



AGENDA
Utility Management Review Board
August 6, 2015
10:00 am
Room 31, Legislative Plaza
301 Sixth Avenue North
(6th Avenue between Charlotte Avenue and Union Street)
Nashville, Tennessee

Call to Order

Approval of Minutes

February 5, 2015

Cases: Chanute-Pall Mall Utility District Fentress County
Witt Utility District Hamblen County
Bon Aqua – Lyles Utility District Hickman County

Status: Bedford County Utility District Bedford County
Samburg Utility District Obion County

Status Investigation: Cherokee Hills Utility District Polk County
Lone Oak Utility District Sequatchie County

Miscellaneous: Complaint log
Jurisdiction list
Compliance List
Commissioner Training
Revised Depreciation Schedule
Next UMRB regular meeting

Open Discussion

Visitors to the Legislative Plaza are required to pass through a metal detector and must present photo identification. Individuals with disabilities who wish to participate in this meeting or to review filings should contact the Office of State and Local Finance to discuss any auxiliary aids or services need to facilitate such participation. Such contact may be in person or by writing, telephone or other means, and should be made prior to the scheduled meeting date to allow time to provide such aid or service. Contact the Office of State and Local Finance (Ms. Joyce Welborn) for further information.

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MINUTES
of the
UTILITY MANAGEMENT REVIEW BOARD MEETING
February 5, 2015
10:00 am

The meeting of the Utility Management Review Board (UMRB) in Room 31 of the Legislative Plaza in Nashville, Tennessee, was opened by Chair Ann Butterworth.

Board members present and constituting a quorum:

Ann Butterworth, Chair, Comptroller Designee

Tom Moss, Vice-Chair, Department of Environment and Conservation (TDEC)
Commissioner Designee

Pat Riley, Gibson County Utility District Manager

Rebecca Hunter, Hixson Utility District Commissioner

Kevin Botts, Consumer Representative

Bruce Giles, First Utility District of Knox County Manager

Members Absent:

Jason West, Second South Cheatham Utility District Commissioner

Don Stafford, Eastside Utility District Manager

Jim Hunter, West Wilson Utility District Commissioner

Staff Present:

Joyce Welborn, Comptroller's Office

John Greer, Comptroller's Office

Counsel Present:

Betsy Knotts, Comptroller's Office

Approval of Minutes

Ms. Butterworth stated that the first item on the agenda was the consideration of the minutes of the December 4, 2014 meeting. Ms. Hunter moved approval of the minutes. Mr. Giles seconded the motion, which was unanimously approved.

A biography of all Board members and staff, an organizational chart of the Comptroller's Office, and an organizational chart of the Office of State and Local Finance were included in the packet. A biography of Mr. Chris Leauber, Water Loss Subcommittee Chair, was also included.

Investigative Presentation

Rene Brison, assistant director for special investigations in the Comptroller's office, made a presentation on the Comptroller's investigative process. The presentation described the different phases of an investigation from start to finish.

Investigative Reports

Chuckey Utility District

Ms. Knotts gave UMRB members a copy of a 2013 Tennessee court of appeals case and highlighted the relevant legal standard for determining whether a utility district commissioner has breached his/her fiduciary duty. Ms. Knotts then read the findings from the investigative report and summarized the written responses provided by the District. Counsel for the District responded to questions from UMRB members. Based on the legal standard as described by UMRB counsel and the District's responses in their entirety, Ms. Hunter moved that counsel send a letter to the District stating that the UMRB had concluded its review of the investigative report and determined that it did not provide sufficient evidence of a breach of fiduciary duty, but that the UMRB reserved the right to revisit this matter in the future if circumstances change. In addition, the UMRB recommended that the District implement a formal nepotism policy. Mr. Giles seconded the motion, which was approved unanimously.

Cross Anchor Utility District

Ms. Knotts read the findings from the investigative report and summarized the written responses provided by the District. Counsel for the District responded to questions from UMRB members. Based on the legal standard as described by UMRB counsel and the District's responses in their entirety, Mr. Moss moved that counsel send a letter to the District stating that the UMRB had concluded its review of the investigative report and determined that it did not provide sufficient evidence of a breach of fiduciary duty, but that the UMRB reserved the right to revisit this matter in the future if circumstances change. Mr. Riley seconded the motion, which was approved unanimously.

Webb Creek Utility District

Ms. Knotts read the findings from the investigative report and summarized the written responses provided by the District. Counsel for the District responded to questions from UMRB members. Based on the legal standard as described by UMRB counsel and the District's responses in their entirety, Mr. Moss moved that counsel send a letter to the District stating that the UMRB had concluded its review of the investigative report and determined that it did not provide sufficient evidence of a breach of fiduciary duty, but that the UMRB reserved the right to revisit this matter in the future if circumstances change. In addition, the UMRB requested a written update on the status of all reimbursements to the District relating to the investigative findings. Mr. Botts seconded the motion, which was approved unanimously.

Water Loss – AWWA Reporting Worksheet

Mr. Leauber made a presentation about the AWWA reporting worksheet. The presentation included a demonstration of how to properly fill out the worksheet.

The Board discussed the possibility of training utilities and validating scores through outside agencies. Mr. Leauber stated that each AWWA validation audit cost approximately \$1,000. The State of Georgia has used State Revolving Loan monies to fund a validation project. Tennessee has not appropriated any funds to validate the water loss information provided by utilities, but any utility may submit their Reporting Worksheet to the AWWA for a free validation.

Mr. Giles moved that no changes be made to the current water loss reporting requirements. Mr. Riley seconded the motion, which was approved unanimously.

The Annual Water Loss Report to the General Assembly was included in the Board packet.

Depreciation

Ms. Sheila Reed, contract audit manager for the Division of Local Government Audit, made a presentation on depreciation. Ms. Reed walked the Board through the process of determining depreciation and the effect it has on an entity.

Processes and Duties of the Board

Ms. Welborn presented the process of how entities are referred by the contract review team and what staff does before presenting those entities to the Board.

A copy of TCA § 7-82, the Utility District Act of 1937, which had been highlighted to reflect any mention of the Board, was included in the Board packet. Ms. Welborn specifically mentioned several areas of Board responsibility.

Conflict of Interest

Ms. Knotts presented a conflict of interest statement to all Board members present. An explanation was given on the different sections of the statement and each member was asked to fill out the form and return them to counsel.

Open Records/Open Meetings

Chair Butterworth provided a handout to Board members with a brief overview of open records and open meetings requirements.

Miscellaneous

The election of officers was postponed due to several Board members being absent.

Ms. Welborn discussed pending legislation that could affect either the Board or utilities.

Unicoi Water Utility District submitted an audit which reflected **compliance**.

A customer **complaint log, water loss status** list, and a list of utility districts under the **jurisdiction** of the Board had been included in the packet.

Ms. Welborn stated that the Board may not have any cases for the April 2, 2015 meeting.

At 12:45 Mr. Riley made a motion to adjourn. Mr. Giles seconded the motion, which carried unanimously.

