

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE
COUNTIES, TENNESSEE**

**AUDITED FINANCIAL STATEMENTS WITH
SUPPLEMENTAL FINANCIAL
INFORMATION**

SEPTEMBER 30, 2012 AND 2011

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES TENNESSEE**

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SEPTEMBER 30, 2012 AND 2011**

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CERTIFIED PUBLIC ACCOUNTANTS

Joe Savage
Marie I. Niekerk
Josh Stone
Earl O. Wright - 1988 - 2002

Stephen J. Parsons
Catherine R. Hulme
Rebecca Hutsell
William R. Scandlyn - 1988 - 1999

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Watts Bar Utility District
of Rhea, Meigs, and Roane Counties, Tennessee
Kingston, Tennessee

We have audited the accompanying financial statements of Watts Bar Utility District of Rhea, Meigs, and Roane, Counties Tennessee, as of and for the years ended September 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of Watts Bar Utility District of Rhea, Meigs, and Roane Counties, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audits.

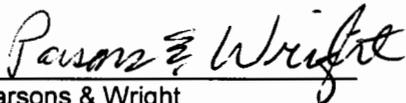
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Watts Bar Utility District of Rhea, Meigs, and Roane Counties, Tennessee, as of September 30, 2012 and 2011, and the changes in financial position and cash flows thereof 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 our report dated December 17, 2012, on our consideration of the Watts Bar Utility District of Rhea, Meigs, and Roane Counties, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 information on pages 3 through 6 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 audit was conducted for the purpose of forming an opinion on Watts Bar Utility District of Rhea, Meigs, and Roane Counties, Tennessee's financial statements as a whole. The accompanying schedules listed in the Supplemental Information section of the Table of Contents are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Parsons & Wright
Certified Public Accountants
Kingston, TN

December 17, 2012

**WATTS BAR UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012**

This section of the Watts Bar Utility District's annual financial report presents an analysis of the District's financial performance during the fiscal year ended September 30, 2012. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2012

- The District's net assets increased by \$740,790 or 5.3 percent from \$13,850,365 to \$14,591,155.
- Operating revenues increased by \$179,393 or 5.9 percent from \$3,048,730 to \$3,228,123.
- Operating expenses increased by \$234,504 or 12.4percent from \$1,896,434 to \$2,130,938.
- Capital contributions and Grant Income to the District increased by \$51,085 or 8.3 percent from \$611,924 to \$663,009.
- Among the significant projects that were completed and undertaken during the fiscal year ended September 30, 2012 was the completion a water line projects in, McMinn and Roane Counties. These projects were funded with RD loan, RD grants funds and CDBG grant. With these projects we served over 200 water customers with safe drinking water. Water projects undertaken during the fiscal year were in McMinn County road 286, in Loudon County Big Sandy Road and Foshee Rd and in Roane County Paint Rock Creek Road, Babbs Road Blackburn Lane and Pickle Road. These projects were funded RD loan. With these projects we served over 55 water customers with safe drinking water.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following three parts: Management's Discussion and Analysis, Basic Financial Statements and Other Required Supplementary Information. The Financial Statement includes notes which explain in detail some of the information included in the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statements of Net Assets include information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statements of Revenues, Expenses and Changes in Net Assets identify the District's revenues and expenses for the fiscal year ended September 30, 2012. This statement provides information on the District's operations over the past two fiscal years and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting form operations, investments and financing activities. From the Statements of Cash Flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance for each of the last two fiscal years.

**WATTS BAR UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets provide an indication of the District's financial condition and also indicate that the financial condition of the District improved during the last fiscal year. The District's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in financial condition.

NET ASSETS

Table 1
Condensed Statements of Net Assets

	2012	2011	Dollar Change	Percent Change
Current and Other Assets	\$ 2,966,313	\$ 2,954,604	\$ 11,709	0.4%
Capital Assets, Net	<u>27,345,370</u>	<u>26,129,866</u>	<u>1,215,504</u>	4.7%
Total Assets	<u>\$ 30,311,683</u>	<u>\$ 29,084,470</u>	<u>\$ 1,227,213</u>	4.2%
Long-Term Debt	\$ 14,993,334	\$ 14,494,453	\$ 498,881	3.4%
Other Liabilities	<u>727,194</u>	<u>739,652</u>	<u>(12,458)</u>	-1.7%
Total Liabilities	<u>\$ 15,720,528</u>	<u>\$ 15,234,105</u>	<u>\$ 486,423</u>	3.2%
Net assets invested in capital assets, net of related debt	\$ 12,072,952	\$ 11,378,674	\$ 694,278	6.1%
Net assets restricted for debt service	1,164,794	1,270,357	(105,563)	-8.3%
Unrestricted net assets	<u>1,353,409</u>	<u>1,201,334</u>	<u>152,075</u>	12.7%
Total Net Assets	<u>\$ 14,591,155</u>	<u>\$ 13,850,365</u>	<u>\$ 740,790</u>	5.3%

A summary of the District's Statements of Net Assets is presented below.

As the above table indicates, total assets increased by \$1,227,213 from \$29,084,470 to \$30,311,683 during the fiscal year ended September 30, 2012. This is comprised of an increase of \$11,709 in current and other assets and an increase of \$1,215,504 in capital assets. The increase in current and other assets reflects an increase in cash in the operating account due to an increase in cash flow related to revenues and an increase in restricted cash due to increased deposits in restricted cash to meet the bond covenant requirements.

Total liabilities reflect an increase of \$486,423. This includes an increase of \$498,881 in long-term debt as the District continues borrow to expand in areas that have not been served.

Table 1 also indicates that total net assets increased by \$740,790 from \$13,850,365 to \$14,591,155. This increase is primarily due to the increase in grant income.

**WATTS BAR UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012**

NET ASSETS – CONTINUED

Table 2
Condensed Statements of Revenues, Expenses
and Changes in Net Assets

	2012	2011	Dollar Change	Percent Change
Operating Revenues	\$ 3,228,123	\$ 3,048,730	\$ 179,393	5.9%
Nonoperating Revenues	435,973	524,193	(88,220)	-16.8%
Total Revenues	\$ 3,664,096	\$ 3,572,923	\$ 91,173	2.6%
Depreciation Expense	\$ 832,067	\$ 799,857	\$ 32,210	4.0%
Other Operating Expenses	2,130,938	1,896,434	234,504	12.4%
Nonoperating Expenses	623,310	675,685	(52,375)	-7.8%
Total Expenses	\$ 3,586,315	\$ 3,371,976	\$ 214,339	6.4%
Income Before Capital Contributions and Special Item	\$ 77,781	\$ 200,947	\$ (123,166)	-61.3%
Capital Contributions	663,009	611,924	51,085	8.3%
Changes in Net Assets	\$ 740,790	\$ 812,871	\$ (72,081)	-8.9%
Beginning Net Assets	13,850,365	13,037,494	812,871	6.2%
Ending Net Assets	\$ 14,591,155	\$ 13,850,365	\$ 740,790	5.3%

Table 2 indicates that the District's total revenues increased by \$91,173 or 2.6 percent to \$3,664,096 in the fiscal year ended September 30, 2012 from \$3,572,923 in prior year. The increase in revenues was due to increase operating revenue. Total expenses increased by \$234,504 or 12.4 percent during the 2011/2012 fiscal year. This increase is due mainly to increase maintenance cost and purchased water.

For the fiscal year ended September 30, 2012, change in net assets increased by \$740,790.

CAPITAL ASSETS

As of September 30, 2012, the District's investment in capital assets totaled \$27,345,370, which is an increase of \$1,215,504, or 4.7 percent. A comparison of the District's capital assets over the past two fiscal years is presented in Note C of the financial statements.

Included among the capital projects completed during the 2012 fiscal year were the water lines in South and East Roane County, McMinn County and Loudon County.

The District has active construction projects as of September 30, 2012. The projects principally consist of various pipeline construction projects in McMinn County, Loudon and Roane Counties.

**WATTS BAR UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012**

LONG-TERM DEBT

As of September 30, 2012 the District had \$15,433,311 in outstanding debt compared to \$14,921,549 as of September 30, 2011. The increase includes draws on Waterwork Revenue Bond 2010 (interim financing). As of September 30, 2012 the District has drawn \$1,433,449 on the new bond, \$919,841 was drawn in the current fiscal year.

Principal payments on all long-term debt were \$408,080 for the year ended September 30, 2012.

