

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TN

November 28, 2016

IN RE:

)

)

PETITION OF TENNESSEE

)

WASTEWATER SYSTEMS, INC., FOR

)

DOCKET NO. 16-00139

APPROVAL TO AMEND ITS RATES

)

AND CHARGES

)

DIRECT TESTIMONY OF CHARLES HYATT

Q. What is your name and business address?

A. I am Charles Hyatt. My business address is 849 Aviation Parkway, Smyrna TN, 37167

Q. By whom are you employed and in what capacity?

A. I am Chief Executive Officer of Adenus Group, LLC.

Q: What are your responsibilities in that position?

A: I am responsible for the day-to-day operation and financial functions of Adenus Group which includes Adenus Operations, Adenus Solutions Group, Adenus Tech, Alabama Wastewater, Commonwealth Wastewater, Ohio Wastewater, and Tennessee Wastewater. My responsibilities include financial statement preparation and analysis.

Q. Please describe your educational background and business experience?

A. I earned a Bachelor's degree in Business Administration with a major in Accounting from The Ohio State University in 1993. I have worked in many areas of Accounting and General Management since 1984 and have served in various roles within Fortune 500 food companies before joining Adenus Group in 2007. In these roles, I was responsible for various accounting

duties including budget preparation, account reconciliation, and financial statement preparation and analysis.

Q. Please describe TWSI's service territory.

A. In 1999 the Public Service Commission (predecessor to the TRA) granted TWSI (then called On-Site Systems, Inc.) its initial CCN. Since that time, TWSI has been granted over 100 CCNs and provides wastewater service to over 2800 customers in 23 Tennessee counties.

Q. Please explain the increase in rates the Company is seeking.

A. TWSI is seeking a rate increase that would produce additional revenues of \$492,815.18 or 24%. The Company last filed for a rate increase in October 2008.

Q. What rate of return does TWSI seek with this Petition?

A. The Company seeks a return of 7.9% on net revenues.

Q. What is the purpose of your testimony in this case?

A. To explain the basis for the Company's petition, explain how the new rates have been calculated and developed, explain the tariff changes, and sponsor Exhibits 1-6 and the Escrow Rider. Exhibit 1 is a Test Period Profit and Loss Statement that demonstrates that under the current rate structure, operating revenues are insufficient to cover expenses. Exhibit 1 also shows detailed adjustments made to the test period line items. Exhibit 2 is a detailed Profit and Loss Statement for the attrition period and shows all adjustments made to the normalized test period as well as estimates for this period. Exhibit 3 is a Payroll Analysis for full time TWSI employees. Exhibit 4 shows the Operating Ratio calculations. Exhibit 5 are the Interest Calculations on the loans previously approved by the Authority. Exhibit 6 is the breakdown for the Residential Cabins in East Tennessee. The Escrow Rider Exhibit shows the calculations for the proposed tariff rider for escrow recovery.

Q. Were the Company's accounting exhibits prepared by you or under your supervision?

A. Yes they were.

Q. What is the source of the information used in the Company's accounting exhibits?

A. The information contained in the Company's accounting exhibits is from the financial and operational records of the Company.

Q. What is the test period reflected in this case?

A. The Company used a test period of twelve months ended December 31, 2015. The test period was normalized to eliminate any non-recurring expenses. As Exhibit 2 demonstrates, with total revenues of \$1,671,534 and expenses of \$1,976,750 the Company is experiencing a loss of (\$305,216). It is important to note that this amount includes Sewer Access Fee income and expense. As Exhibit 2 demonstrates, the net utility loss after removing net income from Sewer Access Fees is (\$488,132).

Q. What adjustments were made to the test period?

A. The actual transactions from our Accounting records were adjusted to reflect what actual revenues and expenses would have been less pass through costs for items such as bonding (\$43,804) and franchise income (\$2502). Adjustments were also made through the removal of developer income which is not attributed to rate base revenue -- expenses associated with this revenue are not charged to TWSI. One-time expenses such as professional service fees incurred in the Emergency Rate Case Docket (No. 14-00136 and 16-00096) were also removed. Finally, a \$44,958 adjustment was made for the bond cost at Paris Landing State Park as it was expensed in the prior year.

Q. What attrition period did the Company choose for this case?

A. The Company chose a twelve-month period ending December 31, 2015 for the attrition period. Exhibit 4 demonstrates that, if the proposed rate increase is approved, operating revenues will exceed operating expenses of \$2,216,844, resulting in operating net income of \$331,733. The projected net utility income for the attrition period is \$202,357.