Respectfully submitted,

Ann Butterworth
Chair

Joyce Welborn
Utilities Board Manager

**UTILITY MANAGEMENT REVIEW BOARD
Case Study**

Case: Chanute Pall-Mall Utility District
Manager: Lori Pierce
Customers: 387
Validity Score: 83
Non-Revenue Water: 8.0%

The Chanute Pall-Mall Utility District has been reported to the Board as having two consecutive years with a negative change in net position as of June 30, 2014. The financial and rate history is attached.

In 2013 a commissioner of the District failed to pay over \$12,000 in past due bills and late payments. The commissioner no longer serves, but still currently owes over \$8,000. This is one instance that portrays the overall laxity of the District to cut off service for nonpayment. As of December 31, 2014, there was more than \$23,000 due for nonpayment.

The largest customers of the District are chicken farms. The economic uncertainty of these entities has made it difficult for the District to collect steady payments for service. There is also a high turnover of renters in the area.

The District purchases all of its water from Byrdstown for \$4.83 per 1,000 gallons. Byrdstown also charges the District a Corps of Engineers fee of \$2.00 per meter in the system.

The current rate structure has been in place for at least 6 year. The District charges:

Usage	Cost per 1,000
First 2,000 gallons - minimum	\$ 23.00
Next 3,000 gallons	\$ 9.00
Next 5,000 gallons	\$ 8.00
Next 10,000 gallons	\$ 7.00
Above 20,000 gallons	\$ 5.75

Staff recommends the Chanute Pall-Mall Utility District:

- **Put policies in place to govern the District and follow them**
- **Look at the current rate and fee structure to determine feasibility moving forward**

Chanute Pall-Mall will remain under the jurisdiction of the UMRB until an audit is received which reflects compliance.

CHANUTE - PALL MALL UD						
HISTORY FILE						
	Audited	Audited	Audited	Audited	Audited	Audited
FYE 6/30	2009	2010	2011	2012	2013	2014
Water revenues	\$ 202,997	\$ 201,823	\$ 246,024	\$ 248,444	\$ 222,810	\$ 217,841
Other revenues	\$ 14,659	\$ 8,811	\$ 8,647	\$ 7,749	\$ 9,173	\$ 4,698
Capital Contribution				\$ 135,300		
Total Revenue	\$ 217,656	\$ 210,634	\$ 254,671	\$ 391,493	\$ 231,983	\$ 222,539
Total Expenses	\$ 193,401	\$ 244,660	\$ 231,564	\$ 223,646	\$ 232,238	\$ 249,602
Operating Income	\$ 24,255	\$ (34,026)	\$ 23,107	\$ 167,847	\$ (255)	\$ (27,063)
Interest Expense	\$ 14,941	\$ 13,879	\$ 13,837	\$ 13,235	\$ 12,198	\$ 11,924
Change/Net Position	\$ 9,314	\$ (47,905)	\$ 9,270	\$ 154,612	\$ (12,453)	\$ (38,987)
<u>Add'l info</u>						
Principal payment	No Audit	\$ 10,145	\$ 10,187	\$ 10,789	\$ 11,826	\$ 12,100
Depreciation	\$ 26,778	\$ 26,778	\$ 26,778	\$ 34,451	\$ 35,785	\$ 35,785
Customers		483	498	496	498	503
Water Rates						
First 2,000 gallons - minimum		\$ 23.00	\$ 23.00	\$ 23.00	\$ 23.00	\$ 23.00
Next 3,000 gallons-per 1,000		\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00
Next 5,000 gallons-per 1,000		\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00
Next 10,000 gallons-per 1,000		\$ 7.00	\$ 7.00	\$ 7.00	\$ 7.00	\$ 7.00
Above 20,000 gallons-per 1,000		\$ 5.75	\$ 5.75	\$ 5.75	\$ 5.75	\$ 5.75
Unaccounted for Water		26.00%	18.00%	20.00%		
Validity Score					83	83
Non-revenue water					13.8%	8.0%

CHANUT PALL MALL UTILITY DISTRICT
3290 N. YORK HWY
PALL MALL, TN 38577
(931) 879-4860 chanuteutility@twlakes.net

FEB 12 2015

Feb. 9 2015

Joyce Welborn/John Greer; Utilities Board Managers

Meeting was held 2/5/14 to decide on policy implementation – present at meeting were Jonathan Davidson, Bobby Slaven, Lori Pierce, & jonna Jusko. Upon reviewing your recommendations and our current state/customer profile, the following policies were put into place & effective immediately –

Accounts with a 60 day balance (age 3 in computer) locked on 16th of mo. beginning with **Feb. 16 2015**
Reactivation fee for accounts turned off for non-payment \$40. regular; \$50 for nights/weekends
Hookup fee (new accounts) 25.
New tap installation 750.
Check fee for NSF (& 10% late fee added in to amount due) 25.
Damage fee (to lock, meter box/lid, meter, pipe, etc.) 75. Minimum
Utility attorney contacted concerning Kenny West acct. # 350 (balance \$6,873.85) to be paid in installments while keeping acct. # 353 current (to be sent certified).
Install new meters in place of current meters showing 1,000,000 + gal.
These are effective immediately & will be re- evaluated at the 6/2015 commissioners meeting.

Other options being investigated to implement at first of fiscal year (July 1, 2015) -

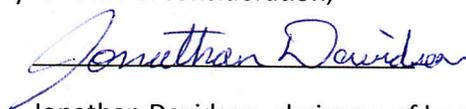
- Reducing price paid per 1,000 gal (Byrdstown mayor checking on cost to produce 1000 gal.)
- Possibility of switching to Jamestown water dept.
- Rate structure updated to include residential, commercial/industrial, agriculture categories

To discuss with auditor -

1. Using some of CDs totaling \$373,999.93 for repairs/extensions/pay off FHA loan (saving \$2002 mo.)
2. Depreciation of system
3. Customer deposits not matching on statement of net position June 30 2014
4. Restricted assets
5. Fixed assets records

*Also failed to mention at 1/27 meeting - Jan. 2014 resulted in an increase of water purchased totaling ~ \$6,000. Due to numerous breaks in main lines from freezing temps (~ 150,000 gal. were lost).

Thank you for your time & consideration,



Jonathan Davidson, chairman of board

Utility Management Review Board Case Study

Case: Witt Utility District
Manager: Terry Harris
Customers: 1885 water
Validity Score: 72
Non-revenue water: 616.9%

The Witt Utility District has been reported to the Board as having two consecutive years with a negative change in net position as of June 30, 2014. The financial and rate history is attached.

Over \$70,000 has been spent by the District on land acquisitions and legal fees for condemnation cases. These new tracts of land are being used to build a new water tank and intake station on the river. The District has received a Rural Development loan at 3.75% interest to pay for construction of the tank, and payoff several smaller loans.

The District bills and collects sewer and storm water fees for Morristown and sewer only for White Pine. The District keeps 10% of all monies collected as a fee for this billing service. The District is waiting on all funding to be received and construction to be finished before a comprehensive rate plan is put in place.

Staff recommends the Board endorse the actions of Witt Utility District with an update on the progress of construction and funding to be received in 3 months. The District will continue to be under the jurisdiction of the Board until an audit is received which reflects compliance.