Additional information on the District's long-term debt is provided in Note D of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Directors adopted the District's 2013 fiscal year budget on September 13, 2012. The approval of the budget provides funding for the District's operating, capital and debt services costs for the 2013 fiscal year. Several capital projects are funded with this budget, mainly the water line construction project. The water rates are reviewed by staff and the Board of Directors on an annual basis. Water and Sewer rates were last adjusted on July 1, 2012 with the implementation of an increase of three percent. Over the past five years, rates have been increased an average of two to three percent annually.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Watts Bar Utility District's General Manager at P. O. Box 910, Kingston TN 37763.

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE
COUNTIES, TENNESSEE**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
STATEMENT OF NET ASSETS**

	ASSETS	
	SEPTEMBER 30, 2012	SEPTEMBER 30, 2011
UTILITY PLANT		
Cost of Plant in Service & Water Wells	\$ 34,622,174	\$ 31,100,983
Land	282,717	271,717
Vehicles	73,814	73,814
Construction in Process	427,790	1,924,667
Less: Accumulated Depreciation	<u>(8,061,125)</u>	<u>(7,241,315)</u>
Net Utility Plant	\$ <u>27,345,370</u>	\$ <u>26,129,866</u>
CURRENT ASSETS		
Cash	\$ 676,946	\$ 514,459
Accounts Receivable (Less: Allowance for Doubtful Accounts) (2011 and 2010- \$25,000)	465,364	466,251
Accounts Receivable-Roane County Government	0	0
Accounts Receivable-Grants	0	44,970
Utility Deposits	<u>294</u>	<u>294</u>
Total Current Assets	\$ <u>1,142,604</u>	\$ <u>1,025,974</u>
RESTRICTED ASSETS		
Bond and Interest Sinking Fund	\$ 691,450	\$ 792,426
Future Development Funds	155,787	155,007
Morgan Keegan - Cash	3,096	5,563
Morgan Keegan - Certificates of Deposit	<u>765,000</u>	<u>755,000</u>
Total Restricted Assets	\$ <u>1,615,333</u>	\$ <u>1,707,996</u>
OTHER ASSETS		
Loan Costs	\$ 306,436	\$ 306,436
Less: Accumulated Amortization	<u>(98,060)</u>	<u>(85,802)</u>
Total Other Assets	\$ <u>208,376</u>	\$ <u>220,634</u>
TOTAL ASSETS	\$ <u><u>30,311,683</u></u>	\$ <u><u>29,084,470</u></u>

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
STATEMENT OF NET ASSETS**

LIABILITIES AND NET ASSETS

	<u>SEPTEMBER 30, 2012</u>	<u>SEPTEMBER 30, 2011</u>
LONG-TERM DEBT		
Bonds Payable	\$ 15,433,311	\$ 14,921,549
Less: Net Deferred Amount on Refunding	(16,186)	(17,138)
Less: Current Maturities	<u>(423,791)</u>	<u>(409,958)</u>
Total Long-Term Debt	\$ 14,993,334	\$ 14,494,453
CURRENT LIABILITIES (Payable from Current Assets)		
Accounts Payable	\$ 177,519	\$ 199,885
Deferred Revenue	7,900	6,000
Customer Deposits	7,525	8,375
Accrued Taxes	<u>20,041</u>	<u>20,338</u>
Total Current Liabilities (Payable from Current Assets)	\$ 212,985	\$ 234,598
CURRENT LIABILITIES (Payable from Restricted Assets)		
Bonds Payable - Current Maturities	\$ 423,791	\$ 409,958
Accrued Interest Payable	<u>26,748</u>	<u>27,681</u>
Total Current Liabilities (Payable from Restricted Assets)	\$ 450,539	\$ 437,639
OTHER LIABILITIES		
2004 Bond Premium	\$ 93,632	\$ 93,632
Accumulated Amortization on Bond Premium	<u>(29,962)</u>	<u>(26,217)</u>
Total Other Liabilities	\$ 63,670	\$ 67,415
TOTAL LIABILITIES	\$ 15,720,528	\$ 15,234,105
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 12,072,951	\$ 11,378,674
Restricted	1,164,794	1,270,357
Unrestricted	<u>1,353,410</u>	<u>1,201,334</u>
TOTAL NET ASSETS	\$ 14,591,155	\$ 13,850,365
TOTAL LIABILITIES AND NET ASSETS	\$ 30,311,683	\$ 29,084,470

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

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED**

	<u>SEPTEMBER 30, 2012</u>	<u>SEPTEMBER 30, 2011</u>
OPERATING REVENUES		
Water Sales		
Less: Bad Debt Expense: 2012, \$3,065,718 and 2011, \$19,346	\$ 3,065,718	\$ 2,838,166
Sewer Sales	35,138	29,072
Water Line Extension	0	63,800
Service Charges	59,050	58,315
Customer Penalties	57,809	48,929
Other System Revenue	10,408	10,448
Total Operating Revenues	<u>\$ 3,228,123</u>	<u>\$ 3,048,730</u>
OPERATING EXPENSES		
Purchase of Water	\$ 192,740	\$ 179,727
Utilities	156,864	149,752
Operations and Maintenance	1,534,433	1,327,491
Water Tap Installation	79,500	78,900
Sewer Installation	34,700	33,400
Office	34,117	34,682
Insurance	22,987	21,119
Professional Fees	31,135	35,862
Commissioners Fees	10,800	10,500
Dues, Fees, and Licenses	24,489	17,149
Meals	422	344
Miscellaneous Expense	8,751	7,508
Total Operating Expenses	<u>\$ 2,130,938</u>	<u>\$ 1,896,434</u>
OPERATING INCOME BEFORE DEPRECIATION	<u>\$ 1,097,185</u>	<u>\$ 1,152,296</u>
Depreciation Expense	(819,810)	(787,600)
Amortization Expense	(12,257)	(12,257)
OPERATING INCOME	<u>\$ 265,118</u>	<u>\$ 352,439</u>
NONOPERATING REVENUE (EXPENSE)		
Amortization of Bond Premium	\$ 3,745	\$ 3,745
Loss on Disposal of Asset	0	(64,663)
Interest Income	9,347	58,810
Interest Expense	(623,310)	(611,022)
Tap Fees	153,360	208,450
Unrealized Gain / Loss on Investments	0	0
Realized Gain/Loss on Investments	0	0
Other Non-Operating Revenue	269,521	253,188
Total Other Income (Expense)	<u>\$ (187,337)</u>	<u>\$ (151,492)</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>\$ 77,781</u>	<u>\$ 200,947</u>
CAPITAL CONTRIBUTIONS AND GRANT INCOME	<u>663,009</u>	<u>611,924</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 740,790</u>	<u>\$ 812,871</u>
NET ASSETS, OCTOBER 1, 2011	<u>13,850,365</u>	<u>13,037,494</u>
NET ASSETS, SEPTEMBER 30, 2012	<u>\$ 14,591,155</u>	<u>\$ 13,850,365</u>

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

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED**

	<u>SEPTEMBER 30, 2012</u>	<u>SEPTEMBER 30, 2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 3,147,763	\$ 2,837,267
Payments for Operating Expenses	(2,153,601)	(1,928,280)
Receipts from Customers for Service Charges	59,050	58,315
Receipts from Customers for Penalty Payments	57,809	48,929
Other Receipts (Payments)	10,408	10,448
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,121,429</u>	<u>\$ 1,026,679</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	<u>\$ 0</u>	<u>\$ 0</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>\$ 0</u>	<u>\$ 0</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond Proceeds	\$ 919,841	\$ 3,004,493
Grant Proceeds	663,009	611,924
Payoff of Interim Financing	0	(1,758,529)
Acquisition and Construction of Capital Assets	(2,035,314)	(2,242,087)
Non-Operating Revenues	269,521	253,188
Receipts from Customers for Tap Fees	153,360	208,450
Receipts from Customers for Development Fees	0	0
Principal Paid on Revenue Bonds	(408,078)	(391,635)
Interest Paid on Revenue Bonds and Notes Payable	(623,291)	(611,850)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (1,060,952)</u>	<u>\$ (926,046)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	\$ 9,347	\$ 58,810
Investments - Morgan Keegan	0	0
Net Cash Provided (Used) by Investing Activities	<u>\$ 9,347</u>	<u>\$ 58,810</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH EQUIVALENTS	<u>\$ 69,824</u>	<u>\$ 159,443</u>
CASH AND RESTRICTED CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,222,455</u>	<u>2,063,012</u>
CASH AND RESTRICTED CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 2,292,279</u></u>	<u><u>\$ 2,222,455</u></u>
CASH		
Cash	\$ 676,946	\$ 514,459
Bond Interest & Sinking Fund	691,450	792,426
Future Development Funds	155,787	155,007
Morgan Keegan - Cash	768,096	760,563
TOTAL CASH	<u><u>\$ 2,292,279</u></u>	<u><u>\$ 2,222,455</u></u>