Q. Please explain the allocation of Adenus Group management fees to Tennessee Wastewater and other members of Adenus Group as referenced in Exhibit 2.

A. We are following the direction set out by Chairman Robertson in the 2008 rate case whereby TWSI pays for the actual time of affiliated employees. Revenue allocations no longer take place.

Q. Does TWSI still rely on or receive any subsidies from any of its affiliated companies?

A. No. TWSI now has a sufficient customer base to operate as its own company without affiliate subsidy and has since 2009.

Q. What rate increase are you proposing?

A. We are proposing a rate increase of 20 percent (20%) on base residential and commercial rates. Further we are proposing a new rate category strictly for cabins which is figured at .0358 cents per sketched square foot. The cabin category includes both residential and commercial cabins.

Q. Please explain the purpose and reasoning behind the change in rate categories.

A. We are keeping the Residential and Commercial categories, however the proposed tariff does away with the Residential Cabin and Commercial Cabin distinctions and replaces them with an overall Cabin category. After being involved in the cabin market for over 15 years, we understand that most of the cabins on our systems are commercial in nature. When the cabin communities were first proposed to TWSI, the developers represented that they intended to build 2-3 bedroom cabins that would be primarily used as residential in nature with a small number used as commercial rentals. The cabins that were ultimately constructed are much larger and have essentially become mini-hotels, housing significantly more people than the wastewater systems were originally contemplated to serve. The ability of the cabins to accommodate a greater number of guests has caused an abuse and overuse of several wastewater systems. Our research has determined that the square footage of a cabin is more indicative of its capacity and ability to accommodate guests than the number of bedrooms. Cabins typically have additional common areas such as great rooms, screened wrap around porches, finished basements, and attics and lofts which allow for the accommodation of more guests using sleeper sofas, bunk beds, and sleeping bags. As such, we have determined a rate based on the overall square footage of the cabin is the most accurate way to set a proper rate as it is more indicative of cabin capacity and wastewater system use. The new Cabin Rate of .0358 cents per square foot is based on the sketched square footage on record with the county tax assessor.

Q. What about those cabin owners that do not rent or otherwise make their cabins commercially available?

A. The significant majority of cabin owners make their cabins available for commercial rental. We have consistently run into issues with cabin owners representing to us that they do not or will not make their cabins commercially available only to find the cabins listed on an Air B&B or another rental website. Those customers that use their cabins as their personal residence tend to have a smaller cabin by square footage. Based on the new rate structure there should not be a significant impact to those rates, if at all, for the smaller cabins.

Q. Please explain the purpose of the Escrow Recovery Rider?

A. The Company's escrow account has traditionally been used to cover items such as tank pumping, repairs to the treatment facilities, force mains, pump stations, and repairs to portions of the wastewater system installed on a customer's premises. The need to repair systems to continue to adequately provide services as well as maintain regulatory compliance has increased, especially as systems begin to age. The escrow account has been the source of funds to pay for these repairs and demand for repairs and the corresponding expenses has exceeded escrow revenue which needs to be replaced. The Escrow Rider allows for a recovery of the shortfall in the current escrow account over a period of 3 years.

Q. What is the Capital Capacity Fee for Williamson County?

A. The Capital Capacity Fee of \$6000 has multiple purposes. For established systems with available capacity, it functions as a tap fee to secure capacity on those systems. For new developments with standalone systems, it is an amount paid by the developer to Tennessee Wastewater for the purposes of providing wastewater treatment facilities to the development including the oversight, coordination and payment for the engineering, design, and construction of the wastewater treatment facilities to serve that development. Any remainder from the Capital Capacity Fee will be used to seed TWSI's capital account.

Q. Do these changes require a new tariff?

A. Yes. Because of the number of changes being made we are submitting a new tariff, T.R.A. Tariff No. 2.

Q. Besides the changes you have already testified to, what are the other changes TWSI is making in its tariff?

A. Other changes to the tariff include, (1) Addition of newly defined terms, (2) Capacity revocation, (3) Addition of the credit card convenience fee (3%), and (4) Addition of the charges for returned or declined ACH payments.

