NOTE 10: DEFEASANCE OF DEBT**

A. Description of the 2008 Defeasance

On December 31, 2008, the Authority issued \$4,900,000 in Revenue Term Bonds – Series 2008 to provide current refunding and advanced refunding of \$4,316,835 in assumed debt. Of the assumed debt, \$1,236,835 was currently refunded and \$3,080,000 was advanced refunded with defeasance under a refunding trust agreement with Regions Bank. In addition, these revenue bonds were issued to provide approximately \$600,000 in financing for the construction of a new office building.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2010 and 2009

**NOTE 10: DEFEASANCE OF DEBT (Continued)**

B. Current Refunding – FY 2009

The following currently refunded debt was paid on December 30, 2008 and January 2, 2009:

		2009
Assumed ACUB Debt:		
Water Revenue and Tax Bond – Series 1979 of \$1,400,000	\$	554,934
Water Revenue and Tax Bond – Series 1982 of \$257,000		162,875
Water Revenue and Tax Bond – Series 1986 of \$105,000		70,658
Water Revenue Bonds – Series 2000 of \$110,000		100,158
General Obligation Loan – Series 2003 of \$350,000		254,000
		1,142,625
Assumed NACUD Debt:		
Rural Development Water Revenue Bonds – Series 2001 of \$103,000		94,210
Total	\$	1,236,835

The current refunding resulted in a difference between the requisition price and the net carrying amount of the old debt of \$8,306. This amount is being reported in the accompanying financial statements as a part of interest expense in 2009. The Authority increased its original length of debt maturities, therefore it increased its aggregate debt service payments by \$67,797.

C. Advanced Refunding

The following advanced refunded debt was considered extinguished at June 30, 2010 and 2009:

	2010		2009	
Water Revenue and Refunding Bonds – Series 2004 of \$4,395,000 (assumed NACUD debt) with a final (original) maturity on January 1, 2019, and a call date on January 1, 2014. Regions Bank is the paying agent.	\$	2,805,000	\$	3,080,000

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ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

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**NOTE 10: DEFEASANCE OF DEBT (Continued)**

C. Advanced Refunding (Continued)

The Authority placed \$3,355,507 of funds with the escrow agent (Regions Bank) which was used to purchase State and Local Government Securities (SLGS) for the purpose of generating resources for future debt service payments of \$3,540,450. Future payments consist of annual bond principal maturities of between \$275,000 to \$305,000 on January 1, 2010 through January 1, 2013, and a final principal redemption of \$1,920,000, which requires a call premium of 1%, on the call date of January 1, 2014. As a result, the advanced refunded bonds are considered to be defeased and the liability has been removed from the Authority's balance sheet. The escrowed investment securities exceeded the net carrying amount of the old debt by \$595,687. This amount is being amortized over the original life of the old Series 2004 debt issue through January 1, 2019, using the stated interest required method.

Due to the additional eight years until maturity in 2026, the refunding increased total aggregate debt service payment by \$736,263. In addition, the Authority incurred an economic loss, the difference between the present values of the old and new debt service payments of \$145,899.

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ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

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**NOTE 11: NET ASSETS**

Net assets represent the difference between assets and liabilities. The net assets at June 30, 2010 and 2009, were as follows:

	<u>2010</u>	<u>2009</u>
Invested in Capital Assets, Net of Related Debt:		
Net Property, Plant and Equipment in Service	\$ 17,191,362	\$ 16,950,398
Less: Revenue Bonds Payable – Net of Unamortized Cost of Defeasance	<u>(4,056,694)</u>	<u>(4,185,233)</u>
	<u>13,134,668</u>	<u>12,765,165</u>
Restricted for Debt Service:		
Restricted Cash and Cash Equivalents	41,223	34,527
Less: Accrued Interest Payable – Revenue Bonds	<u>(15,963)</u>	<u>(16,665)</u>
	<u>25,260</u>	<u>17,862</u>
Restricted for Capital Activity:		
Restricted Cash and Investments	-	627,330
Accounts Receivable – Capital Contribution	45,000	-
Less: Accounts Payable for Capital Assets	-	-
Reclassified to Unrestricted	<u>-</u>	<u>-</u>
	<u>45,000</u>	<u>627,330</u>
Unrestricted	<u>2,646,678</u>	<u>2,630,990</u>
Total	<u>\$ 15,851,606</u>	<u>\$ 16,041,347</u>

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ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

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**NOTE 12: CAPITAL CONTRIBUTIONS**

A. Cash

Curing 2010, the Authority received \$100,000 in a capital contribution from BWXT Y-12, LLC to extend water service to unserved areas. In addition, the Authority received \$45,000 from Anderson County to extend wastewater service to Isabella Lane which is to be completed during FY 2011

During 2009, the Authority received cash capital contributions due primarily to the consolidation agreement and merger (see Note 2). During 2009, the Authority received \$6,741 before the merger.