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

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED**

	<u>SEPTEMBER 30, 2012</u>	<u>SEPTEMBER 30, 2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income	\$ 265,118	\$ 352,439
<i>Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:</i>		
Depreciation	\$ 819,810	\$ 787,600
Amortization	12,257	12,257
<i>Changes in Assets and Liabilities</i>		
(Increase) Decrease in Accounts Receivable	887	(39,800)
(Increase) Decrease in Accounts Receivable-Grants	44,970	(44,970)
Increase (Decrease) in Accounts Payable	(22,366)	(33,396)
Increase (Decrease) in Customer Deposits	(850)	0
Increase (Decrease) in Deferred Revenue	1,900	(9,000)
Increase (Decrease) in Accrued Taxes	(297)	1,549
Total Adjustments	<u>\$ 856,311</u>	<u>\$ 674,240</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,121,429</u>	<u>\$ 1,026,679</u>

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

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE A - THE REPORTING ENTITY

The Watts Bar Utility District of Rhea, Meigs, and Roane Counties, Tennessee (the "District") is a utility district incorporated under the State of Tennessee law "The Utility District Law of 1937" and amendments and supplements thereto. It was incorporated on October 14, 1986. The District is engaged in the distribution of potable water to portions of the three county areas that it serves. Three District commissioners who are appointed for staggered four-year terms manage the District.

The District, for financial purposes, includes only the Watts Bar Utility District of Rhea, Meigs, and Roane Counties, Tennessee and is the only entity presented in these financial statements.

NOTE B - SUMMARY OF ACCOUNTING POLICIES

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

1. *Fund Accounting*

PROPRIETARY FUND TYPES

Enterprise Funds

Enterprise funds are used for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (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, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

2. *Basis of Accounting*

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The District is required to use the accrual or proprietary fund basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

3. *Budgets and Budgetary Accounting*

Formal budgetary integration is employed by the District as a management control device during the year. The budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

4. *Cash and Investments*

Deposits

At September 30, 2012, the carrying amount of the District's deposits (checking, savings accounts and certificates of deposit) was \$2,292,279 and the bank balance was \$2,292,382. Of the bank balance, \$273,884 was covered by the FDIC and \$768,096 was covered by the SIPC. The balance of \$1,250,402 was insured or collateralized with the State Collateral Pool or by its agent in the entity's name. At September 30, 2011, the carrying amount of the District's deposits (checking, savings accounts and certificates of deposit) was \$2,222,455 and the bank balance was \$2,223,372. Of the bank balance, \$280,261 was covered by the

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE B - SUMMARY OF ACCOUNTING POLICIES – Continued

4. Cash and Investments – Continued

Deposits – Continued

FDIC and \$760,563 was covered by the SIPC. The balance of \$1,182,548 was insured or collateralized with the State Collateral Pool or by its agent in the entity's name.

Investments

Statutes authorize the District to invest in certificates of deposit, passbooks, and other available bank investments provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District is authorized by the Board to invest the funds in the institution that bids and pays the highest rate of interest.

The District made investments due to the refinancing of bonds and to the interim financing related to a new loan. When the debt was refinanced as discussed in Note – E, restricted cash was set aside to meet the debt covenants discussed in Note – G. As a part of the District's agreement with Morgan Keegan, a majority of this cash has been used to buy certificates of deposit.

The District entered into a bond anticipation note as described in Note – D. As a part of this agreement, the available cash has been invested in a Guaranteed Investment Contract. This investment is collateralized and meets the requirements of the State of Tennessee investment limitations.

5. Properties, Depreciation and Amortization

The Water Utility Plant in Service and other related fixed assets are recorded at cost and include improvements that significantly add to productive capacity or extend useful life. All items are capitalized that have an estimated useful life of at least one year and cost \$2,500 or more. Costs of maintenance and repairs are charged to expense. Upon retirement or disposal of assets, the cost and related depreciation are removed from the accounts and gain or loss, if any, is reflected in the earnings for the period. Depreciation and amortization, for financial reporting purposes, is provided on the straight-line method over 5 to 50 years, depending on the anticipated life of each asset. Any interest cost incurred in the construction of fixed assets is capitalized as part of the Cost of Plant in Service. During the year ended September 30, 2012 and 2011, the District capitalized \$22,158 and \$109,771 of interest costs, respectively.

6. Allowance for Uncollectible Accounts

At September 30, 2012 and 2011, the District's allowance for uncollectible accounts is \$25,000, which has been reflected in the financial statements as a reduction in accounts receivable.

7. Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased and all certificates of deposits regardless of maturity to be cash equivalents.

8. Net Working Capital

The net working capital of the District at September 30, 2012 and 2011 are \$929,619 and \$791,376, respectively.

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE B - SUMMARY OF ACCOUNTING POLICIES – Continued

9. GASB Statement No. 20

The District follows financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District has opted to apply only those accounting and reporting pronouncements issued by the GASB subsequent to November 30, 1989.

10. GASB Statement No. 34

On October 1, 2003, the Utility adopted the provisions of Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments." Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of activities and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components-invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt-This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted-This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws, or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets-This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

11. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

12. Operating and Non-operating Revenue

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the District's ongoing operations. The principal operating revenue of the District are charges to customers related to water sales and services and sewer services. Operating expenses for the District include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE B - SUMMARY OF ACCOUNTING POLICIES – Continued

13. Unrestricted and Restricted Net Assets

When an expense is incurred for purpose for which both restricted and unrestricted net assets are available, unrestricted net assets should be applied first.

	<u>SEPTEMBER 30, 2012</u>	<u>SEPTEMBER 30, 2011</u>
NET ASSETS INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT		
Net Utility Plant	\$ 27,345,370	\$ 26,129,866
Net Loan Costs	208,376	220,634
Bonds Payable	(15,433,311)	(14,921,549)
Net Deferred Amount on Refunding	16,186	17,138
Net 2004 Bond Premium	<u>(63,670)</u>	<u>(67,415)</u>
TOTAL	<u>\$ 12,072,951</u>	<u>\$ 11,378,674</u>
 RESTRICTED NET ASSETS		
Total Restricted Assets	\$ 1,615,333	\$ 1,707,996
Accrued Interest	(26,748)	(27,681)
Current Maturity	<u>(423,791)</u>	<u>(409,958)</u>
TOTAL	<u>\$ 1,164,794</u>	<u>\$ 1,270,357</u>

NOTE C - SUMMARY OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the changes in property, plant and equipment of the District at September 30, 2012:

	<u>BALANCE OCTOBER 1, 2011</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE SEPTEMBER 30, 2012</u>
CAPITAL ASSETS, NOT BEING DEPRECIATED:				
Land	\$ 271,717	\$ 11,000	\$ 0	\$ 282,717
Construction Work in Progress	<u>1,924,667</u>	<u>1,791,357</u>	<u>(3,288,234)</u>	<u>427,790</u>
Total Capital Assets, Not Being Depreciated	<u>\$ 2,196,384</u>	<u>\$ 1,802,357</u>	<u>\$ (3,288,234)</u>	<u>\$ 710,507</u>
 CAPITAL ASSETS, BEING DEPRECIATED:				
Water Plant and Distribution System & Water Wells	\$ 31,100,983	\$ 3,521,191	\$ 0	\$ 34,622,174
Vehicles	<u>73,814</u>	<u>0</u>	<u>0</u>	<u>73,814</u>
Total Capital Assets, Being Depreciated	<u>\$ 31,174,797</u>	<u>\$ 3,521,191</u>	<u>\$ 0</u>	<u>\$ 34,695,988</u>
 LESS ACCUMULATED DEPRECIATION FOR:				
Water Plant and Distribution System & Water Wells	\$ 7,168,133	\$ 819,178	\$ 0	\$ 7,987,311
Vehicles	<u>73,182</u>	<u>632</u>	<u>0</u>	<u>73,814</u>
Total Accumulated Depreciation	<u>\$ 7,241,315</u>	<u>\$ 819,810</u>	<u>\$ 0</u>	<u>\$ 8,061,125</u>
 CAPITAL ASSETS, NET	<u>\$ 26,129,866</u>	<u>\$ 4,503,738</u>	<u>\$ (3,288,234)</u>	<u>\$ 27,345,370</u>