Q. Please explain capacity revocation.

A. The new capacity revocation provision allows TWSI to revoke the capacity of a lot owner who fails to pay their annual Capacity Reservation Fee – formerly the Sewer Access Fee. Once capacity is revoked, the only way to get it back is to pay a new tap fee. While this may initially seem harsh, most of our systems have limited capacity. If someone is not paying their Access Fee, it prevents another potential customer from tapping onto a system who will pay the fee and


eventually become a monthly rate payer. Property owners currently pay a yearly Capacity Reservation Fee of \$120 for lots that have sewer service available but have not executed a Sewer Service Agreement to establish monthly wastewater service. The purpose of the fee is to reserve capacity on a sewer system and the revenue from the fee goes to help offset the cost of maintaining and operating the systems. These fees have proven difficult to collect, especially from developers, some of whom have run up bills in the tens of thousands of dollars. TWSI's sister company, Alabama Wastewater Systems, Inc. had a similar problem in Alabama and a couple years ago the Alabama Public Service Commission approved capacity revocation in our Alabama Wastewater Systems, Inc. tariff. Since that time almost all delinquent Capacity Reservation Fees accounts have become current. The ability to revoke the capacity is much more efficient and cost effective than having to take a developer or lot owner to court, get a judgment, and then try and execute and collect on that judgment.

Q. Does this conclude your direct testimony?

A. Yes.

AFFIDAVIT

My name is Charles Hyatt and the attached is direct testimony and is true and correct to the best of my knowledge.



Charles Hyatt

County of Rutherford)
State of Tennessee)

On this 20 day of November, 2016, personally appeared before me, the above-named Charles Hyatt known to me personally who was duly sworn and on oath executed the above Affidavit.



Notary

My commission expires: 02/20/2018



Tennessee Wastewater Systems, Inc.
Profit & Loss
January through December 2007

Exhibit 1

Ordinary Income/Expense

| | Test Period (2015) | Test Period Adjustments | Normalized Test Period | Comment ID | Comments | B&C | Maint | Sewer | Est 1a |
|---|---------------------|-------------------------|------------------------|------------|-----------------------------------|-------------|--------------|--------------|-------------|
| 400 - Operating Revenues | | | | | | | | | |
| 521 - Flat Rate Revenues | 373,741.12 | 387,353.40 | 761,094.52 | | | 32,421.42 | 373,830.54 | | (18,898.56) |
| 521.1 - Residential-Flat Sewer | | 18,998.98 | 18,998.98 | | Reclassification | | | | |
| Residential Cabin | | (98,705.03) | 164,945.04 | | Reclassification | 1,060.50 | 78,922.94 | (176,888.47) | 18,898.56 |
| 521.2 - Commercial Sewer | 290,750.07 | 494,321.52 | 484,321.52 | | Reclassification | 13,464.00 | 304,169.05 | 176,698.47 | |
| Commercial Cabin Sewer | | | | | | | | | |
| 530 - Other Wastewater Revenues | | | 182,918.00 | | | | | | |
| 536.1 - Sewer Access Fees | 182,918.00 | (798,922.53) | 0.00 | | Reclassification | (46,944.92) | (758,922.53) | | |
| 536.3 - Operations & Maintenance | 798,922.53 | (46,945.02) | 0.00 | | Reclassification | | | | |