	<u>2010</u>	<u>2009</u>
BWXT Y-12, LLC	\$ 100,000	\$ -
Anderson County, TN	45,000	-
Anderson County Utilities Board (ACUB)	-	1,437,941
North Anderson County Utility District (NACUD)	-	<u>1,550,975</u>
Total	<u>\$ 145,000</u>	<u>\$ 2,988,916</u>

B. Non-Cash

During 2009, the Authority received non-cash capital contributions due to the consolidation agreement and merger (see Note 2).

	<u>2009</u>
Anderson County Utilities Board (ACUB)	\$ 10,249,683
North Anderson County (NACUB)	<u>3,164,022</u>
Total	<u>\$ 13,413,705</u>



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*ANDERSON COUNTY WATER AUTHORITY*

*NOTES TO THE FINANCIAL STATEMENTS (Continued)*

*June 30, 2010 and 2009*

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**NOTE 13: OPERATING REVENUES – NET**

Operating revenues during 2010 and 2009 consisted of the following:

2010	Water	Wastewater	Other Charges	Total
Gross Revenues	\$ 3,920,946	\$ 582,160	\$ 131,487	\$ 4,634,593
Less: Provision for Bad Debts	<u>(26,122)</u>	<u>(3,899)</u>	<u>-</u>	<u>(30,021)</u>
Total Operating Revenues - Net	<u>\$ 3,894,824</u>	<u>\$ 578,261</u>	<u>\$ 131,487</u>	<u>\$ 4,604,572</u>
<hr/>				
2009				
Gross Revenues	\$ 1,935,582	\$ 350,046	\$ 111,202	\$ 2,396,830
Less: Provision for Bad Debts	<u>(61,626)</u>	<u>(10,875)</u>	<u>-</u>	<u>(72,501)</u>
Total Operating Revenues - Net	<u>\$ 1,873,956</u>	<u>\$ 339,171</u>	<u>\$ 111,202</u>	<u>\$ 2,324,329</u>

**NOTE 14: WHOLESALE WATER SALES**

The Authority sells treated water on a month-to-month basis to the Caryville – Jacksboro Utility District (CJUD) and Lake City, Tennessee for \$1.204 per 1,000 gallons. During 2010 and 2009, the revenues earned under these billings were \$209,762 and \$54,371.

**NOTE 15: RETIREMENT PLANS**

I. Defined Benefit Plan

On January 1, 2009, the Authority established a defined benefit plan through the Tennessee Consolidated Retirement System, (TCRS). All new full-time employees hired after February 28, 2009 are required to participate.

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ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

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**NOTE 15: RETIREMENT PLANS (Continued)**

I. Defined Benefit Plan (Continued)

A. Plan Description

Employees of the Authority are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits, as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55.

Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in performance of duty. Members joining the system on or after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute, Title 8, Chapter 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions, such as the Authority, participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to the Authority unless approved by Board of Commissioners.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the following address:

Tennessee Treasury Department  
Consolidated Retirement System  
10th Floor, Andrew Jackson State Office Building  
Nashville, TN 37243-0230  
(615) 741-7063  
[www.treasury.state.tn.us/tcrs/PS](http://www.treasury.state.tn.us/tcrs/PS)

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ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

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**NOTE 15: RETIREMENT PLANS (Continued)**

I. Defined Benefit Plan (Continued)

B. Funding Policy

The Authority requires employees to contribute 5.0 percent of earnable compensation.

The Authority is required to contribute at an actuarially determined rate; the rate for the fiscal years ending June 30, 2010 and 2009 was 7.34% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Authority is established and may be amended by the TCRS Board of Trustees.

C. Annual Pension Cost

For the years ending June 30, 2010 and 2009, the Authority's annual pension cost of \$65,937 and \$26,593 to TCRS was equal to the Authority's required and actual employer contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5% annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The Authority's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was zero. An actuarial valuation was performed as of July 1, 2009, which established employer contribution rates effective July 1, 2009, which is 7.34% for FY 2010 and 2011.