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE D - CHANGES IN LONG-TERM DEBT

The long-term debt of the District is as follows:

LENDER / DESCRIPTION	ORIGINAL BALANCE	SECURED BY	INTEREST RATE	NUMBER OF PAYMENTS	PAYMENT AMOUNT	BALANCE SEPTEMBER 30, 2012
Waterworks Revenue Refunding Bonds 2004	\$ 9,300,000	Net Revenue *	3.00% - 4.625%	50	Variable	\$ 7,120,000
Waterworks Revenue Bond 2004	1,540,000	Net Revenue *	4.388%	456	6,946	1,425,779
Waterworks Revenue Bond 2005	1,612,500	Net Revenue *	4.388%	456	6,946	1,524,026
Waterworks Revenue Bond 2007	1,732,000	Net Revenue *	4.260%	456	7,673	1,653,724
Waterworks Revenue Bond 2008	2,325,000	Net Revenue *	3.75%	456	9,579	2,276,333
Interim Financing	513,608	Net Revenue *	**	**	**	1,433,449
	<u>\$ 17,023,108</u>					<u>\$ 15,433,311</u>
Less: Current Portion						(423,791)
Less: Net Deferred Amount on Refunding						(16,186)
TOTAL LONG-TERM DEBT						<u><u>\$ 14,993,334</u></u>

** The interim financing through Morgan Keegan will close in the fiscal year ending September 30, 2013. The total of this loan is \$1,900,000. The amount drawn on the loan was \$1,433,449 and \$513,608 at September 30, 2012 and September 30, 2011. The remaining funds to be drawn during the year were invested in an account with Morgan Keegan. The interest rate, number of payments, and payment amounts will not be available until the loan is closed.

The following is a summary of the revenue bond transactions of the District for the year ended September 30, 2012:

LENDER / DESCRIPTION	BALANCE SEPTEMBER 30, 2011	ADDITIONS	PRINCIPAL PAYMENTS	BALANCE SEPTEMBER 30, 2012
Waterworks Revenue Bonds 2004 Refunding	\$ 7,440,000	\$ 0	\$ 320,000	\$ 7,120,000
Waterworks Revenue Bond 2004	1,446,043	0	20,264	1,425,779
Waterworks Revenue Bond 2005	1,543,070	0	19,044	1,524,026
Waterworks Revenue Bond 2007	1,674,847	0	21,123	1,653,724
Waterworks Revenue Bond 2008	2,303,981	0	27,648	2,276,333
Interim Financing	0	0	0	0
Interim Financing	513,608	919,841	0	1,433,449
TOTALS	<u>\$ 14,921,549</u>	<u>\$ 919,841</u>	<u>\$ 408,079</u>	<u>\$ 15,433,311</u>

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE D - CHANGES IN LONG-TERM DEBT – Continued

Debt service requirements for these notes and bonds for the next five years are as follows:

<u>SEPTEMBER 1,</u>	<u>BONDS PRINCIPAL PAYMENTS</u>	<u>INTEREST</u>	<u>TOTAL</u>
2013	\$ 423,791	\$ 606,381	\$ 1,030,172
2014	442,788	589,183	1,031,971
2015	461,955	571,216	1,033,171
2016	476,303	553,368	1,029,671
2017	495,837	534,589	1,030,426
2018-2022	2,819,288	2,438,932	5,258,220
2023-2027	3,180,638	1,616,251	4,796,889
2028-2032	1,691,242	991,087	2,682,329
2033-2037	1,179,171	716,831	1,896,002
2038-2042	1,454,393	441,607	1,896,000
2043-2047	1,237,963	130,182	1,368,145
2048-2049	136,493	3,261	139,754
	<u>\$ 13,999,862 *</u>	<u>\$ 9,192,888</u>	<u>\$ 23,192,750</u>

*This figure does not include the interim financing amount \$1,433,449 because the loan has not closed; therefore the interest rate, number of payments, and payment amount has not been calculated. These will be determined at the close of the loan.

The revenue bond issues, which are described above, contain various restrictive covenants. The covenants restrict the use of revenue received, require establishment of restricted cash amounts and prohibit and/or require other actions.

NOTE E - BOND REFINANCE

In November of 2005, the Utility refinanced all of its outstanding Waterworks Revenue Bonds through Cumberland Securities. The principal amount of the refinancing is \$9,300,000 at coupon rates from 3% to 4.625%. Payments are to be made twice a year, in March and September.

The original bonds were scheduled to be paid through 9/30/2042 with total principal and interest of \$19,048,352 and carried an average coupon rate of 5.79%. The refunding bonds issued will be paid through 9/30/2029 with total principal and interest of \$15,186,376 and carry an average coupon rate of 4.50%. The refunding results in a total savings over time of \$3,861,976 which translates into an economic savings of \$1,271,554 when discounted to present value. The District incurred \$306,436 in bond issue costs which is reflected as another asset and is being amortized ratably over the life of the new bonds (25 years or \$12,257/year). The District realized a premium on the issuance on the refunding series of \$93,632 which is being amortized ratably over the life of the new bonds (25 years or \$3,745/year).

NOTE F - MAJOR CUSTOMER

Sales to one customer, Tennessee Valley Authority is approximately 6.5% of total water sales in this fiscal year.

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE G - DEBT COVENANTS

Covenants contained in the revenue bond issues require that the District establish certain sinking funds to meet annual payment of principal and interest on outstanding issues. Both minimum and maximum account balance amounts are stipulated. The amount on deposit in restricted funds at September 30, 2012 was sufficient to meet the minimum requirements.

REVENUE BOND ISSUE	MINIMUM ACCOUNT BALANCES
2004 Waterworks Revenue Refunding Series 2004	\$ 654,826
2004 Waterworks Revenue Series 2004	52,095
2005 Waterworks Revenue Series 2005	43,672
2007 Waterworks Revenue Series 2007	36,063
2008 Waterworks Revenue Series 2008	20,116
Amount Required	\$ 806,772
Minimum Bond and Interest Sinking Fund Balance	0
Total Minimum Requirement	\$ 806,772
Amount on Deposit	1,459,545
Surplus to be Applied to Maximum Amount	\$ 652,773

NOTE H - INSURANCE

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker's compensation, and accident and environmental. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE I - RELATED PARTY TRANSACTIONS

The Utility paid for services to two companies, in which the General Manager is a shareholder. The contracts for services were bid and awarded through a third party. The total charges for services paid both companies during the year were \$3,424,698 and the amount due at year-end is \$122,656.

NOTE J – SUBSEQUENT EVENTS

The District did not have any subsequent events through December 17, 2012, which is the date the financial statements were available to be issued, which would require recording or disclosure in the financial statements for the year ended September 30, 2012.

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES,
TENNESSEE**

**SUPPLEMENTAL FINANCIAL
INFORMATION**

SEPTEMBER 30, 2012 AND 2011

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
STATEMENT OF REVENUES AND EXPENSES AND
CHANGES IN NET ASSETS – BUDGET AND ACTUAL
SEPTEMBER 30, 2012**