**WITT UTILITY DISTRICT
HISTORY FILE**

	Audited 2010	Audited 2011	Audited 2012	Audited 2013	Audited 2014
FYE 6/30					
Water revenue	\$ 894,798	\$ 801,843	\$ 968,808	\$ 969,692	\$ 998,646
Sewer Revenue					\$ 23,032
Fire Protection	\$ 7,524	\$ 7,524	\$ 7,524	\$ 7,524	\$ 7,524
Storm Water Runoff Fees	\$ 10,200	\$ 11,419	\$ 10,411	\$ 10,622	\$ 11,192
Capital Contribution	\$ 8,486		\$ 67,873		
Grant Revenue	\$ 517,581	\$ 383,802	\$ 69,598		
Other revenues	\$ 81,161	\$ 93,492	\$ 94,285	\$ 121,028	\$ 124,942
Total Oper Rev.	\$ 1,519,750	\$ 1,298,080	\$ 1,218,499	\$ 1,108,866	\$ 1,165,336
Total Oper Exp.	\$ 1,064,219	\$ 1,093,814	\$ 1,030,282	\$ 968,979	\$ 1,101,404
Operating Income	\$ 455,531	\$ 204,266	\$ 188,217	\$ 139,887	\$ 63,932
Interest Expense	\$ 22,295	\$ 144,781	\$ 184,455	\$ 173,358	\$ 168,756
Ammortization	\$ 353	\$ 281	\$ 279	\$ 249	
Change in Net Position	\$ 432,883	\$ 59,204	\$ 3,483	\$ (33,720)	\$ (104,824)
<u>Additional info</u>					
Principal payment	\$ 65,420	\$ 78,499	\$ 74,378	\$ 71,005	\$ 60,947
Depreciation	\$ 138,613	\$ 216,181	\$ 210,136	\$ 204,654	\$ 267,614
Water rates					
First 2,000 Gallons	\$ 18.60				
Next 10,000 Gallons	\$ 6.05				
All over	\$ 5.55				
First 1,500 Gallons		\$ 21.10	\$ 21.10	\$ 21.10	\$ 24.00
All Over		\$ 6.95	\$ 6.95	\$ 6.95	\$ 7.25
Water loss	21.00%	10.86%			
Validity score			74	70	72
Non revenue water			10.3%	4.4%	
Water customers	1,840	1,857	1,842	1,860	1,885

Utility Management Review Board Case Study

Case: Bon Aqua-Lyles Utility District
Manager: David Conner
Customers: 3550 water
Validity Score: 87
Non-revenue water: 7.0%

The Bon Aqua-Lyles Utility District has been reported to the Board as having two consecutive years with a negative change in net position as of August 31, 2014. The financial and rate history is attached.

Due to the high foreclosure rate in the area, the District lost over 100 customers between 2012 and 2013. This resulted in lost revenue of approximately \$100,000. The District did not have a minimum bill at the time leading to a complete loss of revenue on any vacant house or lot with an active meter. The District has since implemented a minimum bill to collect from the different entities that own the foreclosed properties.

The District lacks a written policy for meter replacement, but has replaced approximately 300 meters per year on average. Currently, meters are replaced when they are malfunctioning or reach 1,000,000 gallons. The cut-off policy has not been strictly followed in the past, but management is making every effort to change that practice moving forward. The current non-contributory insurance plan for employees and commissioners is under review. Management believes going to a contributory plan can greatly reduce cost.

Effective March 2015, the District raised water rates by 7%. The meter reading is now being done by existing staff which has eliminated a \$59,000 annual contract for the same service. The district is now charging a 5% fee for using a credit or debit card. This will help offset the charges of almost \$13,000 monthly from various credit card processing companies.

Staff recommends the Board endorse the actions of the Bon Aqua-Lyles Utility District. The District will continue to be under the jurisdiction of the Board until an audit is received which reflects compliance.

**BON AQUA-LYLES UTILITY DISTRICT
HISTORY FILE**

	Audited	Audited	Audited	Audited	Audited
FYE 8/31	2010	2011	2012	2013	2014
Water revenue	\$ 1,917,116	\$ 2,002,789	\$ 2,116,715	\$ 1,998,284	\$ 2,037,322
Other revenues	\$ 177,797	\$ 162,759	\$ 161,272	\$ 168,477	\$ 169,666
Total Oper Rev.	\$ 2,094,913	\$ 2,165,548	\$ 2,277,987	\$ 2,166,761	\$ 2,206,988
Total Oper Exp.	\$ 1,951,544	\$ 1,959,039	\$ 1,960,151	\$ 2,096,583	\$ 2,123,548
Operating Income	\$ 143,369	\$ 206,509	\$ 317,836	\$ 70,178	\$ 83,440
Interest Expense	\$ 132,401	\$ 122,733	\$ 156,156	\$ 151,112	\$ 146,013
Ammortization	\$ 5,637	\$ 5,637	\$ 5,053		
Change in Net Position	\$ 5,331	\$ 78,139	\$ 156,627	\$ (80,934)	\$ (62,573)
<u>Additional info</u>					
Principal payment	\$ 406,929	\$ 372,490	\$ 280,027	\$ 284,180	\$ 289,300
Depreciation	\$ 219,253	\$ 290,777	\$ 292,938	\$ 294,564	\$ 293,840
<u>Water rates</u>					
First 2,000 Gallons	\$ 21.57	\$ 22.57	\$ 22.57	\$ 22.57	\$ 22.57
All over	\$ 9.14	\$ 11.00	\$ 11.00	\$ 11.00	\$ 11.00
Water loss	30.28%	32.90%			
Validity score			schedule not complete	83	87
Non revenue water			schedule not complete	7.3%	not included
Water customers	Not Included	Not Included	Not Included	Not Included	3,550
Tap fee 3/4"	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00
Tap fee 1"	\$ 2,000.00	\$ 2,000.00	\$ 2,000.00	\$ 2,000.00	\$ 2,000.00
Tap fee 2"	\$ 3,500.00	\$ 3,500.00	\$ 3,500.00	\$ 3,500.00	\$ 3,500.00
Set up/connection - owner	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00
Set up/connection - renter	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00



Bon Aqua-Lyles Utility District

P. O. Box 35
Lyles, Tennessee 37098
(931) 670-3957



Jerry Barnes, President
Jerry Deal, Vice President

Gerald Griffin, Sect. Treasurer
David Conner, Manager

July 13, 2015

John Greer
James K. Polk State Office Building
505 Deaderick Street
Suite 1500
Nashville, TN 37243-1402

Mr. Greer,

The Bon Aqua-Lyles Utility District has made the following changes to try and get the Utility District back in good financial order.

The water rates were raised \$1.50 on the minimum and .50 cents per thousand beginning March 1, 2015. There is also a 5% charge to all debit and credit cards. There is a minimum bill charges for all inactive accounts that are not locked. The district has dropped the life insurance on all of its employees. In September 2015 the District is going to start reading the meters with existing personal and trucks. To qualify for a leak adjustment the customer's bill must be a minimum amount of \$100.00 dollars. The District now has one less employee and the position will not be refilled at this time.

At the July Board meeting the Board of Commissioners will be considering a tampering fee, increasing the return check fee to \$30.00, and a reread fee. I will send what changes would be made after the meeting.

We are currently working on refinancing the Rural Development and two Revolving Fund Loans.