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ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2010 and 2009

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**NOTE 15: RETIREMENT PLANS (Continued)**

I. Defined Benefit Plan (Continued)

D. Trend Information

<u>Fiscal Years Ending June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2010	\$ 65,937	100.00%	\$ -
2009	26,593	100.00	-

Since the Authority began significant operations on January 1, 2009, only two years of trend information is available.

E. Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$-0- and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$-0-. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$-0-, and the ratio of the UAAL to the covered payroll was 0%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

*ANDERSON COUNTY WATER AUTHORITY*

*NOTES TO THE FINANCIAL STATEMENTS (Continued)*

*June 30, 2010 and 2009*

**NOTE 15: RETIREMENT PLANS (Continued)**

I. Defined Benefit Plan (Continued)

E. Funded Status and Funding Progress (Continued)

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
7/01/2009	\$ -	\$ -	\$ -	0%	\$ -	0%

II. Defined Contribution Plan

The Authority has a non-contributory defined contribution retirement plan called the Anderson County Water Authority Profit Sharing Plan (the Plan) that covers certain full-time employees previously employed by NACUD. The plan is administered by Compupay, Inc. of Franklin, Tennessee. The Authority has the authority to amend the plan's provisions and contribution requirements. Employees must be at least 18 years old and complete six months of continuous service. During 2010 and 2009, the Authority's contribution rate was 8%. The plan invests its assets in various mutual funds through ING Life Insurance Company. Contributions from the Authority on behalf of the employees vest at 20% per year after one year of service and are fully vested after five years. Forfeitures are used to reduce the Authority's future contributions. During 2010 and 2009, the Authority contributed \$22,363 and \$15,424 to the plan on behalf of its employees.

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*ANDERSON COUNTY WATER AUTHORITY*

*NOTES TO THE FINANCIAL STATEMENTS (Continued)*

*June 30, 2010 and 2009*

---

**NOTE 16: RISK MANAGEMENT**

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority's loss exposure for general liability and worker's compensation is limited by state law.

During FY 2010, the Authority obtained general liability, vehicle, errors and omissions, worker's compensation, and other property and casualty insurance coverage through commercial insurance.

During FY 2009, the Authority obtained general liability, vehicle, errors and omissions, and worker's compensation insurance through the Tennessee Risk Management Trust (TNRMT), a public entity risk pool operated as a risk-sharing program by the Tennessee School Board Association (TSBA). This pool is sustained by member premiums, and, because the pool has excess aggregate and individual claim loss reinsurance coverage, management considers any related credit risk to be insignificant. The Authority continues to carry commercial insurance for all other risks of loss. The Authority incurred net claim losses of \$5,052 which were submitted to the TNRMT insurance pool during the fiscal year ended June 30, 2009.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The per occurrence deductible for each insurance policy of the Authority is as follows: comprehensive general liability \$5,000, public officials liability \$10,000, and electronic data processing \$2,500 and property \$1,000.

**NOTE 17: SUPPLEMENTARY CASH FLOWS INFORMATION**

The Authority paid \$199,975 and \$95,729 in interest on bonds payable for 2010 and 2009.

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*ANDERSON COUNTY WATER AUTHORITY*

*NOTES TO THE FINANCIAL STATEMENTS (Continued)*

*June 30, 2010 and 2009*

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**NOTE 18: ECONOMIC CONCENTRATION**

The Authority's area covers the unincorporated areas of Anderson County located in East Tennessee. It serves 9,136 water customers located in a rural area 25 miles from Knoxville, Tennessee. The Authority's ten largest customers accounted for 12% and 11% of water sales during 2010 and 2009.

**NOTE 19: SUBSEQUENT EVENTS**

Effective October 1, 2010, Mr. Duane Stooksbury was reappointed to the Board of Commissioners for a four year term that will expire on September 30, 2014.

On September 7, 2010, the Board of Commissioners gave preliminary approval to refinance the Revenue Term Bonds Series 2008 and to issue \$2.7 million in additional debt for capital improvements.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**



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*ANDERSON COUNTY WATER AUTHORITY*  
*SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS*  
*Last Two Fiscal Years*

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<u>Fiscal Year</u>	<u>Annual Required Contribution (ARC)</u>	<u>Contributions Made</u>	<u>Percentage of Contributions/ARC</u>
2009	\$ 26,593	\$ 26,593	100%
2010	65,937	65,937	100

*Note: The Authority started participation in the TCRS defined benefit plan on January 1, 2009.*