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
OPERATING REVENUES			
Sales (Net of Bad Debt Expense \$25,000 Budget, \$19,346 Actual)	\$ 2,850,000	\$ 3,065,718	\$ 215,718
Other Income	128,000	162,405	34,405
Total Operating Revenues	\$ 2,978,000	\$ 3,228,123	\$ 250,123
OPERATING EXPENSES			
Purchase of Water	\$ 145,000	\$ 192,740	\$ (47,740)
Utilities	190,000	156,864	33,136
Operations and Maintenance	1,400,000	1,534,433	(134,433)
Water Tap Installation	75,000	79,500	(4,500)
Sewer Installation	5,000	34,700	(29,700)
Office	32,000	34,117	(2,117)
Insurance	28,000	22,987	5,013
Professional Fees	50,000	31,135	18,865
Commissioners Fees	10,800	10,800	0
Dues, Fees, and Licenses	12,000	24,489	(12,489)
Meals	0	422	(422)
Miscellaneous Expense	20,000	8,751	11,249
Total Operating Expenses	\$ 1,967,800	\$ 2,130,938	\$ (163,138)
NET OPERATING REVENUES BEFORE DEPRECIATION AND AMORTIZATION			
	\$ 1,010,200	\$ 1,097,185	\$ 86,985
Depreciation Expense	(750,000)	(819,810)	(69,810)
Amortization Expense	(15,000)	(12,257)	2,743
NET OPERATING REVENUES BEFORE OTHER INCOME (EXPENSE)	\$ 245,200	\$ 265,118	\$ 19,918
OTHER INCOME (EXPENSE)			
Amortization of Bond Premium	\$ 0	\$ 3,745	\$ 3,745
Interest Income	26,000	9,347	(16,653)
Interest Expense	(585,000)	(623,310)	(38,310)
Tap Fees	100,000	153,360	53,360
Unrealized Gain/Loss on Investments	0	0	0
Realized Gain/Loss on Investments	0	0	0
Developer Fee	0	0	0
Other Non-Operating Revenue	31,000	269,521	238,521
Total Other Income (Expense)	\$ (428,000)	\$ (187,337)	\$ 240,663
TOTAL INCOME BEFORE CAPITAL CONTRIBUTIONS	\$ (182,800)	\$ 77,781	\$ 260,581
CAPITAL CONTRIBUTIONS AND GRANTS	300,000	663,009	363,009
INCREASE (DECREASE IN NET ASSETS)	\$ 117,200	\$ 740,790	\$ 623,590

CERTIFIED PUBLIC ACCOUNTANTS

Joe Savage
Marie I. Niekerk
Josh Stone
Earl O. Wright - 1988 - 2002

Stephen J. Parsons
Catherine R. Hulme
Rebecca Hutsell
William R. Scandlyn - 1988 - 1999

To the Commissioners of the Watts Bar Utility District
of Rhea, Meigs, and Roane Counties, Tennessee

SUMMARY OF AUDITOR'S RESULTS

Parsons & Wright, CPAs, (the Auditors) issued an unqualified opinion on the financial statements of the Watts Bar Utility District of Rhea, Meigs, and Roane Counties, Tennessee, (the District) as of and for the year ended September 30, 2012 and 2011. The Auditors also issued an unqualified opinion on the District's compliance with requirements applicable to each major program.

Based on procedures performed by the Auditors, one matter was noted involving the District's internal control over compliance and its operation that was deemed to be a significant deficiency or material weakness. The results of the Auditor's procedures disclosed no instances of noncompliance with provisions of grant agreements related to its major programs.

As identified in the Schedule of Expenditures of Federal Awards, the District's major programs is one Rural Development Loan/Grants under CFDA Number 10.760, administered by the United States Department of Agriculture. Also, the Appalachian Regional Commission grant was also considered a major program. The dollar threshold to distinguish between Type A and Type B programs is \$300,000. The District qualifies as a low-risk auditee under Section .530 of OMB Circular No. A-133.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Findings which are to be reported in accordance with GAGAS:

COMPLIANCE

None

INTERNAL CONTROL***Finding No. 1 - Prior Year Finding - Unresolved***

Segregation of Duties - The District has no employees. Using a bid basis, the District contracts annually with an independent firm to operate and maintain the District. The contractor performs the duties of meter reading, billing, revenue collection, banking functions and disbursement preparation. The firm also operates and maintains the pumping and treatment plant, the distribution system and connects new customers to the system.

Recommendation

From its inception, the District has used the independent contractor operating method. It apparently works well and meets the District's needs. There is, however, no daily oversight of operations and asset safeguarding. We recommend that the Commissioners use every means at their disposal to accomplish their responsibilities.

Finding No. 1 - Prior Year Finding – Unresolved – Continued

Response

The Commissioners recognize the internal control inadequacies of the District's operating system. The Board will continue to monitor the Contractor's performance to the maximum extent possible.

Current Status

No change from prior year.

FINDINGS FOR FEDERAL AWARDS AS DEFINED IN SECTION .510(A) OF OMB CIRCULAR NO. A-133

COMPLIANCE

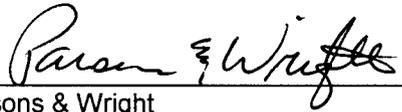
None

INTERNAL CONTROL OVER FINANCIAL REPORTING

See Finding 1 above.

QUESTIONED COSTS FOR FEDERAL AWARDS AS DEFINED IN SECTION .510(A) OF OMB CIRCULAR A-133:

None



Parsons & Wright
Certified Public Accountants
Kingston, Tennessee

December 17, 2012

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

<u>CFDA</u>	<u>TYPE OF FEDERAL AWARD</u>	<u>GRANTOR AGENCY</u>	<u>LOAN/ GRANT AWARD</u>	<u>GRANTS RECEIVABLE OCTOBER 1, 2011</u>	<u>RECEIPTS</u>	<u>EXPENDITURES</u>	<u>GRANTS RECEIVABLE SEPTEMBER 30, 2012</u>	<u>REMAINING GRANT / LOAN FUNDS AVAILABLE</u>
10.760	Loan	U.S. Department of Agriculture Rural Development	1,900,000	0	897,436	897,436	0	466,173
10.760	Grant	U.S. Department of Agriculture Rural Development	775,000	0	410,503	410,503	0	0
14.228	Grant	CDBG Grant*	<u>500,000</u>	<u>0</u>	<u>247,427</u>	<u>247,427</u>	<u>0</u>	<u>67</u>
TOTAL			<u>\$ 3,175,000</u>	<u>\$ 0</u>	<u>\$ 1,555,366</u>	<u>\$ 1,555,366</u>	<u>\$ 0</u>	<u>\$ 466,240</u>

*The Utility is a subrecipient of this grant. The grantee is Roane County.

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) summarizes the federal expenditures of Watts Bar Utility District of Rhea, Meigs, and Roane Counties, Tennessee, (the District) under programs of the federal government for the year ended September 30, 2012. The amounts reported as federal expenditures were obtained from the District's general ledger. Because the Schedule presents only a selected portion of the operations of the District, they are not intended to and do not present the financial position, change in net assets, and current revenues and expenditures of the District.

For the purposes of the Schedule, federal awards include all grants and contracts entered into directly between the District and agencies and departments of the federal government. The awards are classified into major program categories in accordance with the provision of Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Government, and Non-Profit Organizations*.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For purposes of the Schedule, expenditures for federal award programs are recognized on the accrual basis of accounting. Federal expenditures are primarily for the construction of the District's system.

FORM SF-SAC (5-18-2010)

U.S. DEPT. OF COMM.— Econ. and Stat. Admin.— U.S. CENSUS BUREAU ACTING AS COLLECTING AGENT FOR OFFICE OF MANAGEMENT AND BUDGET

Data Collection Form for Reporting on AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS for Fiscal Year Ending Dates in 2010, 2011, or 2012

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

PART I GENERAL INFORMATION (To be completed by auditee, except for Items 6, 7, and 8)

1. Fiscal period ending date for this submission (Month Day Year: 09 / 30 / 2012)
2. Type of Circular A-133 audit (1 [X] Single audit, 2 [] Program-specific audit)
3. Audit period covered (1 [X] Annual, 2 [] Biennial, 3 [] Other - Months)

4. Auditee Identification Numbers
a. Primary Employer Identification Number (EIN): 62-1212175
d. Data Universal Numbering System (DUNS) Number: 18-182-2016
b. Are multiple EINs covered in this report? 1 [] Yes 2 [X] No
e. Are multiple DUNS covered in this report? 1 [] Yes 2 [X] No
c. If Part I, Item 4b = "Yes," complete Part I, Item 4c on the continuation sheet on Page 4.
f. If Part I, Item 4e = "Yes," complete Part I, Item 4f on the continuation sheet on Page 4.