| 536.4 - Billing & Collections | 46,945.02 | (43,803.54) | 0.00 | | Pass Thru | | | | |
| 536.5 - Bonding | 43,803.54 | (2,501.50) | 0.00 | | Pass Thru | | | | |
| 536.6 - Franchise Income | 2,501.50 | (10,623.64) | 0.00 | | Pass Thru | | | | |
| 536.7 - Florida | 10,623.64 | | | | | | | | |
| 536.9 - Penalty Fees | 14,218.26 | | 14,218.26 | | | | | | |
| 536.9 - Other Wastewater Revenues - Other | | | 0.00 | | | | | | |
| 410 - Interest Earned | | | 0.00 | | | | | | |
| 421 - Nonutility Income | | | 0.00 | | | | | | |
| 421.3 - Utility Fee | 308,550.00 | (308,550.00) | 0.00 | | Non-Rate Base | | | | |
| 421.5 - Developer Income | 6,040.77 | | 6,040.77 | | | | | | |
| 421 - Nonutility Income - Other | | (388,378.77) | 1,671,534.67 | | | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Income | 2,037,919.44 | | | | | | | | |
| Expenses | | | | | | | | | |
| 401 - Operating Expenses | | | | | | | | | |
| 701 - Salaries and Wages - Employees | 516,024.04 | | 516,024.04 | | | | | | |
| 703 - Salaries and Wages - Officers | 537.65 | | 837.65 | | | | | | |
| 704.2 - Life Insurance | 2,389.42 | | 2,389.42 | | | | | | |
| 704.1 - Worker's Compensation | 1,354.85 | | 1,354.85 | | | | | | |
| 705 - Simple IRA | 5,666.17 | | 6,966.17 | | | | | | |
| 710 - Purchased Wastewater Treatment | 105,897.26 | | 105,897.25 | | | | | | |
| 715 - Purchased Power | 118,441.74 | | 118,441.74 | | | | | | |
| 716 - Telemetry Monitoring | 124,173.70 | | 124,173.70 | | | | | | |
| 718 - Bioxide | | | 0.00 | | | | | | |
| 720 - Materials and Supplies | 179,389.17 | | 179,389.17 | | | | | | |
| 731 - Contractual Svc - Professional | 256,098.97 | (81,625.00) | 174,243.87 | | 2015 part of \$106,000 settlement | | | | |
| 735 - Contractual Svc - Testing | 12,877.00 | | 12,877.00 | | | | | | |
| 738 - Contractual Services | | | 0.00 | | | | | | |
| 738.01 - Sign-Up Costs | | | | | | | | | |
| 738.02 - Contract Maintenance | 16,212.03 | | 16,212.03 | | | | | | |
| 738.03 - Contractual Svc | 22,382.22 | | 22,382.22 | | | | | | |
| 738.04 - Subcontract Work | | | 0.00 | | | | | | |
| 738.05 - Access Fees | | | 0.00 | | | | | | |
| 738.08 - Lawn Mowing | 20,947.23 | | 20,947.23 | | | | | | |
| 738.10 - One-Call Expenses | 3,160.20 | | 3,160.20 | | | | | | |
| 738.11 - Contractual Profit Sharing | | | 0.00 | | | | | | |
| 738.12 - AUG - MGMT Fees | 148,788.04 | | 148,788.04 | | | | | | |
| 738.3 - Adams Group - MGMT Fees | | | 0.00 | | | | | | |
| 740 - Rent | 60,945.00 | | 60,945.00 | | | | | | |
| 750.3 - Registration Renewal | 1,489.81 | | 1,489.81 | | | | | | |
| 750.1 - Fuel | 36,185.47 | | 36,185.47 | | | | | | |
| 750.2 - Vehicle Maintenance | 28,641.70 | | 28,641.70 | | | | | | |
| 755 - Insurance | 11,764.73 | | 11,764.73 | | | | | | |
| 756 - Regulatory Commission Exp. | | | | | | | | | |
| 756.2 - Filing Fee | 60.00 | | 60.00 | | | | | | |
| 756.3 - Inspection Fee | 6,082.50 | | 6,082.50 | | | | | | |
| 756 - Regulatory Commission Exp. - Other | | | 0.00 | | | | | | |
| 770 - Bad Debt | 38,767.80 | | 38,767.80 | | | | | | |
| 776 - Miscellaneous Expenses | | | | | | | | | |
| 776.21 - Website & Internet Hosting | 16,294.01 | | 16,294.01 | | | | | | |
| 776.27 - Equipment Maintenance | 835.41 | | 835.41 | | | | | | |
| 776.28 - Equipment Rental | 1,540.03 | | 1,540.03 | | | | | | |
| 776.25 - Small Equipment Purchases | 40,513.81 | | 40,513.81 | | | | | | |