If you have any questions please give me a call at (931) 670-3957.

Thank you,

David Conner
Bon Aqua-Lyles utility District
Manager

**Utility Management Review Board
Status Report**

Case: Bedford County Utility District
Location: Bedford County
Manager: Martin Davis
Customers: 290 gas

The Bedford County Utility District has been reported to the Board as having at least eleven consecutive years with a deficit total net position in its gas system as of June 30, 2014.

The District has increased its commercial customer base drastically in the past two years. The customers coming online are mostly chicken houses. These chicken houses use the majority of the gas sold by the District. There are 28 that will come on line in the next year.

The gas fund has been subsidized by the water fund for several years at a total of \$1,969,492. The District has created a plan to repay the water fund and correct the total deficit in net position.

BEDFORD COUNTY UTILITY DISTRICT

GAS HISTORY FILE

	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited
Fiscal Year June 30	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Gas revenues	\$ 162,342	\$ 222,104	\$ 341,948	\$ 262,496	\$ 377,280	\$ 454,127	\$ 471,622	\$ 454,897	\$ 332,839	\$ 546,377	\$ 773,381
Other revenues			\$ 2,900	\$ 4,900	\$ 3,950	\$ 26,976	\$ 1,800	\$ 2,000	\$ 2,050	\$ 1,000	\$ 2,900
Capital Contr									\$ 10,000	\$ 21,251	\$ 71,442
Operating Rev	\$ 162,342	\$ 222,104	\$ 344,848	\$ 267,396	\$ 381,230	\$ 481,103	\$ 473,422	\$ 456,897	\$ 344,889	\$ 568,628	\$ 847,723
Expenses	\$ 297,885	\$ 348,350	\$ 445,996	\$ 352,324	\$ 416,386	\$ 456,226	\$ 426,064	\$ 378,291	\$ 299,412	\$ 403,345	\$ 583,128
Operating Income	\$ (135,543)	\$ (126,246)	\$ (101,148)	\$ (84,928)	\$ (35,156)	\$ 24,877	\$ 47,358	\$ 78,606	\$ 45,477	\$ 165,283	\$ 264,595
Interest Expense	\$ 163,012	\$ 164,638	\$ 182,154	\$ 187,777	\$ 194,753	\$ 193,769	\$ 191,052	\$ 188,208	\$ 185,229	\$ 160,766	\$ 123,582
Net Position - Gas	\$ (298,555)	\$ (290,884)	\$ (283,302)	\$ (272,705)	\$ (229,909)	\$ (168,892)	\$ (143,694)	\$ (109,602)	\$ (139,752)	\$ 4,517	\$ 141,013
Restatement					\$ 90,851	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (116,317)
Net Position - Gas	\$ (717,741)	\$ (1,009,210)	\$ (1,292,512)	\$ (1,565,217)	\$ (1,704,275)	\$ (1,873,167)	\$ (2,016,861)	\$ (2,126,463)	\$ (2,266,215)	\$ (2,261,698)	\$ (2,237,002)
<u>Supplemental Info</u>											
Principal payment	\$ 31,559	\$ 33,091	unknown	unknown	\$ 56,876	unknown	unknown	unknown	unknown	\$ 4,060,044	\$ 115,000
Depreciation	\$ 110,291	\$ 115,245	\$ 119,249	\$ 125,196	\$ 112,212	\$ 116,757	\$ 119,279	\$ 116,757	\$ 120,647	\$ 123,250	\$ 125,426
Due to Water											\$ 1,969,462
<u>Gas Rates</u>											
Monthly charge			\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
Per MCF			varies thru year	varies thru year	varies thru year	varies thru year	varies thru year	varies thru year	varies thru year	varies thru year	varies thru year
Customers - gas	221	208	221	232	239	249	261	286	290	290	290