5. AUDITEE INFORMATION
a. Auditee name: WATTS BAR UTILITY DISTRICT
b. Auditee address (Number and street): P.O. BOX 910, City: KINGSTON, State: TN, ZIP + 4 Code: 37763
c. Auditee contact Name: HAROLD FISHER, Title: BOARD CHAIRMAN
d. Auditee contact telephone: (865) 270-8070
e. Auditee contact FAX: (865) 270-8073
f. Auditee contact E-mail: HEFISHER48@GMAIL.COM

6. PRIMARY AUDITOR INFORMATION (To be completed by auditor)
a. Primary auditor name: PARSONS & WRIGHT CPAS
b. Primary auditor address (Number and street): 1000 BRENTWOOD WAY, City: KINGSTON, State: TN, ZIP + 4 Code: 37763
c. Primary auditor contact Name: JOE SAVAGE, Title: CPA/OWNER
d. Primary auditor contact telephone: (865) 376-5865
e. Primary auditor contact FAX: (865) 376-5980
f. Primary auditor contact E-mail: JSAVAGE@PWACCTG.COM

g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

g. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9g, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Auditee certification: NOT FOR SUBMISSION NOT FOR SUBMISSION NOT FOR SUBMISSION NOT FOR SUBMISSION ELECTRONICALLY CERTIFIED 12/19/2012

Name of certifying official: HAROLD FISHER

Title of certifying official: PRESIDENT

7a. Add Secondary auditor information? (Optional) 1 [] Yes 2 [X] No

b. If "Yes," complete Part I, Item 8 on the continuation sheet on page 5.

Auditor certification: NOT FOR SUBMISSION NOT FOR SUBMISSION NOT FOR SUBMISSION NOT FOR SUBMISSION ELECTRONICALLY CERTIFIED 12/19/2012

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report

Mark either: 1 Unqualified opinion **OR**
any combination of: 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1 Yes 2 No

3. Is a significant deficiency disclosed? 1 Yes 2 No

4. Is a material weakness disclosed? 1 Yes 2 No

5. Is a material noncompliance disclosed? 1 Yes 2 No

PART III FEDERAL PROGRAMS (To be completed by auditor)

1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 13) 1 Yes 2 No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133, § .520(b)) \$ 300,000

3. Did the auditee qualify as a low-risk auditee? (§ .530) 1 Yes 2 No

4. Is a significant deficiency disclosed for any major program? (§ .510(a)(1)) 1 Yes 2 No

5. Is a material weakness disclosed for any major program? (§ .510(a)(1)) 1 Yes 2 No

6. Are any known questioned costs reported? (§ .510(a)(3) or (4)) 1 Yes 2 No

7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b)) 1 Yes 2 No

8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)

- | | | | |
|--|---|--|---|
| 98 <input type="checkbox"/> U.S. Agency for International Development | 39 <input type="checkbox"/> General Services Administration | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> U.S. Department of State |
| 10 <input type="checkbox"/> Agriculture | 93 <input type="checkbox"/> Health and Human Services | 05 <input type="checkbox"/> National Endowment for the Arts | 20 <input type="checkbox"/> Transportation |
| 23 <input type="checkbox"/> Appalachian Regional Commission | 97 <input type="checkbox"/> Homeland Security | 06 <input type="checkbox"/> National Endowment for the Humanities | 21 <input type="checkbox"/> Treasury |
| 11 <input type="checkbox"/> Commerce | 14 <input type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation | 64 <input type="checkbox"/> Veterans Affairs |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 03 <input type="checkbox"/> Institute of Museum and Library Services | 07 <input type="checkbox"/> Office of National Drug Control Policy | 00 <input checked="" type="checkbox"/> None |
| 12 <input type="checkbox"/> Defense | 15 <input type="checkbox"/> Interior | 59 <input type="checkbox"/> Small Business Administration | <input type="checkbox"/> Other - Specify: |
| 84 <input type="checkbox"/> Education | 16 <input type="checkbox"/> Justice | 96 <input type="checkbox"/> Social Security Administration | |
| 81 <input type="checkbox"/> Energy | 17 <input type="checkbox"/> Labor | | |
| 66 <input type="checkbox"/> Environmental Protection Agency | 09 <input type="checkbox"/> Legal Services Corporation | | |
| | 43 <input type="checkbox"/> National Aeronautics and Space Administration | | |

FORM SF-SAC (5-18-2010)

PART III FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

10. AUDIT FINDINGS

CFDA Number		Research and development (c)	ARRA ³ (d)	Name of Federal program (e)	Amount expended (f)	Direct award (g)	Major program (h)		If yes, type of audit report ⁴ (i)	Type(s) of compliance requirement(s) ⁵ (a)	Audit finding reference number(s) ⁶ (b)
Federal Agency Prefix ¹ (a)	Extension ² (b)						Major program				
10	.760	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	U.S. DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT	\$ 897,436 .00	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	U	O	N/A	
10	.760	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	U.S. DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT	\$ 410,503 .00	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input checked="" type="checkbox"/> Y 2 <input type="checkbox"/> N	U	O	N/A	
14	.228	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	CSDB GRANT	\$ 247,427 .00	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N		O	N/A	
		1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N		\$.00	1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N				
		1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N		\$.00	1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N				
		1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N		\$.00	1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N				
		1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N		\$.00	1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N				
		1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N		\$.00	1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N	1 <input type="checkbox"/> Y 2 <input type="checkbox"/> N				
TOTAL FEDERAL AWARDS EXPENDED					\$ 1,555,366 .00						

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

³ American Recovery and Reinvestment Act of 2009 (ARRA).

⁴ If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

⁵ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, significant deficiency (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

A. Activities allowed or unallowed

B. Allowable costs/cost principles

C. Cash management

D. Davis - Bacon Act

E. Eligibility

F. Equipment and real property management

G. Matching, level of effort, earmarking

H. Period of availability of Federal funds

I. Procurement and suspension and debarment

J. Program income

K. Real property acquisition and relocation assistance

L. Reporting

M. Subrecipient monitoring

N. Special tests and provisions

O. None

P. Other

⁶ N/A for NONE

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
SCHEDULE OF INSURANCE IN FORCE
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

<u>COVERAGE</u>	<u>EXPIRATION DATE</u>	<u>AMOUNT</u>	<u>DEDUCTIBLE</u>	<u>OCCURRENCE</u>
<i>Rural Special Districts</i>				
Real & Personal Property Coverage Extension	11/1/2012	\$ 8,647,875 1,000,000	\$ 500	
Bodily Injury and Property Damage	11/1/2012	1,000,000 3,000,000		Per Occurrence Aggregate
Personal Injury and Advertising Injury	11/1/2012	1,000,000 3,000,000		Per Person Aggregate
Employment Related Practices Injury	11/1/2012	1,000,000 3,000,000	2,500	Per Act Aggregate
Professional Liability	11/1/2012	1,000,000 3,000,000		Per Error or Omission Aggregate
Damage to Premises Rented to You	11/1/2012	1,000,000		Any One Premise
Medical Expenses	11/1/2012	10,000		Per Accident
Auto Insurance				
Auto Liability - Any Auto	11/1/2012	1,000,000	500	Combined Single Limit Per Accident
Uninsured Motorist		1,000,000		
Auto Medical Payments		5,000		
Crime Coverage				
Employee Dishonesty	11/1/2012	100,000	500	Per Occurrence
Forgery and Alteration		100,000		
Theft, Disappearance & Destruction		100,000		
Computer Fraud		50,000		
<i>Cincinnati Insurance Company</i>				
Bond	9/30/2012	\$ 500,000		

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
SCHEDULE OF UTILITY RATES IN EFFECT
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Water Rate Schedule

East Roane County Customers				
GALLONS/SERVICES	EFFECTIVE 9/30/12	EFFECTIVE 9/30/11	INCREMENT	
<u>3/4" Water Meter</u>				
First 2,000 gallons, per month	\$ 26.50	\$ 25.75	(minimum)	
Next 13,000 gallons, per month	7.75	7.35	1,000 gal.	
Over 15,000 gallons, per month	9.95	9.75	1,000 gal.	
<u>1" to 2" Water Meter</u>				
First 2,000 gallons, per month	43.25	42.00	(minimum)	
Over 2,000 gallons, per month	7.80	7.40	1,000 gal.	
<u>3" and above Water Meter</u>				
First 2,000 gallons, per month	96.00	86.00	(minimum)	
Over 2,000 gallons, per month	7.80	7.40	1,000 gal.	

