

**HC SEWAGE TREATMENT, LLC  
4718 LAKE PARK DRIVE, SUITE 3  
JOHNSON CITY, TN 37615  
(423)282-6811**

2007 MAR 26 PM 12:25  
TNA DOCKET ROOM

To: Darlene Stanley, Chief Utility Division  
From: Jack Strickland, HC Sewage Treatment, LLC  
Date: March 20, 2007  
Subject: Escrow Account, Docket 07-00060

HC Sewage Treatment, LLC is in good standing with all sources and has no known legal or financial exposure.

HC Sewage Treatment, LLC does not maintain an escrow account to accumulate funds dedicated to plant replacement. We keep extra pumps and lights for normal needs. The plant is five years old. It operates at twenty (20) per cent of capacity.

The HC plant cost approximately \$200, 000. I carry a one million (\$1,000,000) dollar line of credit for business needs.

I will make the arrangement you want.

Financial Statements  
of  
HC Sewage Treatment, LLC

For the Year Ended  
December 31, 2006

**SHORTER, CARDEN, MITCHELL & GRAY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

PRINCETON SQUARE, SUITE 29  
206 PRINCETON ROAD  
JOHNSON CITY, TENNESSEE 37601  
TEL: (423) 282-1431  
FAX: (423) 282-6012

J. S. SHORTER, C.P.A.  
J. E. CARDEN, C.P.A.  
J. E. MITCHELL, C.P.A.  
G. C. GRAY, C.P.A.

MEMBERS  
AMERICAN INSTITUTE AND  
TENNESSEE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS


HC Sewage Treatment, LLC  
Johnson City, TN 37604

We have compiled the accompanying statement of assets, liabilities, and equity – income tax basis of HC Sewage Treatment, LLC as of December 31, 2006 and the related statement of revenues and expenses – income tax basis for the twelve months then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The financial statements have been prepared on the accounting basis used by the Company for Federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared on the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's assets, liabilities, equity, revenues, and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

We are not independent with respect to HC Sewage Treatment, LLC.



February 24, 2007

**HC SEWAGE TREATMENT, LLC**  
**Statement of Assets, Liabilities & Equity - Income Tax Basis**  
**As of December 31, 2006**

	<u>Dec 31, 06</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Checking/Savings	
Checking	4,948.75
<b>Total Checking/Savings</b>	<u>4,948.75</u>
<b>Total Current Assets</b>	4,948.75
<b>Fixed Assets</b>	
Accumulated Depreciation	-34,530.00
Land	35,000.00
Sewage Treatment Facility	172,650.00
<b>Total Fixed Assets</b>	<u>173,120.00</u>
<b>TOTAL ASSETS</b>	<u><b>178,068.75</b></u>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Other Current Liabilities	
Accrued FET	433.00
<b>Total Other Current Liabilities</b>	<u>433.00</u>
<b>Total Current Liabilities</b>	433.00
<b>Long Term Liabilities</b>	
Interest Payable	32,219.43
N/P - Hampton-Carter	178,339.32
N/P - Stricklands	35,000.00
<b>Total Long Term Liabilities</b>	<u>245,558.75</u>
<b>Total Liabilities</b>	245,991.75
<b>Equity</b>	
Jack Strickland - Capital	-19,640.05
Joy Strickland - Capital	-19,640.05
Net Income	-28,642.90
<b>Total Equity</b>	<u>-67,923.00</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u><b>178,068.75</b></u>

**HC SEWAGE TREATMENT, LLC**  
**Statement of Revenues and Expenses - Income Tax Basis**  
**January through December 2006**

	<u>Jan - Dec 06</u>
<b>Income</b>	
Income	7,486.70
Tap Fee	<u>10,177.20</u>
<b>Total Income</b>	17,663.90
<b>Expense</b>	
Accounting	745.00
Depreciation	6,906.00
Insurance	2,629.13
Interest Expense	8,916.97
Maintenance	1,050.00
Management Fees	18,612.00
Postage	13.60
Repairs	382.57
Tax	
Prop	4,532.00
State	733.00
Tax - Other	<u>600.00</u>
<b>Total Tax</b>	5,865.00
<b>Utilities</b>	
Gas & Electric	<u>1,186.53</u>
<b>Total Utilities</b>	<u>1,186.53</u>
<b>Total Expense</b>	<u>46,306.80</u>
<b>Net Income</b>	<u><u>-28,642.90</u></u>