BEDFORD COUNTY UTILITY DISTRICT OF BEDFORD COUNTY, TENNESSEE
 NATURAL GAS DEPARTMENT PROJECTION
 2015-2026

	2014-2015 AMENDED BUDGI	*	2015-2016 ESTIMATE	*	2016-17 ESTIMATE	*	2017-2018 ESTIMATE	*	2018-2019 ESTIMATE	*	2019-2020 ESTIMATE	*	2020-2021 ESTIMATE	*	2021-2022 ESTIMATE	*	2022-2023 ESTIMATE	*	2023-2024 ESTIMATE	*	2024-2025 ESTIMATE	*	2025-2026 ESTIMATE	
OPERATING REVENUES - 46000:																								
48000	METERED NATURAL GAS REVENUE	820,000.00	15.0%	943,000.00	10.0%	1,037,300.00	5.0%	1,089,165.00	2%	1,110,948.30	2%	1,133,167.27	2%	1,155,830.61	2%	1,178,947.22	2%	1,202,526.17	2%	1,226,576.69	2%	1,251,108.23	2%	1,276,130.39
47000	FORFEITED DISCOUNTS	7,700.00		7,000.00	2.0%	7,140.00	2.0%	7,282.80	2%	7,428.46	2%	7,577.03	2%	7,728.57	2%	7,883.14	2%	8,040.80	2%	8,201.62	2%	8,365.65	2%	8,532.96
47100	MISCELLANEOUS SERVICE REVENUE	2,300.00		2,000.00	2.0%	2,040.00	2.0%	2,080.80	2%	2,122.42	2%	2,164.86	2%	2,208.16	2%	2,252.32	2%	2,297.37	2%	2,343.32	2%	2,390.19	2%	2,437.99
47400	TAP FEE REVENUE	2,500.00		2,000.00	2.0%	2,040.00	2.0%	2,080.80	2%	2,122.42	2%	2,164.86	2%	2,208.16	2%	2,252.32	2%	2,297.37	2%	2,343.32	2%	2,390.19	2%	2,437.99
49300	CONTRIBUTION-DEVELOPERS	45,955.65		45,000.00		25,000.00		25,000.00		-		-		-		-		-		-		-		
TOTAL OPERATING REVENUE:		878,455.65		999,000.00		1,073,520.00		1,125,609.40		1,122,621.59		1,145,074.02		1,167,975.50		1,191,335.01		1,215,161.71		1,239,464.94		1,264,254.24		1,289,539.33
PLANT OPERATIONS - 40100:																								
804	NATURAL GAS PURCHASES	284,985.00	15.0%	327,732.75	10.0%	360,506.03	5.0%	378,531.33	2%	386,101.95	2%	393,823.99	2%	401,700.47	2%	409,734.48	2%	417,929.17	2%	426,287.75	2%	434,813.51	2%	443,509.78
805	MAD PENALTY	60,015.00	5.0%	63,015.75	5.0%	66,166.54	3.0%	68,151.53	2%	69,514.56	2%	70,904.86	2%	72,322.95	2%	73,769.41	2%	75,244.80	2%	76,749.70	2%	78,284.69	2%	79,850.38
806	TRANSPORTATION EXPENSES	36,200.00		36,500.00		36,500.00		36,500.00		36,500.00		36,500.00		36,500.00		36,500.00		36,500.00		36,500.00		36,500.00		36,500.00
807	OPERATING EXPENSES	700.00		1,000.00	2.0%	1,020.00	2.0%	1,040.40	2%	1,061.21	2%	1,082.43	2%	1,104.08	2%	1,126.16	2%	1,148.69	2%	1,171.66	2%	1,195.09	2%	1,218.99
886	MAINTENANCE - STRUCTURES	1,000.00		10,000.00	2.0%	10,200.00	2.0%	10,404.00	2%	10,612.08	2%	10,824.32	2%	11,040.81	2%	11,261.62	2%	11,486.86	2%	11,716.59	2%	11,950.93	2%	12,189.94
891	MAINTENANCE - METERING STATION EQUI	6,500.00		4,000.00	2.0%	4,080.00	2.0%	4,161.60	2%	4,244.83	2%	4,329.73	2%	4,416.32	2%	4,504.65	2%	4,594.74	2%	4,686.64	2%	4,780.37	2%	4,875.98
TOTAL PLANT OPERATING		389,400.00		442,248.50		478,472.56		498,788.86		508,034.64		517,465.33		527,084.64		536,896.33		546,904.26		557,112.34		567,524.59		578,145.08
TRANSMISSION & DISTRIBUTION - 40200:																								
877	LABOR	13,000.00		30,000.00	2.0%	30,600.00	2.0%	31,212.00	2%	31,836.24	2%	32,472.96	2%	33,122.42	2%	33,784.87	2%	34,460.57	2%	35,149.78	2%	35,852.78	2%	36,569.83
878	OPERATING EXPENSES	3,800.00		5,000.00	2.0%	5,100.00	2.0%	5,202.00	2%	5,306.04	2%	5,412.16	2%	5,520.40	2%	5,630.81	2%	5,743.43	2%	5,858.30	2%	5,975.46	2%	6,094.97
879	CUSTOMER INSTALLATION	2,500.00		2,000.00	2.0%	2,040.00	2.0%	2,080.80	2%	2,122.42	2%	2,164.86	2%	2,208.16	2%	2,252.32	2%	2,297.37	2%	2,343.32	2%	2,390.19	2%	2,437.99
887	MAINTENANCE - TRANSMISSION & DISTRIE	1,000.00		10,000.00	2.0%	10,200.00	2.0%	10,404.00	2%	10,612.08	2%	10,824.32	2%	11,040.81	2%	11,261.62	2%	11,486.86	2%	11,716.59	2%	11,950.93	2%	12,189.94
889	MAINTENANCE - REGULATOR STATIONS	4,500.00		1,500.00	2.0%	1,530.00	2.0%	1,560.60	2%	1,591.81	2%	1,623.65	2%	1,656.12	2%	1,689.24	2%	1,723.03	2%	1,757.49	2%	1,792.64	2%	1,828.49
892	MAINTENANCE - CUSTOMER SERVICES	6,000.00		5,000.00	2.0%	5,100.00	2.0%	5,202.00	2%	5,306.04	2%	5,412.16	2%	5,520.40	2%	5,630.81	2%	5,743.43	2%	5,858.30	2%	5,975.46	2%	6,094.97
899	MAINTENANCE - TRANSPORTATION	-		2,000.00	2.0%	2,040.00	2.0%	2,080.80	2%	2,122.42	2%	2,164.86	2%	2,208.16	2%	2,252.32	2%	2,297.37	2%	2,343.32	2%	2,390.19	2%	2,437.99
932	MAINTENANCE - GENERAL PLANT	1,100.00		1,500.00	2.0%	1,530.00	2.0%	1,560.60	2%	1,591.81	2%	1,623.65	2%	1,656.12	2%	1,689.24	2%	1,723.03	2%	1,757.49	2%	1,792.64	2%	1,828.49
TOTAL TRANSMISSION & DISTRIBUTION		31,900.00		57,000.00		58,140.00		59,302.80		60,488.86		61,698.63		62,932.61		64,191.26		65,475.08		66,784.58		68,120.28		69,482.68
ADMINISTRATIVE & GENERAL EXPENSES - 90000:																								
901	SUPERVISION	-		-		-		-		-		-		-		-		-		-		-		
902	METER READING EXPENSES	-		-		-		-		-		-		-		-		-		-		-		
904	UNCOLLECTIBLE ACCOUNTS	15,400.00		2,000.00	2.0%	2,040.00	2.0%	2,080.80	2%	2,122.42	2%	2,164.86	2%	2,208.16	2%	2,252.32	2%	2,297.37	2%	2,343.32	2%	2,390.19	2%	2,437.99
920	LABOR	500.00		510.00	2.0%	520.20	2%	530.60	2%	541.22	2%	552.04	2%	563.08	2%	574.34	2%	585.83	2%	597.55	2%	609.50	2%	621.50
921	OFFICE SUPPLIES & EXPENSES	1,800.00		2,500.00	2.0%	2,550.00	2.0%	2,601.00	2%	2,653.02	2%	2,706.08	2%	2,760.20	2%	2,815.41	2%	2,871.71	2%	2,929.15	2%	2,987.73	2%	3,047.49
922	BOND FEES	22,275.71		-		-		-		-		-		-		-		-		-		-		
923	OUTSIDE SERVICES	1,800.00		3,500.00	2.0%	3,570.00	2.0%	3,641.40	2%	3,714.23	2%	3,788.51	2%	3,864.28	2%	3,941.57	2%	4,020.40	2%	4,100.81	2%	4,182.82	2%	4,266.48
924	PROPERTY INSURANCE	350.00		550.00	2.0%	561.00	2.0%	572.22	2%	583.66	2%	595.34	2%	607.24	2%	619.39	2%	631.78	2%	644.41	2%	657.30	2%	670.45
927	EMPLOYEE RETIREMENT	4,700.00		5,000.00	10.0%	5,500.00	10.0%	6,050.00	10%	6,655.00	10%	7,320.50	10%	8,052.55	10%	8,857.81	10%	9,743.59	10%	10,717.94	10%	11,789.74	10%	12,968.71
930	MISCELLANEOUS GENERAL EXPENSES	1,500.00		2,000.00	2.0%	2,040.00	2.0%	2,080.80	2%	2,122.42	2%	2,164.86	2%	2,208.16	2%	2,252.32	2%	2,297.37	2%	2,343.32	2%	2,390.19	2%	2,437.99
678	MAINTENANCE - TRANSPORTATION	-		2,000.00	2.0%	2,040.00	2.0%	2,080.80	2%	2,122.42	2%	2,164.86	2%	2,208.16	2%	2,252.32	2%	2,297.37	2%	2,343.32	2%	2,390.19	2%	2,437.99
932	MAINTENANCE - GENERAL PLANT	-		-	2.0%	-	2.0%	-	2%	-	2%	-	2%	-	2%	-	2%	-	2%	-	2%	-	2%	
TOTAL ADMINISTRATIVE & GENERAL		47,825.71		19,550.00		20,341.00		21,187.82		22,095.58		23,069.89		24,116.93		25,243.47		26,456.96		27,765.59		29,178.34		30,705.08