All Other Watts Bar Customers				
GALLONS/SERVICES			INCREMENT	
<u>3/4" Water Meter</u>				
First 2,000 gallons	\$ 21.25	\$ 20.75	(minimum)	
Next 3,000 gallons, per month	7.75	7.35	1,000 gal.	
Next 10,000 gallons, per month	6.80	6.35	1,000 gal.	
Over 15,000 gallons, per month	9.95	9.75	1,000 gal.	
<u>1" to 2" Water Meter</u>				
First 2,000 gallons	43.25	42.00	(minimum)	
Over 2,000 gallons	7.80	7.40	1,000 gal.	
<u>3" and above Water Meter</u>				
First 2,000 gallons	96.00	86.00	(minimum)	
Over 2,000 gallons	7.80	7.40	1,000 gal.	
<u>TAP FEES</u>				
3/4 " Tap Fee	1,600.00	1,500.00		
1 " Tap Fee	3,000.00	2,500.00		
2" and above Tap Fee	6,000.00	5,800.00	(minimum)	

NOTE: Number of Active Water Customers 5,878
Number of Inactive Water Customers 1,408

Residential Sewer Rate Schedule

GALLONS/SERVICES			INCREMENT	
First 2,000 gallons	\$ 39.75	\$ 36.90	(minimum)	
Over 2,000 gallons, per month	7.90	7.45	1,000 gal.	
Non User Fee	19.38	18.45	(minimum)	
Sewer Tap Fees - 1,500 gallon	6,200.00	5,800.00		
Sewer Tap Fees - 2,000 gallon	8,400.00	7,800.00		
NOTE: Number of Sewer Customers Serviced	40			

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
SCHEDULE OF UTILITY RATES IN EFFECT
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Water Rate Schedule - Continued

Commercial Sewer Rate Schedule

GALLONS/SERVICES	EFFECTIVE 9/30/12	EFFECTIVE 9/30/11	INCREMENT
First 2,000 gallons	96.00	0.00	(minimum)
Over 2,000 gallons per month	8.80	0.00	1,000 gal.

Service Charges

Non-Refundable Service Charge - Reconnection Regular Office Hours	\$ 50.00	\$ 50.00	Each Reconnection
Non-Refundable Service Charge - Reconnection After Hours	100.00	100.00	Each Reconnection
Damaged Lock	80.00	75.00	Each Occurrence
Damaged Shutoff Valve	125.00	95.00	Each Occurrence
Damaged Meter	200.00	175.00	Each Occurrence
Damaged Transponder	200.00	175.00	Each Occurrence
Tampering Fee 1 - Removing Lock	200.00	175.00	Each Occurrence
Tampering Fee 2 - Jumper or Unauthorized Connections	500.00	0.00	Each Occurrence
Tampering Fee 3 - Bypass around meter	1,000.00	0.00	Each Occurrence
Tampering Fee 4 - Unauthorized taps	5,000.00	0.00	Each Occurrence
Meter Accuracy Testing (Residential)	85.00	85.00	Each Occurrence
Meter Accuracy Testing (Commercial)	250.00	250.00	Each Occurrence
Representative Service Charge	25.00	25.00	Each Occurrence
Wastewater Service Charge	50.00	0.00	Each Occurrence
Backflow Testing Fee -1 device	6.00	6.00	Each Occurrence
Backflow Testing Fee -2 devices	10.00	10.00	Each Occurrence
Backflow Testing Fee -4 devices	20.00	20.00	Each Occurrence

AWWA WLCC Free Water Audit Software: Reporting Worksheet

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WAS v4.2

[Back to instructions](#)

[?](#) Click to access definition

Water Audit Report for: **Watts Bar Utility District**

Reporting Year: **2012** 10/2011 - 9/2012

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

WATER SUPPLIED

<< Enter grading in column 'E'

Volume from own sources:	?	1	265.501	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	?	n/a	0.000	MG/Yr
Water imported:	?	7	129.489	MG/Yr
Water exported:	?	n/a	0.000	MG/Yr
WATER SUPPLIED:			394.990	MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	?	9	295.739	MG/Yr	Click here: ? for help using option buttons below Pcnt: <input type="radio"/> Value: <input type="text"/> Use buttons to select percentage of water supplied OR value
Billed unmetered:	?	n/a	0.000	MG/Yr	
Unbilled metered:	?	9	4.448	MG/Yr	
Unbilled unmetered:	?		4.937	MG/Yr	
Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed					
AUTHORIZED CONSUMPTION:	?		305.124	MG/Yr	

WATER LOSSES (Water Supplied - Authorized Consumption)

89.866 MG/Yr

Apparent Losses

Unauthorized consumption:	?		0.987	MG/Yr	Pcnt: <input checked="" type="radio"/> Value: <input type="text"/> 0.25%
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed					
Customer metering inaccuracies:	?	9	3.032	MG/Yr	Pcnt: <input checked="" type="radio"/> Value: <input type="text"/> 1.00%
Systematic data handling errors:	?	9	0.100	MG/Yr	
Apparent Losses:	?		4.120		Choose this option to enter a percentage of billed metered consumption. This is NOT a default value

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses:	?		85.746	MG/Yr
WATER LOSSES:			89.866	MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER:	?		99.251	MG/Yr
= Total Water Loss + Unbilled Metered + Unbilled Unmetered				

SYSTEM DATA

Length of mains:	?	10	562.5	miles
Number of active AND inactive service connections:	?	8	7,631	
Connection density:			14	conn./mile main
Average length of customer service line:	?	10	0.0	ft (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	?	7	113.0	psi

COST DATA

Total annual cost of operating water system:	?	10	\$3,946,995	\$/Year
Customer retail unit cost (applied to Apparent Losses):	?	9	\$10.21	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	?	10	\$923.61	\$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	25.1%
Non-revenue water as percent by cost of operating system:	3.3%
Annual cost of Apparent Losses:	\$42,062
Annual cost of Real Losses:	\$79,196

Operational Efficiency Indicators

Apparent Losses per service connection per day:	1.48	gallons/connection/day
Real Losses per service connection per day*:	N/A	gallons/connection/day
Real Losses per length of main per day*:	417.64	gallons/mile/day
Real Losses per service connection per day per psi pressure:		gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):	172.72	million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	85.75	million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]:	0.50	

* only the most applicable of these two indicators will be calculated

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 67 out of 100 *****

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

- 1: Volume from own sources
- 2: Water imported
- 3: Unauthorized consumption

[For more information, click here to see the Grading Matrix worksheet](#)

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
SCHEDULE OF ROSTER OF OFFICIALS
SEPTEMBER 30, 2012**

NAME	POSITION
Harold Fisher	President
Robert Griffin	Vice-President
Carey Bishop	Secretary/Treasurer

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS - 2004 SERIES
SEPTEMBER 30, 2012**

WATERWORKS REFUNDING REVENUE BOND SERIES 2004

<u>YEAR ENDED SEPTEMBER 30,</u>	<u>PRINCIPAL REQUIREMENTS</u>	<u>INTEREST REQUIREMENTS</u>	<u>TOTAL REQUIREMENTS</u>
2013	\$ 330,000	\$ 320,971	\$ 650,971
2014	345,000	307,771	652,771
2015	360,000	293,971	653,971
2016	370,000	280,471	650,471
2017	385,000	266,226	651,226
2018	400,000	250,826	650,826
2019	420,000	234,826	654,826
2020	435,000	317,606	752,606
2021	455,000	195,856	650,856
2022	480,000	173,106	653,106
2023	505,000	149,107	654,107
2024	530,000	123,857	653,857
2025	490,000	97,356	587,356
2026	515,000	74,694	589,694
2027	365,000	50,875	415,875
2028	360,000	33,994	393,994
2029	375,000	17,334	392,334
	<u>\$ 7,120,000</u>	<u>\$ 3,188,847</u>	<u>\$ 10,308,847</u>

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS - 2004 SERIES
SEPTEMBER 30, 2012**

WATERWORKS REVENUE BOND SERIES 2004

<u>YEAR ENDED SEPTEMBER 30,</u>	<u>PRINCIPAL REQUIREMENTS</u>	<u>INTEREST REQUIREMENTS</u>	<u>TOTAL REQUIREMENTS</u>
2013	\$ 21,172	\$ 62,181	\$ 83,353
2014	22,119	61,233	83,352
2015	23,109	60,243	83,352
2016	24,144	59,208	83,352
2017	25,225	58,127	83,352
2018	26,354	56,998	83,352
2019	27,534	55,818	83,352
2020	28,767	54,585	83,352
2021	30,055	53,297	83,352
2022	31,401	51,951	83,352
2023	32,806	50,546	83,352
2024	34,275	49,077	83,352
2025	35,810	47,542	83,352
2026	37,413	45,939	83,352
2027	39,088	44,264	83,352
2028	40,838	42,514	83,352
2029	42,666	40,686	83,352
2030	44,577	38,775	83,352
2031	46,572	36,780	83,352
2032	48,657	34,695	83,352
2033	50,836	32,516	83,352
2034	53,112	30,240	83,352
2035	55,490	27,862	83,352
2036	57,974	25,378	83,352
2037	60,570	22,782	83,352
2038	63,281	20,071	83,352
2039	66,115	17,237	83,352
2040	69,075	14,277	83,352
2041	72,167	11,185	83,352
2042	75,398	7,954	83,352
2043	78,774	4,578	83,352
2044	60,405	1,127	61,532
	<u>\$ 1,425,779</u>	<u>\$ 1,219,666</u>	<u>\$ 2,645,445</u>