Tennessee Wastewater Systems, Inc.
Profit & Loss
January through December 2007

Exhibit 1

| | Test Period (2015) | Test Period Adjustments | Normalized Test Period | Comment ID | Comments | S&C | Maint | Sewer | Exh 1a |
|---------------------------------------|--------------------|-------------------------|------------------------|------------|----------------------------|-----|-------|-------|--------|
| Loan Filing Fee | 12.00 | | 12.00 | | | | | | |
| 775.1 - Telephone | 12,238.38 | | 12,238.38 | | | | | | |
| 775.10 - Office Supplies | 1,228.81 | | 1,228.81 | | | | | | |
| 775.11 - Letter of Credit - Fees | 43,710.87 | (43,710.87) | 0.00 | | Pass Thru | | | | |
| 775.12 - Depreciation Expense | 58,997.88 | | 58,997.88 | | | | | | |
| 775.18 - Interest Expense | | | 0.00 | | | | | | |
| 775.2 - Postage | 8,040.48 | | 8,040.48 | | | | | | |
| 775.20 - Software Licenses | 13,285.00 | | 13,285.00 | | | | | | |
| 775.23 - Maintenance Agreements | | | 0.00 | | | | | | |
| 775.3 - Licenses & Permits | 11,861.00 | | 11,861.00 | | | | | | |
| 775.4 - Membership Dues | 4,784.72 | | 4,784.72 | | | | | | |
| 775.5 - Deed Registration | 172.35 | | 172.35 | | | | | | |
| 775.6 - Franchise Fees | 2,600.59 | (2,500.59) | 0.00 | | Pass Thru | | | | |
| 775.9 - Interest on Customer Deposits | | | 0.00 | | | | | | |
| 775.9 - Billing Costs | 980.00 | | 980.00 | | | | | | |
| 775 - Misc Expense | 1,053.87 | | 1,053.87 | | | | | | |
| 408 - Taxes Other than Income | | | | | | | | | |
| 408.1 - Property Taxes | 51,883.13 | | 51,883.13 | | | | | | |
| 408.2 - Franchise & Excise | 53,850.87 | | 53,850.87 | | | | | | |
| 408.12 - Payroll Taxes | 42,459.89 | | 42,459.89 | | | | | | |
| 408.7 - Tax Penalties | | | 0.00 | | | | | | |
| 408 - Income Tax | | | 0.00 | | | | | | |
| 428 - Misc. Nonutility Expenses | | | | | | | | | |
| 428.8 - Lodging | 384.82 | | 384.82 | | | | | | |
| 428.9 - Meals & Entertainment | 2,402.79 | | 2,402.79 | | | | | | |
| 428.1 - Dues and Subscriptions | 7,050.03 | | 7,050.03 | | | | | | |
| 428.2 - Bank & NSF Fees | 5,997.88 | | 5,997.88 | | | | | | |
| 428.3 - Miscellaneous | 823.00 | | 823.00 | | | | | | |
| 428.4 - Parking | 38.00 | | 38.00 | | | | | | |
| 428 - Misc. Nonutility Expense | (44,958.00) | 44,958.00 | 0.00 | | Peris Lending Bond Recover | | | | |
| 427 - Interest Expense | 10,118.25 | | 10,118.25 | | | | | | |
| Total Expense | 2,068,634.74 | | 1,876,759.28 | | | | | | |
| Net Income | (21,921.30) | | (385,216.87) | | | | | | |

| Normalized Test Period from Exhibit 1-A | Adjustments | Auction Period | Rate Adjustments | Auction Period (2) | New Rates |
|---|-------------|----------------|------------------|--------------------|-----------|
|---|-------------|----------------|------------------|--------------------|-----------|