Member FDIC

P.O. Box 1000 • Abingdon, VA 24212 • 276-623-2265 • Fax: 276-628-5860

### **LETTER OF CREDIT**

Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

REFERENCE: H C Sewage Treatment LLC

Company ID # 05-00105  
Irrevocable Letter of Credit #: 2006-016  
Effective Date: 3/7/07

Sir/Madam:

You have requested of The First Bank & Trust Company, hereinafter called the "Lender" that we establish an irrevocable letter of credit which will remain available on behalf of H C Sewage Treatment LLC, hereinafter the "Company" who has applied to the Tennessee Regulatory Authority (the "Authority") for authority to provide public wastewater services in the state of Tennessee. The purpose of this letter of credit is to secure payment of any monetary obligation imposed against the Company, its representatives, successors or assigns, in any contested case proceeding brought under Tenn. Comp. R & Regs. Chapter 1220-4-13 by or on behalf of the Authority.

We hereby establish and issue, in favor of the Authority, an irrevocable letter of credit in the amount of Twenty Thousand Dollars (\$20,000.00) lawful money of the United States of America. Upon entry of an Order that finds a monetary obligation pursuant to Chapter 1220-4-13, the Authority may draw upon this letter of credit, at any time and from time to time, by delivering a Letter of Credit Notice, substantially in the form set forth below ("Notice"), which Notice shall specify the amount (the "Draw Amount") to be drawn and the account (the "Bank Account") to which the Draw Amount should be delivered and shall be signed by an official designated and duly authorized by the Authority, to Lender at the address listed below, or to such other address as the Lender shall notify the Authority in writing by certified mail. Promptly after the delivery of each Notice, the Lender hereby covenants and agrees to deliver, by wire transfer of immediately available funds, the Draw Amount to the Bank Account.

This letter of credit shall be deemed automatically renewed without amendment for successive one-year periods and may be cancelled by the Lender by giving thirty (30) days advanced written notice by certified mail of such cancellation to the Authority and the Company, it being understood that the Lender shall not be relieved of liability that may have accrued under this letter of credit prior to the date of cancellation.

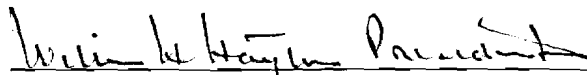
Failure to renew this letter of credit shall allow the Authority to draw upon it without the necessity of the Authority being required to hold a hearing concerning the Principal's operation or Certificate of Public Convenience and Necessity. In such an event and upon a directive from the Authority, the Lender hereby covenants and agrees to deliver by wire transfer of immediately available funds the maximum sum of this letter of credit to the Bank Account to enable the continued operation of the public wastewater utility.

The Lender hereby represents and warrants that it is qualified and authorized to issue this letter of credit and is a bank designated by the Treasurer of the State of Tennessee as an authorized depository bank for the deposit of state funds.

Except as otherwise expressly stated, this letter of credit is subject to the Uniform Customs and Practice for Documentary Credit (1993 Revision) International Chamber of Commerce Publication No. 500, or any revisions thereto.

Very truly yours,

**The First Bank & Trust Company**



William H. Hayter, President & Chief Executive Officer  
1185 N. State of Franklin Road, Johnson City, TN 37604

#### **APPROVAL AND ENDORSEMENT**

This is to certify that I have examined the foregoing letter of credit and found the same to be sufficient and in conformity to law and that the same has been filed with the Tennessee Regulatory Authority, State of Tennessee, this \_\_\_\_\_ day of \_\_\_\_\_, 2007.

Name:

Title:



Member FDIC

P.O. Box 1000 • Abingdon, VA 24212 • 276-623-2265 • Fax: 276-628-5860

**AMENDMENT TO  
IRREVOCABLE STANDBY LETTER OF CREDIT**

**Applicant:**

H C Sewage Treatment LLC  
Company ID # 05-00105  
Irrevocable Letter of Credit #: 2006-016  
Effective Date: 3/7/06

**Payable Through:**

The First Bank and Trust Company  
1185 N. State of Franklin Rd.  
Johnson City, TN 37604

**Beneficiary:**

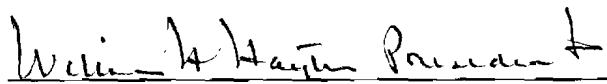
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

We hereby amend our Letter of Credit Number 2006-016 to reflect the following change only. All other terms and conditions shall remain unchanged.

**EXPIRATION DATE: March 7, 2008**

Countersigned At **Johnson City, Tennessee**  
This 20th day of March, 2007.

**THE FIRST BANK AND TRUST COMPANY**

  
\_\_\_\_\_  
**Authorized Signature**