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS - 2005 SERIES
SEPTEMBER 30, 2012**

WATERWORKS REVENUE BOND SERIES 2005

<u>YEAR ENDED SEPTEMBER 30,</u>	<u>PRINCIPAL REQUIREMENTS</u>	<u>INTEREST REQUIREMENTS</u>	<u>TOTAL REQUIREMENTS</u>
2013	\$ 20,423	\$ 68,401	\$ 88,824
2014	21,365	67,459	88,824
2015	22,349	66,475	88,824
2016	23,379	65,445	88,824
2017	24,457	64,367	88,824
2018	25,584	63,240	88,824
2019	26,763	62,061	88,824
2020	27,997	60,827	88,824
2021	29,287	59,537	88,824
2022	30,637	58,187	88,824
2023	32,049	56,775	88,824
2024	33,526	55,298	88,824
2025	35,071	53,753	88,824
2026	36,688	52,136	88,824
2027	38,379	50,445	88,824
2028	40,148	48,676	88,824
2029	41,998	46,826	88,824
2030	43,934	44,890	88,824
2031	45,959	42,865	88,824
2032	48,077	40,747	88,824
2033	50,293	38,531	88,824
2034	52,611	36,213	88,824
2035	55,036	33,788	88,824
2036	57,573	31,252	88,825
2037	60,226	28,598	88,824
2038	63,002	25,822	88,824
2039	65,905	22,919	88,824
2040	68,943	19,881	88,824
2041	72,121	16,703	88,824
2042	75,445	13,379	88,824
2043	78,922	9,902	88,824
2044	82,559	6,265	88,824
2044	86,365	2,459	88,824
2045	6,955	28	6,983
	<u>\$ 1,524,026</u>	<u>\$ 1,414,150</u>	<u>\$ 2,938,176</u>

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS - 2007 SERIES
SEPTEMBER 30, 2012**

WATERWORKS REVENUE BOND SERIES 2007

<u>YEAR ENDED SEPTEMBER 30,</u>	<u>PRINCIPAL REQUIREMENTS</u>	<u>INTEREST REQUIREMENTS</u>	<u>TOTAL REQUIREMENTS</u>
2013	\$ 22,041	\$ 70,035	\$ 92,076
2014	22,998	69,078	92,076
2015	23,997	68,079	92,076
2016	25,040	67,036	92,076
2017	26,128	65,948	92,076
2018	27,262	64,814	92,076
2019	28,447	63,629	92,076
2020	29,682	62,394	92,076
2021	30,972	61,104	92,076
2022	32,317	59,759	92,076
2023	33,721	58,355	92,076
2024	35,186	56,890	92,076
2025	36,714	55,362	92,076
2026	38,309	53,767	92,076
2027	39,973	52,103	92,076
2028	41,709	50,367	92,076
2029	43,521	48,555	92,076
2030	45,412	46,664	92,076
2031	47,384	44,692	92,076
2032	49,443	42,633	92,076
2033	51,590	40,486	92,076
2034	53,831	38,245	92,076
2035	56,170	35,906	92,076
2036	58,610	33,466	92,076
2037	61,156	30,920	92,076
2038	63,812	28,264	92,076
2039	66,584	25,492	92,076
2040	69,476	22,600	92,076
2041	72,494	19,582	92,076
2042	75,643	16,433	92,076
2043	78,929	13,147	92,076
2044	82,358	9,718	92,076
2044	85,935	6,141	92,076
2045	89,668	2,408	92,076
2046	7,212	27	7,239
	<u>\$ 1,653,724</u>	<u>\$ 1,484,099</u>	<u>\$ 3,137,823</u>

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS - 2008 SERIES
SEPTEMBER 30, 2012**

WATERWORKS REVENUE BOND SERIES 2008

<u>YEAR ENDED SEPTEMBER 30,</u>	<u>PRINCIPAL REQUIREMENTS</u>	<u>INTEREST REQUIREMENTS</u>	<u>TOTAL REQUIREMENTS</u>
2013	\$ 30,155	\$ 84,793	\$ 114,948
2014	31,306	83,642	114,948
2015	32,500	82,448	114,948
2016	33,740	81,208	114,948
2017	35,027	79,921	114,948
2018	36,363	78,585	114,948
2019	37,751	77,197	114,948
2020	39,191	75,757	114,948
2021	40,686	74,262	114,948
2022	42,238	72,710	114,948
2023	43,850	71,098	114,948
2024	45,523	69,425	114,948
2025	47,260	67,688	114,948
2026	49,063	65,885	114,948
2027	50,934	64,014	114,948
2028	52,878	62,070	114,948
2029	54,895	60,053	114,948
2030	56,989	57,959	114,948
2031	59,164	55,785	114,949
2032	61,421	53,527	114,948
2033	63,764	51,184	114,948
2034	66,197	48,752	114,949
2035	68,722	46,226	114,948
2036	71,344	43,604	114,948
2037	74,066	40,882	114,948
2038	76,891	38,057	114,948
2039	79,825	35,123	114,948
2040	82,870	32,078	114,948
2041	86,032	28,916	114,948
2042	89,314	25,634	114,948
2043	92,722	22,226	114,948
2044	96,259	18,689	114,948
2044	99,931	15,017	114,948
2045	103,744	11,204	114,948
2046	107,702	7,246	114,948
2047	111,811	3,137	114,948
2048	24,205	124	24,329
	<u>\$ 2,276,333</u>	<u>\$ 1,886,126</u>	<u>\$ 4,162,459</u>

**WATTS BAR UTILITY DISTRICT
OF RHEA, MEIGS, AND ROANE COUNTIES,
TENNESSEE**

**COMPLIANCE AND INTERNAL CONTROL
SECTION**

SEPTEMBER 30, 2012 AND 2011

CERTIFIED PUBLIC ACCOUNTANTS

Joe Savage
Marie I. Niekerk
Josh Stone
Earl O. Wright - 1988 - 2002

Stephen J. Parsons
Catherine R. Hulme
Rebecca Hutsell
William R. Scandlyn - 1988 - 1999

**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**

The Commissioners of Watts Bar Utility District
of Rhea, Meigs, and Roane Counties, Tennessee

We have audited the financial statements of Watts Bar Utility District of Rhea, Meigs, and Roane Counties, Tennessee (The District), as of and for the years ended September 30, 2012 and 2011, and have issued our report thereon dated December 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District'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 the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

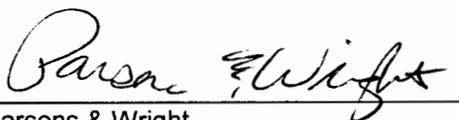
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting, **Finding 1**. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on the responses.

This report is intended for the information of the board of directors, management, others within the organization, the State of Tennessee, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Parsons & Wright", is written over a horizontal line.

Parsons & Wright
Certified Public Accountants
Kingston, Tennessee

December 17, 2012

CERTIFIED PUBLIC ACCOUNTANTS

Joe Savage
Marie I. Niekerk
Josh Stone
Earl O. Wright - 1988 - 2002

Stephen J. Parsons
Catherine R. Hulme
Rebecca Hutsell
William R. Scandlyn - 1988 - 1999

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Commissioners of Watts Bar Utility District
of Rhea, Meigs, and Roane Counties, Tennessee

Compliance

We have audited Watts Bar Utility District of Rhea, Meigs, and Roane Counties, Tennessee's (the District) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended September 30, 2012. The District's major federal programs are identified in summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

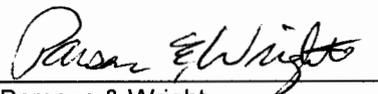
Management of the District, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over compliance, **Finding 1**. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on the responses.

This report is intended for the information of the board of directors, management, others within the organization, the State of Tennessee, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.


Parsons & Wright
Certified Public Accountants
Kingston, Tennessee

December 17, 2012