Sq Footage

| 400 - Operating Revenues | | | | | | | | | |
|--|--------------|------------|--------------|--------------|--------------|---------------------|--------------|------|------|
| 521 - Flat Rate Revenues | | | | | | | | | |
| 521.1 - Residential-Flat Sewer | 791,004.52 | 226,431.18 | 987,525.70 | 193,605.14 | 1,161,030.84 | Escrow Revenue | 143,885 | 0.17 | 20% |
| Residential Curb | 18,898.96 | 6,600.89 | 24,500.85 | 37,302.00 | 61,870.85 | Escrow Revenue | 0.43 | | |
| 521.2 - Commercial Sewer | 194,045.24 | 53,042.24 | 247,087.28 | 48,417.46 | 295,504.74 | Escrow Revenue | 20% | | |
| Curb Sewer | 494,321.82 | 149,243.75 | 643,565.27 | 212,530.69 | 855,095.25 | Escrow Revenue | 1,988,595.00 | 0.32 | 0.43 |
| 536 - Other Wastewater Revenues | | | | | | | | | |
| 536.1 - Sewer Access Fees | 182,918.00 | 182,918.00 | 182,918.00 | 182,918.00 | 182,918.00 | | | | |
| 536.3 - Operations & Maintenance | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| 536.4 - Billing & Collections | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| 536.6 - Bonding | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| 536.8 - Franchise Income | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| 536.9 - Blotdies | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| 536.9 - Penalty Fees | 14,218.26 | 14,218.26 | 14,218.26 | 14,218.26 | 14,218.26 | | | | |
| 536 - Other Wastewater Revenues - Other | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| 418 - Interest Earned | | | | | | | | | |
| 418 - Nonutility Income | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| 421.3 - Utility Fee | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| 421.5 - Developer Income | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| 421 - Nonutility Income - Other | 6,040.77 | 6,040.77 | 6,040.77 | 6,040.77 | 6,040.77 | | | | |
| Total Income | 1,671,594.67 | 413,327.16 | 2,084,921.83 | 492,416.18 | 2,577,377.01 | | | | |
| Expense | | | | | | | | | |
| 401 - Operating Expenses | | | | | | | | | |
| 701 - Salaries and Wages - Employees | 516,024.04 | 0.00 | 516,024.04 | 556,473.20 | 556,473.20 | See Exhibit 3 | | | |
| 703 - Salaries and Wages - Officers | 537.65 | 537.65 | 537.65 | 537.65 | 537.65 | | | | |
| 704.2 - Life Insurance | 2,399.42 | 2,399.42 | 2,399.42 | 2,399.42 | 2,399.42 | | | | |
| 704.1 - Worker's Compensation | 1,354.85 | (1,554.85) | 0.00 | 18,793.00 | 18,793.00 | See Exhibit 3 | | | |
| 705 - Simple IRA | 5,968.17 | (5,968.17) | 0.00 | 5,400.00 | 5,400.00 | See Exhibit 3 | | | |
| 710 - Purchased Wastewater Treatment | 105,897.25 | 105,897.25 | 105,897.25 | 105,897.25 | 105,897.25 | | | | |
| 716 - Purchased Power | 116,441.74 | 116,441.74 | 116,441.74 | 116,441.74 | 116,441.74 | | | | |
| 716 - Telemetry Monitoring | 124,173.70 | 124,173.70 | 124,173.70 | 124,173.70 | 124,173.70 | | | | |
| 718 - Blotdies | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| 720 - Materials and Supplies | 179,399.17 | 179,399.17 | 179,399.17 | 250,189.57 | 429,587.74 | Escrow Expense | | | |
| 731 - Contractual Svc - Professional | 174,243.97 | 174,243.97 | 174,243.97 | (116,183.00) | 59,060.97 | 3 year amortization | | | |
| 735 - Contractual Svc - Testing | 12,877.00 | 12,877.00 | 12,877.00 | 12,877.00 | 12,877.00 | | | | |
| 736 - Contractual Services | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| 736.01 - Sign-up Costs | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| 736.02 - Contract Maintenance | 15,212.03 | 15,212.03 | 15,212.03 | 15,212.03 | 15,212.03 | | | | |
| 736.03 - Contractual Svc | 22,392.22 | 22,392.22 | 22,392.22 | 22,392.22 | 22,392.22 | | | | |
| 736.04 - Subcontract Work | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| 736.05 - Access Fees | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| 736.06 - Lawn Mowing | 20,947.23 | 20,947.23 | 20,947.23 | 20,947.23 | 20,947.23 | | | | |
| 736.10 - One-Call Expenses | 3,169.20 | 3,169.20 | 3,169.20 | 3,169.20 | 3,169.20 | | | | |
| 736.11 - Contractual Profit Sharing | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| 736.12 - AUG - MGMT Fees | 148,788.04 | 148,788.04 | 148,788.04 | 148,788.04 | 148,788.04 | | | | |
| 736.9 - Ademas Group - MGMT Fees | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| 740 - Rent | 80,945.00 | 80,945.00 | 80,945.00 | 80,945.00 | 80,945.00 | | | | |
| 750.3 - Registration Renewal | 1,489.81 | 1,489.81 | 1,489.81 | 1,489.81 | 1,489.81 | | | | |
| 750.4 - Fuel | 35,165.47 | 35,165.47 | 35,165.47 | 35,165.47 | 35,165.47 | | | | |
| 760.2 - Vehicle Maintenance | 26,941.70 | 26,941.70 | 26,941.70 | 26,941.70 | 26,941.70 | | | | |
| 765 - Insurance | 11,784.73 | 11,784.73 | 11,784.73 | 11,784.73 | 11,784.73 | | | | |
| 765 - Regulatory Commission Exp. | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| 765.2 - Filing Fee | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 | | | | |
| 765.3 - Inspection Fee | 6,992.50 | 6,992.50 | 6,992.50 | 6,992.50 | 6,992.50 | | | | |
| 765 - Regulatory Commission Exp. - Other | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | |
| 770 - Bad Debt | 38,787.80 | 38,787.80 | 38,787.80 | 7,757.80 | 7,757.80 | 5 yr amortization | | | |
| 775 - Miscellaneous Expenses | 0.00 | 0.00 | 0.00 | (31,030.00) | 0.00 | | | | |
| 775.21 - Website & Internet Hosting | 15,294.01 | 15,294.01 | 15,294.01 | 15,294.01 | 15,294.01 | | | | |
| 775.27 - Equipment Maintenance | 835.41 | 835.41 | 835.41 | 835.41 | 835.41 | | | | |