---

*ANDERSON COUNTY WATER AUTHORITY*

*SCHEDULE OF EMPLOYER PENSION FUNDING PROGRESS*

*Last Valuation Date*

---

Actuarial Valuation Date	<u>7/1/2009</u>
Actuarial Value of Assets	\$ -
Actuarial Accrued Liability	<u>-</u>
Total Unfunded Actuarial Accrued Liability	\$ <u><u>-</u></u>
Funded Ratio (Actuarial Value of Assets as a Percentage of the Actuarial Accrued Liability)	0%
Annual Covered Payroll	\$ -
Ratio of the Unfunded Actuarial Liability to Annual Covered Payroll	0%

*Note: Since the Authority started participation in the TCRS defined benefit plan on January 1, 2009, no actuarial valuation is available until July 1, 2011.*

**OTHER  
SUPPLEMENTARY  
SECTION**

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ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2010

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Years Ending June 30,	Revenue Term Bond Series 2008		Total
	Principal	Interest	
2011	\$ 205,000	\$ 191,555	\$ 396,555
2012	215,000	182,925	397,925
2013	225,000	173,873	398,873
2014	230,000	164,400	394,400
2015	240,000	154,718	394,718
2016	250,000	144,614	394,614
2017	265,000	134,089	399,089
2018	275,000	122,932	397,932
2019	285,000	111,354	396,354
2020	300,000	99,356	399,356
2021	310,000	86,726	396,726
2022	325,000	73,675	398,675
2023	335,000	59,992	394,992
2024	350,000	45,889	395,889
2025	365,000	31,154	396,154
2026	375,000	15,786	390,786
TOTAL	\$ <u>4,550,000</u>	\$ <u>1,793,038</u>	\$ <u>6,343,038</u>

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ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF INSURANCE COVERAGE

June 30, 2010

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Insurer/Type	Coverage
<b>Selective Insurance Company of America</b>	
Comprehensive Automobile:	
Bodily Injury and Property Damage (\$500 Deductible)	\$ 1,000,000
Medical Payments Per Person (Private Passenger Autos)	5,000
Property Damage (\$1,000 Deductible)	Actual Replacement Cost
Electronic Data Processing Coverage (\$2,500 Deductible)	500,000
Public Official's Liability (\$2,500 Deductible)	1,000,000/1,000,000
Inland Marine (\$500 Deductible)	Actual Replacement Value
General Liability (\$5,000 Deductible)	2,000,000
Umbrella	1,000,000/1,000,000
Worker's Compensation (Statutory Limits)	1,000,000/1,000,000/1,000,000

NOTE: All policy periods end July 1, 2010.

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ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF RATES AND STATISTICS

June 30, 2010

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1. Monthly Water Rates (Effective January 1, 2009)

Former ACUB Territory:

1<sup>st</sup> 2,000 gallons - \$15.20 minimum bill.

All over 2,000 gallons - \$4.90 per 1,000 gallons.

Former NACUD Territory:

1<sup>st</sup> 2,000 gallons - \$21.14 minimum bill.

All over 2,000 gallons - \$5.42 per 1,000 gallons.

2. Monthly Wastewater Rates (Effective January 1, 2009)

Former ACUB Territory:

1<sup>st</sup> 2,000 gallons of water used - \$16.48 minimum bill.

All over 2,000 gallons of water used - \$4.90 per 1,000 gallons.

Former NACUD Territory:

100% of water usage.

3. Service Charges:

Residential Connection Fee	\$	40.00
Residential Renters Connection Fee		75.00
Commercial Connection Fee		100.00
Wastewater Connection Fee		50.00
Reconnection Fee for Nonpayment		50.00
Returned Check Fee		25.00

4. New Service Installation:

Water Tap Fees for:

3/4"	\$	600.00
1"		800.00
1 1/2"		2,000.00
2"		2,500.00
Above 2"		1,000
		Plus actual costs

5. There were 9,136 and 8,990 water and 1,063 and 1,089 wastewater customers at June 30, 2010 and 2009.

ANDERSON COUNTY WATER AUTHORITY  
 SCHEDULE OF UNACCOUNTED FOR WATER  
 For the Year Ended June 30, 2010

(All amounts in gallons)

June 30, 2010

**Water Treated and Purchased:**

Water Pumped (Potable)	953,933,400	
Water Purchased	61,438,160	
<b>Total Water Treated and Purchased</b>		<b>1,015,371,560</b>

**Accounted for Water:**

Water Sold	659,156,096	
Metered for Consumption (in house usage)	0	
Fire Department(s) Usage	406,700	
Flushing	24,640,560	
Tank Cleaning/Filling	0	
Street Cleaning	0	
Bulk Sales	0	
Water Bill Adjustments	0	