BEDFORD COUNTY UTILITY DISTRICT OF BEDFORD COUNTY, TENNESSEE
 BUDGET - NATURAL GAS DEPARTMENT
 2015-2026

	2014-2015 ACTUAL	* 2015-2016 BUDGET	* 2016-2017 ESTIMATED	2017-2018 ESTIMATED	2018-2019 ESTIMATE	2019-2020 ESTIMATE	2020-2021 ESTIMATE	2021-2022 ESTIMATE	2022-2023 ESTIMATE	2023-2024 ESTIMATE	2024-2025 ESTIMATE	2025-2026 ESTIMATE
DEPRECIATION EXPENSE - 40300:												
403 DEPRECIATION EXPENSE - REGULAR	132,500.00	150,000.00	150,000.00	155,000.00	155,000.00	155,000.00	155,000.00	155,000.00	155,000.00	155,000.00	155,000.00	155,000.00
TOTAL DEPRECIATION EXPENSE	132,500.00	150,000.00	150,000.00	155,000.00	155,000.00	155,000.00	155,000.00	155,000.00	155,000.00	155,000.00	155,000.00	155,000.00
PAYROLL TAXES - 40800:												
408 PAYROLL TAXES	1,150.00	1,150.00 2.0%	1,173.00 2.0%	1,196.46 2%	1,220.39 2%	1,244.80 2%	1,269.69 2%	1,295.09 2%	1,320.99 2%	1,347.41 2%	1,374.36 2%	1,401.84 2%
TOTAL PAYROLL TAXES	1,150.00	1,150.00	1,173.00	1,196.46	1,220.39	1,244.80	1,269.69	1,295.09	1,320.99	1,347.41	1,374.36	1,401.84
	602,775.71	669,948.50	708,126.56	735,475.94	746,839.46	758,478.65	770,403.86	782,626.14	795,157.29	808,009.92	821,197.56	834,734.69
OPERATING INCOME/(LOSS)	275,679.94	329,051.50	365,393.44	390,133.46	375,782.13	386,595.37	397,571.64	408,708.87	420,004.42	431,455.02	443,056.69	454,804.64
OTHER INCOME - 41000:												
41900 INTEREST INCOME	450.04	350.00 2.0%	357.00	357.00	357.00	357.00	357.00	357.00	357.00	357.00	357.00	357.00
42100 MISCELLANEOUS INCOME	-	-	-	-	-	-	-	-	-	-	-	-
42200 GAIN ON SALE OF FIXED ASSETS	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL OTHER INCOME	450.04	350.00	357.00	357.00	357.00	357.00	357.00	357.00	357.00	357.00	357.00	357.00
OTHER DEDUCTIONS - 42700:												
427 INTEREST ON LONG - TERM DEBT	(138,754.00)	(138,303.00)	(134,250.00)	(130,202.00)	(126,010.00)	(121,802.00)	(117,374.00)	(112,294.00)	(107,044.00)	(101,635.00)	(95,669.00)	(89,654.00)
428 AMORTIZATION OF DEBT DISCOUNT	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL OTHER DEDUCTIONS	(138,754.00)	(138,303.00)	(134,250.00)	(130,202.00)	(126,010.00)	(121,802.00)	(117,374.00)	(112,294.00)	(107,044.00)	(101,635.00)	(95,669.00)	(89,654.00)
OTHER NON-OPERATING INCOME:												
49100 TAP FEES-IN EXCESS OF COST OF INSTAL	-	-	-	-	-	-	-	-	-	-	-	-
49200 FEDERAL GRANTS	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL: OTHER NON-OPERATING INCOME	-	-	-	-	-	-	-	-	-	-	-	-
NET INCOME/(LOSS)	137,375.98	191,098.50	231,500.44	260,288.46	250,129.13	265,150.37	280,554.64	296,771.87	313,317.42	330,177.02	347,744.69	365,507.64

* ESTIMATED INCREASE FOR PERIOD

UTILITY MANAGEMENT REVIEW BOARD

Status Update

Status Update: Samburg Utility District
Office Manager: Verba Bramlett
Customers: 312 water
Water Loss: 26.1%
Validity Score: 67

The Samburg Utility District was reported to the Board many years ago as being in default on its outstanding indebtedness. On January 12, 2015, the District deposited \$5,394 with the Obion Clerk and Master in order to satisfy the terms of the bond covenants.

In 2012 Reelfoot Utility District brought a lawsuit to stop Samburg Utility District from purchasing water from Hornbeak Utility District. That lawsuit is in the final appeal process currently. The two previous judgments have been in favor of Samburg Utility District. Hornbeak Utility District and Samburg Utility District are now connected and awaiting the final judgment.

Samburg Utility District will save \$ 0.32 per 1,000 gallons when they are able to purchase water from Hornbeak UD. The District will also be saving utility costs as no pumps are now necessary to bring water to the system.

**SAMBURG UTILITY DISTRICT
HISTORY FILE**

	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited
Fiscal Year January 31	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Water revenues	\$ 117,506	\$ 107,797	\$ 143,273	\$ 136,670	\$ 118,246	\$ 91,962	\$ 113,379	\$ 163,547	\$ 172,277	\$ 210,506	\$ 200,659	\$ 206,430	\$ 205,167
Other revenues	\$ 4,930	\$ 4,999	\$ -	\$ 9,269	\$ 5,446	\$ 5,583	\$ 5,371	\$ 6,135	\$ 7,503	\$ 6,249	\$ 4,945	\$ 6,732	\$ 5,287
Total Operating Revenues	\$ 122,436	\$ 112,796	\$ 143,273	\$ 145,939	\$ 123,692	\$ 97,545	\$ 118,750	\$ 169,682	\$ 179,780	\$ 216,755	\$ 205,604	\$ 213,162	\$ 210,454
Total Operating Expenses	\$ 119,176	\$ 103,060	\$ 131,989	\$ 108,032	\$ 118,932	\$ 126,378	\$ 129,945	\$ 169,526	\$ 188,414	\$ 208,465	\$ 219,935	\$ 193,571	\$ 180,701
Operating Income	\$ 3,260	\$ 9,736	\$ 11,284	\$ 37,907	\$ 4,760	\$ (28,833)	\$ (11,195)	\$ 156	\$ (8,634)	\$ 8,290	\$ (14,331)	\$ 19,591	\$ 29,753
Interest Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 38	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net position	\$ 3,260	\$ 9,736	\$ 11,284	\$ 37,907	\$ 4,760	\$ (28,833)	\$ (11,233)	\$ 156	\$ (8,634)	\$ 8,290	\$ (14,331)	\$ 19,591	\$ 29,753
Defaulted debt	\$ 115,356	\$ 67,356	\$ 67,356	\$ 35,356	\$ 20,356	\$ 5,356	\$ 5,394	\$ 5,394	\$ 5,394	\$ 5,394	\$ 5,394	\$ 5,394	\$ 5,394
<u>Supplemental Information</u>													
Principal payment	\$0	\$0	\$0	\$ 32,000	\$ 1,000	\$ 15,000	\$ -	\$ -	\$ -	\$ -	\$ 3,600	\$ 3,600	\$ 2,400
Depreciation	\$ 7,886	\$ 8,080	\$ 8,080	\$ 8,080	\$ 8,080	\$ 7,886	\$ 7,692	\$ 8,471	\$ 8,493	\$ 6,816	\$ 1,567	\$ 942	\$ 892
<u>Water Rates</u>													
0 - 2,000 gallons - residential	\$ 15.25	\$ 15.25	\$ 16.25	\$ 16.25	\$ 16.25	\$ 16.25	\$ 19.75	\$ 19.75	\$ 19.75	\$ 24.00	\$ 24.00	\$ 24.00	\$ 24.00
0 - 2,000 gallons - commercial								\$ 27.50	\$ 27.50	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00
0 - 2,000 gallons - State Park								\$ 240.00	\$ 240.00	\$ 300.00	\$ 300.00	\$ 300.00	\$ 300.00
0 - 2,000 gallons - Ranger House								\$ 50.00	\$ 50.00	\$ 60.00	\$ 60.00	\$ 60.00	\$ 60.00
All over - Residential/Comm	\$ 4.50	\$ 4.50	\$ 5.45	\$ 5.45	\$ 5.45	\$ 5.45	\$ 6.95	\$ 6.95	\$ 6.95	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00
All over - St. Park/ Ranger								\$ 7.45	\$ 7.45	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
Customers						313	307	307	283	283	283	283	283
Water Loss						61.36%	30.9%		28.4%	25.4%	51.6%		
Validity Score												65	67
Non-Revenue Water												32.5%	26.1%