| | | | | | |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| 775.26 · Equipment Rental | 1,540.03 | 1,540.03 | 1,540.03 | | |
| 775.25 · Small Equipment Purchases | 40,513.91 | 40,513.91 | 40,513.91 | | |
| Lease Filing Fee | 12.00 | 12.00 | 12.00 | | |
| 775.1 · Telephone | 12,238.38 | 12,238.38 | 12,238.38 | | |
| 775.10 · Office Supplies | 1,226.91 | 1,226.91 | 1,226.91 | | |
| 775.11 · Letter of Credit - Fees | 0.00 | 0.00 | 0.00 | | |
| 775.12 · Depreciation Expense | 58,997.88 | 58,997.88 | 90,990.65 | | |
| 775.18 · Interest Expense | 0.00 | 0.00 | 0.00 | 42,992.87 | |
| 775.2 · Postage | 8,049.46 | 8,049.46 | 8,049.46 | | |
| 775.20 · Software Licenses | 13,285.00 | 13,285.00 | 13,285.00 | | |
| 775.23 · Maintenance Agreements | 0.00 | 0.00 | 0.00 | | |
| 775.3 · Licenses & Permits | 11,661.00 | 44,621.00 | 44,621.00 | | |
| 775.4 · Membership Dues | 4,764.72 | 4,764.72 | 4,764.72 | | |
| 775.5 · Dead Registration | 172.35 | 172.35 | 172.35 | | |
| 775.6 · Franchise Fees | 0.00 | 0.00 | 0.00 | | |
| 775.8 · Interest on Customer Deposits | 0.00 | 0.00 | 0.00 | | |
| 775.9 · Billing Costs | 980.00 | 980.00 | 980.00 | | |
| 775 · Misc Expense | 1,033.87 | 1,033.87 | 1,033.87 | | |
| 408 · Taxes Other than Income | 0.00 | 0.00 | 0.00 | | |
| 408.4 · Property Taxes | 51,983.13 | 51,983.13 | 51,983.13 | | |
| 408.3 · Franchise & Excise | 53,650.67 | 53,650.67 | 53,650.67 | | |
| 408.12 · Payroll Taxes | 42,459.99 | (42,459.99) | 43,351.00 | | |
| 408.7 · Tax Penalties | 0.00 | 0.00 | 0.00 | | |
| 409 · Income Tax | 0.00 | 0.00 | 0.00 | | |
| 428 · Misc. Monthly Expenses | 0.00 | 0.00 | 0.00 | | |
| 428.9 · Lodging | 384.92 | 384.92 | 384.92 | | |
| 428.9 · Meals & Entertainment | 2,402.79 | 2,402.79 | 2,402.79 | | |
| 428.4 · Dues and Subscriptions | 7,050.03 | 7,050.03 | 7,050.03 | | |
| 428.2 · Bank & NIF Fees | 5,897.88 | 5,897.88 | 5,897.88 | | |
| 428.3 · Miscellaneous | 623.00 | 623.00 | 623.00 | | |
| 428.4 · Parking | 36.00 | 36.00 | 36.00 | | |
| 428 · Misc. Monthly Expense | 0.00 | 0.00 | 0.00 | | |
| 427 · Interest Expense | 10,118.25 | 10,118.25 | 2,183.75 | | |
| Total Expense | 1,978,750.28 | (852,656.05) | 1,444,188.23 | | |
| Net Income | (305,215.81) | 645,892.21 | 640,676.60 | (278,944.01) | 2,216,844.42 |
| | | | | | 360,632.59 |