<b>Total Accounted for Water</b>		<b>684,203,356</b>
<b>Unaccounted for Water</b>		<b>331,168,204</b>
<b>Percent Unaccounted for Water</b>		<b>32.62%</b>

**Other (explain)**

See Below

Explain Other:

None
------

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

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*ANDERSON COUNTY WATER AUTHORITY*

*SCHEDULE OF UNACCOUNTED FOR WATER*

*For the Year Ended June 30, 2009*

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*(All amounts in gallons)*

June 30, 2009

**Water Treated and Purchased:**

Water Pumped (Potable)	471,694,000	
Water Purchased	23,645,200	
<b>Total Water Treated and Purchased</b>		<b>495,339,200</b>

**Accounted for Water:**

Water Sold	314,473,660	
Metered for Consumption (in house usage)	0	
Fire Department(s) Usage	0	
Flushing	20,700,000	
Tank Cleaning/Filling	0	
Street Cleaning	0	
Bulk Sales	0	
Water Bill Adjustments	0	
<b>Total Accounted for Water</b>		<b>335,173,660</b>
<b>Unaccounted for Water</b>		<b>160,165,540</b>
<b>Percent Unaccounted for Water</b>		<b>32.33%</b>

**Other (explain)**

See Below

Explain Other:

None

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.



## STATISTICAL SECTION

This part of the Authority's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority's overall financial health.

<u>Contents</u>	<u>Pages</u>
Financial Trends	
<i>These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.</i>	57-58
Revenue Capacity	
<i>These schedules contain information to help the reader assess the Authority's operating revenues and customer statistics.</i>	59-63
Debt Capacity	
<i>These schedules present information to help the reader assess the affordability of the Authority's current levels of outstanding debt and the Authority's ability to issue additional debt in the future.</i>	64-65
Demographic and Economic Information	
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place.</i>	66-67
Operating Information	
<i>These schedules contain service data to help the reader understand how the information in the Authority's financial report relates to the water services provided by the Authority.</i>	68-69

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

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*ANDERSON COUNTY WATER AUTHORITY*

*NET ASSETS BY COMPONENT  
Last Three Fiscal Years*

---

Fiscal Year	Invested in Capital Assets - Net of Related Debt	Restricted		Unrestricted	Total
		Debt Service	Capital Activity		
2008	\$ -	\$ -	\$ -	14,823	\$ 14,823
2009	12,765,165	17,862	627,330	2,630,990	16,041,347
2010	13,134,668	25,260	45,000	2,646,678	15,851,606

*Notes: (A) Fiscal year 2008 was the first year the Authority was organized.  
(B) Fiscal year 2009 was the first year the Authority began significant operations on January 1, 2009.*

*ANDERSON COUNTY WATER AUTHORITY*

*CHANGES IN NET ASSETS  
Last Three Fiscal Years*

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenues			
Water – Net	\$ 3,894,824	\$ 1,873,956	\$ -
Wastewater – Net	578,261	339,171	-
Connection Fees	50,810	11,201	-
Customer Forfeited Discounts	32,743	41,300	-
Tap Fees	40,550	15,500	-
Other Charges and Fees	7,384	43,201	-
Total Operating Revenues	<u>4,604,572</u>	<u>2,324,329</u>	<u>-</u>
Operating Expenses			
Water Treatment, Transmission and Distribution	2,402,701	1,402,607	-
Wastewater Treatment	449,830	246,428	-
Customer Billing and Accounting	189,670	119,442	-
General and Administrative	711,501	377,710	5,200
Depreciation	901,475	436,347	-
Total Operating Expenses	<u>4,655,177</u>	<u>2,582,534</u>	<u>5,200</u>
Operating Income (Loss)	<u>(50,605)</u>	<u>(258,205)</u>	<u>(5,200)</u>
Non-Operating Revenues (Expenses)			
Gain (Loss) on Disposal of Capital Assets	(15,721)	10,281	-
Investment Income	14,666	20,484	23
Interest (Expense)	(283,081)	(148,657)	-
Non-Operating Revenues (Expenses) – Net	<u>(284,136)</u>	<u>(117,892)</u>	<u>23</u>
Increase (Decrease) in Net Assets Before Capital Contributions	<u>(334,741)</u>	<u>(376,097)</u>	<u>(5,177)</u>
Capital Contributions			
Cash	145,000	2,988,916	20,000
Non-Cash	-	13,413,705	-
Total Capital Contributions	<u>145,000</u>	<u>16,402,621</u>	<u>20,000</u>
Change in Net Assets	<u>\$ (189,741)</u>	<u>\$ 16,026,524</u>	<u>\$ 14,823</u>

Notes: (A) Fiscal year 2008 was the first year the Authority was organized.