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF GENERAL COUNSEL

Justin P. Wilson
Comptroller

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505 Deaderick Street, Suite 1700
Nashville, Tennessee 37243-1402
Phone (615) 401-7786
Fax (615) 741-1776

Stephanie S. Maxwell
General Counsel

MEMO

To: Utility Management Review Board (“UMRB”) Members

From: Betsy Knotts, counsel to the UMRB

A handwritten signature in blue ink, appearing to read "B. Knotts".

Date: July 22, 2015

Subject: Investigation of Cherokee Hills Utility District pursuant to TCA § 7-82-709(a)¹

Background

In July of 2012, the Cherokee Hills Utility District (“District”) was referred to the UMRB as having excessive unaccounted for water loss of 100%, as required by TCA § 7-82-401(h). At its meeting on December 5, 2013, the UMRB voted to allow the District to install scattered meters within the system (one in each of the six Bac-T sampling areas), to install a meter on the overflow at the water tank to account for the water being sent to the river, and to submit the AWWA water reporting worksheet for fiscal year 2012 since it was not included in the financial audit. The District did not comply with the UMRB’s directives.

The District was reported to the UMRB as having two consecutive years with a negative change in net position as of December 31, 2013.² At the UMRB meeting on December 4, 2014, the UMRB initiated an investigation of the District pursuant to TCA § 7-82-709(a), to be completed by August 6, 2015. Immediately after that meeting, counsel to the UMRB (“Counsel”) informed the District of the ongoing UMRB investigation and reviewed all documents relating to the legal status of the District. Counsel conferred with representatives from the Tennessee Department of Environment and Conservation (“TDEC”) and the Attorney

¹ Under Tenn. Code Ann. §7-82-709(a), “Notwithstanding any provision of law to the contrary, the utility management review board shall have the authority, in the case of public water systems of utility districts, to investigate, with the assistance of the department of environment and conservation and the comptroller of the treasury, and determine the financial, technical, and managerial capacity of the systems to comply with the requirements of the federal and the state acts; and to require systems to take appropriate action to correct any deficiencies in such areas, including, but not limited to, changes in ownership, management, accounting, rates, maintenance, consolidation, alternative water supply, or other procedures. The utility management review board also may approve or disapprove such corrections as a condition for any public water system of a utility district to receive assistance from the authority under § 68-221-1206(a)(3)”.

² In addition, the District reported a negative change in net position as of December 31, 2014. See Attachment A for more detailed information.

General's office regarding the District's legal status and compliance with environmental regulations. The Polk County Executive, the District manager, and the District's chairman participated in a conference call with Counsel in which she explained that the District was a political subdivision of the state, not a privately-owned entity, and that if the District wanted to change its legal status it would have to enter into a tri-party transfer agreement among a county or municipality, the District, and the newly created association.³ The District's chairman asked Counsel to attend its next board meeting to explain the issues and possible solutions to the District's ongoing financial distress and excessive unaccounted-for water loss status. Counsel and the Polk County attorney attended the District's meeting on June 9, 2015. At that meeting, attendees discussed three possible solutions:

1. Hire an engineer to assess the system for metering and the District to issue debt to finance system upgrades;
2. Properly change legal status to a water association and lose tax-exempt status; or
3. Attempt to consolidate with a neighboring utility district (such as Copper Basin Utility District).

After much discussion, the District's chairman asked Counsel to compose a checklist of the steps the District would need to take in order to change properly its legal status to a nonprofit homeowners' association ("HOA").⁴ Currently, the District's attorney, the Polk County attorney, and Counsel are working together to draft the tri-party transfer agreement.

Deficiencies as of July 22, 2015

The District has five notable managerial, financial, and technical⁵ deficiencies:

1. Unmetered system;
2. Fundamental misunderstanding of legal status;
3. Commissioners not properly appointed per state law;
4. Sunshine law noncompliance; and
5. Quarterly flat rate charged to customers instead of a monthly floating rate

Recommendation from Counsel

First, I recommend that the UMRB review and discuss the five deficiencies noted above.

³ See Attachment B for more detailed information.

⁴ See Attachment C for more detailed information.

⁵ See Attachment D for evidence of compliance with TDEC regulations.

Second, I recommend that the UMRB direct counsel to draft an order memorializing the following corrective plan of action for the District:

- District to formally engage legal representation.
- County executive to appoint the District commissioners per state law.
- District's attorney to assist in creating an HOA that will acquire the system.
- District's attorney, Polk County attorney, and Counsel to draft tri-party transfer agreement and any supporting affidavits.
- Polk County Commission to review, approve, and execute the transfer agreement at a regularly scheduled meeting before December 31, 2015.
- District and HOA to review, approve, and execute the transfer agreement before December 31, 2015.
- If District's legal status is not properly changed in a timely manner, the UMRB will initiate consolidation negotiations between the District and neighboring utility district (such as Copper Basin Utility District), pursuant to TCA § 7-82-704(a).

Attachment A

**CHEROKEE HILLS UTILITY DISTRICT
OF POLK COUNTY, TENNESSEE
FINANCIAL STATEMENTS
For the Year Ended December 31, 2014**

**E. RENE BIDEZ
Certified Public Accountant
P.O. Box 999
McCaysville, Georgia 30555**

**CHEROKEE HILLS UTILITY DISTRICT
OF POLK COUNTY, TENNESSEE
For the Year Ended December 31, 2014**

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E. RENE BIDEZ

CERTIFIED PUBLIC ACCOUNTANT

P.O. BOX 999 • McCAYSVILLE, GA 30555 • (706) 964-9000 • FAX (706) 964-9001

MEMBER: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Cherokee Hills Utility District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activity and major fund of the Cherokee Hills Utility District as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Cherokee Hills Utility District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and major fund of the Cherokee Hills Utility District, as of December 31, 2014, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

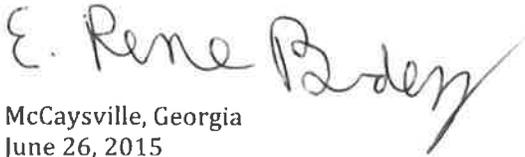
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-8 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2015, on our consideration of the Cherokee Hills Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cherokee Hills Utility District's internal control over financial reporting and compliance.