TDEC Fees

See Exhibit 3

See Exhibit 5

Exhibit 3
Payroll Analysis

| Exhibit 3 Payroll Analysis | | | | | Workers Comp Rate | | | | | Workers Comp Value | | | |
|-------------------------------|------------|-------------|----------|--------------------|-------------------------|----------------|------------------|------------------|------------|--------------------------|-------------|-------|--------|
| | 2016 | | 2017 | | Comments | IRA Percent | FUI Wage Base | SUI Wage Base | FUI Tax | SUI Tax | FICA Tax | IRA | |
| | Base Wages | Adjustments | Base Pay | | | | | | | | | | |
| Middle TN | | | | | | | | | | | | | |
| Operator 1 | 47,000 | 1,410 | 48,410 | Standard Inflation | | 7,000 | 9,000 | 42 | 63 | 3,703 | | 4.22% | 2,043 |
| Operator 2 | 53,000 | 1,590 | 54,590 | Standard Inflation | | 7,000 | 9,000 | 42 | 63 | 4,176 | | 4.22% | 2,304 |
| Operator 3 | 55,000 | 1,650 | 56,650 | Standard Inflation | 3% | 7,000 | 9,000 | 42 | 63 | 4,394 | 1,700 | 4.22% | 2,391 |
| Accountant | 42,000 | 1,260 | 43,260 | Standard Inflation | 3% | 7,000 | 9,000 | 42 | 63 | 3,309 | 1,298 | 0.19% | 82 |
| Receptionist | 36,000 | 1,080 | 37,080 | Standard Inflation | 3% | 7,000 | 9,000 | 42 | 63 | 2,837 | 1,112 | 0.19% | 70 |
| Customer Service | 35,000 | 1,050 | 36,050 | Standard Inflation | | 7,000 | 9,000 | 42 | 63 | 2,758 | | 0.19% | 68 |
| Mowing | 31,000 | 930 | 31,930 | Standard Inflation | | 7,000 | 9,000 | 42 | 63 | 2,443 | | 4.22% | 1,347 |
| East TN | | | | | | | | | | | | | |
| Manager | 60,520 | 1,816 | 62,336 | Standard Inflation | | 7,000 | 9,000 | 42 | 63 | 4,769 | | 4.22% | 2,631 |
| Operator 1 | 47,920 | 1,438 | 49,358 | Standard Inflation | | 7,000 | 9,000 | 42 | 63 | 3,776 | | 4.22% | 2,083 |
| Operator 2 | 35,000 | 8,000 | 43,000 | Exam Incentive | 3% | 7,000 | 9,000 | 42 | 63 | 3,290 | 1,290 | 4.22% | 1,815 |
| Operator 3 | 42,400 | 3,000 | 45,400 | Exam Incentive | | 7,000 | 9,000 | 42 | 63 | 3,473 | | 4.22% | 1,916 |
| Operator 4 | 47,000 | 1,410 | 48,410 | Standard Inflation | | 7,000 | 9,000 | 42 | 63 | 3,703 | | 4.22% | 2,043 |
| Total Wages | 531,840 | 24,633 | 556,473 | | | | | | 504 | 756 | 42,571 | 5,400 | 18,793 |

Exhibit 5
Interest Calculations

| Account | Monthly Interest | Annual Interest |
|-----------------------------|---------------------|--------------------|
| 232.8 First Bank ETN Trucks | 120 | 1440 |
| 232.7 First Bank Mini X | 230 | 2760 |
| 232.6 First Bank Truck | 100 | 1200 |
| 232.5 Lyon Property | 110 | 1320 |
| 232.3 WBT 2 Trucks | 300 | 3600 |
| 232.4 WBT Truck | 165 | 1980 |
| Total | 1025 | 12300 |

Exhibit 6
Residential Cabin Detail

| Community | Total | Maintenance | B&C | Sewer | Square | |
|------------------|-----------|-------------|--------|----------|----------|----------|
| | | | | | Escrow | Footages |
| Black Bear | 2,422.56 | 1,499.42 | 144.00 | 779.14 | 709.78 | 31,296 |
| Brigadoon | 1,326.53 | 832.46 | 61.50 | 432.57 | 394.06 | 19,836 |
| Eagle Crest | 1,122.66 | 706.20 | 49.50 | 366.96 | 334.29 | 4,868 |
| Elk Springs | - | - | - | - | - | - |
| Falling Waters | - | - | - | - | - | - |
| Hidden Springs | 2,825.17 | 1,775.49 | 124.50 | 925.18 | 842.81 | 12,378 |
| Legacy Mountain | - | - | - | - | - | - |
| Legacy Preserve | 2,551.50 | 1,605.00 | 112.50 | 834.00 | 759.75 | 13,724 |
| Star Crest I | - | - | - | - | - | - |
| Sugar Loaf Ridge | 383.54 | 229.69 | 34.50 | 119.35 | 108.73 | 4,855 |
| Smoky Cove | 5,408.92 | 3,400.46 | 241.50 | 1,766.96 | 1,609.65 | 38,895 |
| Settler's Ridge | 1,020.60 | 642.00 | 45.00 | 333.60 | 303.90 | 6,759 |
| Star Crest II | 442.26 | 278.20 | 19.50 | 144.56 | 131.69 | 2,850 |
| Summit View | 1,394.82 | 877.40 | 61.50 | 455.92 | 415.33 | 8,424 |
| The Highlands | - | - | - | - | - | - |
| Total | 18,898.56 | 11,846.32 | 894.00 | 6,158.24 | 5,609.99 | 143,885 |

Escrow Rider

| | |
|--------------------------|--------------|
| 9/30/2016 Balance | (267,909.31) |
| 8/30/2016 Customers | 2824 |
| Rider / Customer | (94.87) |
| Months to Recover | 36 |
| Rider / Customer / Month | (2.64) |