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

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ANDERSON COUNTY WATER AUTHORITY

CUSTOMER STATISTICS, RATES AND TAP SALES  
Last Two Fiscal Years

---

Fiscal Year	Water Customers	Former ACUB Territory		Former NACUD Territory		Annual Tap Sales
		Minimum Bill (A)	Rate Per 1,000 Gallons	Minimum Bill (A)	Rate Per 1,000 Gallons	
2009	8,990	\$ 15.20	\$ 4.90	\$ 21.14	\$ 5.42	19
2010	9,136	15.20	4.90	21.14	5.42	78

Notes: (A) Minimum bill is based upon the first 2,000 gallons of water purchased.

(B) Rates are the same for any size meter.

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

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ANDERSON COUNTY WATER AUTHORITY

WATER TREATED, SOLD AND CONSUMED

*Last Two Fiscal Years*

---

Fiscal Year	Gallons of Water (In Thousands)			Percent Lost
	Water Treated and Purchased	Water Sold and Consumed	Water Unbilled	
2009	495,339	335,174	160,165	32.3%
2010	1,015,372	684,203	331,169	32.6

*Note: Fiscal year 2009 was the first year the Authority began significant operations on January 1, 2009.*

---

*ANDERSON COUNTY WATER AUTHORITY*

*ANNUAL TAP SALES  
Last Two Fiscal Year*

---

<u>Fiscal Year</u>	<u>Water Meter Taps Sold</u>	<u>Sewer Taps Sold</u>	<u>Total Taps</u>
2009	19	-	19
2010	69	9	78

*Note: Fiscal year 2009 was the first year the Authority began significant operations on January 1, 2009.*

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*ANDERSON COUNTY WATER AUTHORITY*

*NUMBER OF CUSTOMERS BY TYPE*  
*Last Two Fiscal Years*

---

<u>Fiscal Year</u>	<u>Water</u>	<u>Wastewater</u>
2009	8,990	1,089
2010	9,136	1,063

*Note: Fiscal year 2009 was the first year the Authority began significant operations on January 1, 2009.*

*ANDERSON COUNTY WATER AUTHORITY*

*TEN LARGEST CUSTOMERS  
Current Fiscal Year and Prior Fiscal Year*

Customer	Type of Business	2010		2009 (B)	
		(A) Total Annual Sales	Percentage of Total Sales	(A) Total Annual Sales	Percentage of Total Sales
City of Lake City	Municipality	\$ 104,051	2.67%	\$ 49,634	2.65%
Thor Industries	Manufacturing	59,312	1.52	38,517	2.06
TVA	Electrical Power Distributor	59,825	1.54	26,684	1.42
Mariner Health	Health Care	69,168	1.78	26,488	1.41
Stardust Marina	Recreation	32,612	.84	16,268	0.87
Waterside Marina	Recreation	28,839	.74	16,043	0.86
Clinton Utility Board	Municipality	39,807	1.02	15,186	0.81
Rocky Top Marina	Recreation	12,974	.33	11,843	0.63
City of Caryville	Municipality	11,682	.30	5,851	0.31
Norris Dam State Park	Recreation	34,309	.88	1,696	0.09
Total		\$ 452,579	11.62 %	\$ 208,210	11.11%

*Note: (A) Sales include net water revenues only.*

*(B) FY 2009 is for the initial six month period ending June 30, 2009.*



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ANDERSON COUNTY WATER AUTHORITY

OUTSTANDING DEBT PER CUSTOMER

Last Two Fiscal Years

---

<u>Fiscal Year</u>		<u>Revenue Bonds (A)</u>	<u>Number of Customers (B)</u>		<u>Outstanding Debt Per Customer</u>
2009	\$	4,185,233	8,990	\$	466
2010		4,056,694	9,136		444

Notes: (A) Revenue Bonds are net of related discounts, premiums and deferred cost of defeasance.

(B) Water customers at year-end.

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

(D) No Debt to personal income ratio is shown because personal income for the Authority's area is not available.

*ANDERSON COUNTY WATER AUTHORITY*

*PLEDGED REVENUE COVERAGE*

*Last Two Fiscal Years*

(A) Fiscal Year	(B) Gross Revenues	(C) Operating Expenses	Net Revenues Available for Debt Service	Debt Service Requirements			(E) Coverage Ratio
				Principal	(D) Interest Paid	Total	
2009	\$ 2,344,818	\$ 2,146,187	\$ 198,631	\$ 150,000	\$ 95,729	\$ 245,729	.80
2010	4,619,238	3,753,701	865,537	200,000	199,975	399,975	2.16

- Notes: (A) FY 2009 is for a six month period beginning January 1, 2009, the effective date of significant operations.  
 (B) Includes operating revenues and, interest income received.  
 (C) Does not include depreciation expenses.  
 (D) Includes interest paid net of capitalized construction period interest.  
 (E) The Bond Series 2008, covenants requires a coverage ratio of 1.20 effective for the fiscal year ending June 30, 2010.

*ANDERSON COUNTY WATER AUTHORITY*

*DEMOGRAPHIC AND ECONOMIC INDICATORS (E)*

*Last Three Fiscal Years*

Fiscal Year	Population	Personal Income In Thousands (A)	Per Capita Personal Income (A)	Median Age (A)	School Attendance (B)	Unemployment Rates (C)	
						County	State
2008	74,446	\$ 2,217,002	\$ 29,780	41.4	8,694	5.4%	6.4%
2009	74,738	2,258,433	30,218	41.4	8,541	10.8	11.1
2010	74,849	2,154,154	28,780	39.2	8,117	9.4	10.0

*Notes: (A) U.S. Census Bureau and East Tennessee Development District for the previous calendar year.*

*(B) Anderson County Schools.*

*(C) Tennessee Department of Labor and Workforce Development for June.*

*(D) The Authority was created in Fiscal Year 2008 on July 16, 2007.*

*(E) Demographic and economic information is for Anderson County, Tennessee. This is information for the Authority's area is not available.*

*ANDERSON COUNTY WATER AUTHORITY*

*PRINCIPAL EMPLOYERS  
Current Fiscal Year and Prior Fiscal Year*

Customer	2010			2009		
	Employees	Rank	Percentage of County Workforce	Employees	Rank	Percentage of County Workforce
BWXT – Y12	4,600	1	12.85%	4,500	1	12.56%
UT Battelle (Oak Ridge National Laboratory)	4,200	2	11.73	4,200	2	11.73
Anderson County Government	1,739	3	4.86	1,542	3	4.30
Covenant Health Systems (Methodist Medical Center)	1,350	4	3.77	1,306	4	3.65
Bechtel Jacobs Co., LLC	1,337	5	3.73	1,337	5	3.73
SAIC	1,100	6	3.07	902	8	2.52
City of Oak Ridge	951	7	2.66	1,053	6	2.94
Wackenhut	902	8	2.52	902	7	2.52
Eagle Bend Manufacturing	-	-	-	624	9	1.74
Oak Ridge Associated Universities (ORAU)	850	9	2.37	600	10	1.68
Sitel	500	10	1.40	-	-	-
Duratek Resource Recovery	-	-	-	510	11	1.43
Carlisle Tire and Wheel Co. (B)	-	-	-	400	12	1.12
Total	<u>17,529</u>		<u>48.96%</u>	<u>17,876</u>		<u>49.92%</u>

Notes: (A) Source(s): Tennessee Department of Economic and Community Development and Tennessee Department of Labor and Workforce Development.

(B) Carlisle Tire and Wheel Co. was previously named Dico Tire.

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

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*ANDERSON COUNTY WATER AUTHORITY*

*EMPLOYEES BY FUNCTION*  
*Last Two Fiscal Years*

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

*Note: Fiscal year 2009 was the first year the Authority began significant operations on January 1, 2009.*

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ANDERSON COUNTY WATER AUTHORITY

OPERATING AND CAPITAL INDICATORS

Last Two Fiscal Years

---

	<u>2010</u>	<u>2009</u>
Area in Square Miles:	220	220
Water System:		
Miles of Water Mains	422	420
Number of:		
Service Connections (Water)	9,136	8,990
Office Building	1	-
Water Treatment Plants	2	2
Wastewater Treatment Plants	1	1
Reservoirs	16	16
Water Pumping Stations	24	24
Wastewater Pumping Stations	19	19
Fire Hydrants	325	325
Daily Average Water Treatment in Gallons (MGD)	2.61	2.58
Daily Average Water Purchases in Gallons (MGD)	.17	.12
Daily Average Water Sales and Consumption in Gallons (MGD)	1.87	1.84
Water Reservoir Storage Capacity (Millions of Gallons)	4.38	4.38

Note: (A) MGD = Million of gallons per day.

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

**INTERNAL CONTROL  
AND  
COMPLIANCE SECTION**



John W. Bacon, CPA  
Calvin C. Howard, CPA

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

Board of Commissioners  
Anderson County Water Authority  
Clinton, Tennessee

We have audited the financial statements of the Anderson County Water Authority (the Authority) as of June 30, 2010 and 2009, and for the years then ended, and have issued our report thereon dated November 10, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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



Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying Schedule of Audit Findings and Recommendations that we consider to be significant deficiencies in internal control over financial reporting as item numbered 10-1. A *significant deficiency* is a deficiency, or 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatements, 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 noncompliance 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of Audit Findings and Recommendations as items numbered 10-2 to 10-4.

We also noted certain matters that we reported to the Authority's management in a separate letter dated November 10, 2010.

The Authority's response to the items numbered 10-1 to 10-4 identified in our audit is described in the accompanying Schedule of Audit Findings and Recommendations. We did not audit the Authority's response and accordingly, we express no opinion on it.

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

*Bacon Howard and Company*

Knoxville, Tennessee  
November 10, 2010

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ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS

June 30, 2010

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**A: SUMMARY OF AUDITOR'S RESULTS**

1. The independent auditor's report expresses an unqualified opinion on the financial statements of the Authority.
2. One significant deficiency in internal controls were disclosed during the audit of the financial statements and are reported in the "Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. This significant deficiency was not considered to be material weaknesses.
3. Three instances of noncompliance of the Authority which would be required to be reported in accordance with Government Auditing Standards were disclosed during the audit.

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ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS (Continued)

June 30, 2010

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**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**Item 10-1: Individual Cashier Drawer (Significant Deficiency)**

During the audit, it was noted that more than one cashier could use the same cash drawer throughout the day when collecting payments from customers. This situation reduces the individual cashier's accountability.

**Recommendation:**

We recommend each cashier have a separate drawer and that daily collections be counted and reconciled to the receipts and verified by the office manager.

**Management's Response:**

We concur and will implement the recommendation noted above.

**Item 10-2 Performance and Payment Bond (Instance of Noncompliance)**

During FY 2010, the Authority constructed a new office building and hired a general contractor and made progress payments of \$319,693. The Authority did not obtain a performance and payment bond as required by its written purchasing policy. In addition, Tennessee Code Annotated (TCA) §12-4-201 requires that any public works construction contracts in excess of \$100,000 have a performance and payment bond. The building was subsequently completed and occupied by the Authority.

**Recommendation:**

We recommend that performance and payment bonds be obtained for construction contracts in excess of \$100,000 as required by the Authority's purchasing policy and TCA §12-4-201.

**Management's Response:**

In order to save costs, the Board of Commissioners waived the performance and payment bond while negotiating with the two lowest bidders. However, in the future we will require a performance and payment bond for construction contracts in excess of \$100,000.

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ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS (Continued)

June 30, 2010

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**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

**Item 10-3 Conference Registration for Spouses and Children  
(Instance of Noncompliance)**

During FY 2010, the Authority paid \$775 in conference registration fees for certain spouses and children of Commissioners and employees. According to the Authority's written travel policies, travel expenses are disallowed for spouses and family members.

**Recommendation:**

We recommend that the Authority limit travel expenses to Commissioners and employees as required by the travel policies.

**Management's Response:**

The Authority only paid for conference registration fees and no additional travel costs for spouses or family members was incurred. In the future we will only pay conference registration fees for Commissioners and employees.

**Item 10-4 Fidelity Insurance Coverage for Commissioners and Employees  
(Instance of Noncompliance)**

During the audit, it was noted that the Authority did not have fidelity insurance coverage for certain Commissioners and employees as required by the Revenue Term Bonds Series 2008 bond covenants, Section 6.03.

**Recommendation:**

We recommend that the Authority obtain fidelity insurance coverage as required by the Series 2008 bond covenants.

**Management's Response:**

We concur and will obtain fidelity insurance coverage immediately.

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*ANDERSON COUNTY WATER AUTHORITY*  
*SCHEDULE OF PRIOR YEAR AUDIT FINDINGS*  
*June 30, 2010*

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<u>Item</u>	<u>Finding Type</u>	<u>Status</u>
09-1	Customer Accounts Receivable Adjustments	Corrected
09-2	Accounts Receivable Billing Process	Corrected
09-3	Accounts Payable Procedures	Corrected
09-4	Payroll Procedures	Corrected
09-5	Review and Approval of Bank Statements and Reconciliations	Corrected