Handwritten signature of E. Rene Borden in black ink.

McCaysville, Georgia
June 26, 2015

**CHEROKEE HILLS UTILITY DISTRICT
OF POLK COUNTY, TENNESSEE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended December 31, 2014**

This section of the Cherokee Hills Utility District's annual financial report presents a narrative overview and analysis of the Utility District's financial performance for the year ended December 31, 2014. Please read it in conjunction with the Utility District's financial statements which follow. This discussion and analysis is intended to serve as an introduction to the Cherokee Hills Utility District's financial statements. The basic financial statements consist of two parts: (1) fund financial statements, and (2) notes to the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Utility 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 Statement of Net Position includes information on the Utility District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Utility District's creditors (liabilities). The Statement of Revenues, Expenses and Change in Net Position identifies the Utility District's revenues and expenses for the year ended December 31, 2014. This statement provides information on the Utility District's operations over the past year and can be used to determine whether the Utility 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 Utility District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities.

FINANCIAL ANALYSIS OF THE UTILITY DISTRICT

Net Position – Net position may serve over time as a useful indicator of the organization's financial position. In the case of the Cherokee Hills Utility District, assets exceed liabilities by \$179,414 at the close of the year. Approximately 37% of the Utility District's assets are related to its investment in capital assets such as buildings and equipment. Because capital assets are used to provide services to citizens, the assets are not available for future spending. The remaining balance is available to meet the Utility District's ongoing obligations.

Changes in Net Position – For the year ending December 31, 2014, net position of the Utility District decreased 1% or \$1,827. This change is the result of expenses incurred which exceeded all revenue of the Utility District.

At the end of the current year, the Cherokee Hills Utility District is able to report positive balances in net position.

A complete picture of the changes in position (Table 1) and changes in net position (Table 2) of the Utility District is provided in the summary below.

**CHEROKEE HILLS UTILITY DISTRICT
OF POLK COUNTY, TENNESSEE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended December 31, 2014**

Table 1
Net Position (Condensed)

Assets:	<u>2013</u>	<u>2014</u>	<u>Change</u>
Current assets	\$ 112,349	\$ 115,096	\$ 2,747
Capital assets, net	<u>71,717</u>	<u>67,153</u>	<u>(4,564)</u>
Total	<u>184,066</u>	<u>182,249</u>	<u>(1,817)</u>
Liabilities:			
Current Liabilities	<u>2,825</u>	<u>2,835</u>	<u>10</u>
Total	<u>2,825</u>	<u>2,835</u>	<u>10</u>
Net Position:			
Net investment in capital assets	71,717	67,153	(4,564)
Unrestricted	<u>109,524</u>	<u>112,261</u>	<u>2,737</u>
Total	<u>\$ 181,241</u>	<u>\$ 179,414</u>	<u>\$ 1,827</u>

Table 2
Change in Net Position (Condensed)

Revenues:	<u>2013</u>	<u>2014</u>	<u>Change</u>
Program Revenues			
Charge for water services	\$ 31,754	\$ 31,708	\$ (46)
Investment income	<u>475</u>	<u>392</u>	<u>(83)</u>
Total revenue	<u>32,229</u>	<u>32,100</u>	<u>(129)</u>
Expenses:			
General and administrative	27,665	29,363	1,698
Depreciation and amortization	<u>4,834</u>	<u>4,564</u>	<u>(270)</u>
Total expenses	<u>32,499</u>	<u>33,927</u>	<u>1,428</u>
Increase (Decrease) in net position	<u>\$ (270)</u>	<u>\$ (1,827)</u>	<u>\$ (1,557)</u>

Operating supplies increased significantly due to a pump failure that occurred in 2014. Part of this cost was reimbursed in 2015 by the wholesale supply company. In addition, chemicals (such as caustic) are bought by pallet and kept on hand for future years. The District does not record this as inventory, but expenses the items. The overall decrease in net position is attributable to these events.

**CHEROKEE HILLS UTILITY DISTRICT
OF POLK COUNTY, TENNESSEE
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended December 31, 2014**

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of the year, the Utility District had \$34,413, net of accumulated depreciation, invested in capital assets. This investment includes land, equipment, and infrastructure as listed table below.

	<u>2013</u>	<u>2014</u>	<u>Change</u>
Land	\$ 32,740	\$ 32,740	\$ -
Distribution and collection systems	<u>189,467</u>	<u>189,467</u>	<u>-</u>
	222,207	222,207	-
Accumulated depreciation	<u>(150,490)</u>	<u>(155,054)</u>	<u>(4,564)</u>
 Total capital assets, net of accumulated Depreciation	 <u>\$ 71,717</u>	 <u>\$ 67,153</u>	 <u>\$ (4,564)</u>

ECOMONIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The Cherokee Hills Utility District is situated in Polk County and is approximately 70 miles from Chattanooga, Tennessee, the largest urban center of the region. The District is a largely rural area of southeast Tennessee. Economic activity in the region is similar to that found in much of the State of Tennessee, with growth coming in small increments. Water and sewer fees were constant during the last fiscal year. Other expenses have been largely held in line with the growth in inflation over the year.

During 2014, the District membership voted to change its identity to “Cherokee Hills Water Association.” This was the first step in the process to restructure the organization as a homeowner’s association or similar not-for-profit organization. During 2015, the District is working with the state authorities in an effort to finalize the process in the near future.

CONTACTING THE UTILITY DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide Polk County citizens, customers, and creditors with a general overview of the Utility District’s finances and to show the Utility District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Ms. Ruth Ann Hoogendorn, Office Manager
Cherokee Hills Utility District
160 Cherokee Trail
Copperhill, Tennessee 37317
423-496-3074

**CHEROKEE HILLS UTILITY DISTRICT
OF POLK COUNTY, TENNESSEE
STATEMENT OF NET POSITION
PROPRIETARY FUND
December 31, 2014**

	Business-type Activity - Enterprise Fund
<i>ASSETS</i>	
Current Assets:	
Cash	\$ 70,657
Certificate of deposit	36,022
Accounts receivable	8,005
Prepaid expense	<u>412</u>
Total Current Assets	<u>115,096</u>
Non-Current Assets:	
Capital Assets Not Being Depreciated:	
Land and improvements	32,740
Capital Assets Net of Accumulated Depreciation:	
Water lines and equipment	<u>34,413</u>
Capital Assets, net	<u>67,153</u>
Total Assets	<u>182,249</u>
<i>LIABILITIES</i>	
Current Liabilities:	
Accounts payable	470
Accrued wages	725
Other accrued expenses	<u>1,640</u>
Total Liabilities	<u>2,835</u>
<i>NET POSITION</i>	
Net investment in capital assets	67,153
Unrestricted	<u>112,261</u>
Total Net Position	<u>\$ 179,414</u>

The accompanying notes are an integral part of this statement.

**CHEROKEE HILLS UTILITY DISTRICT
OF POLK COUNTY, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Year Ended December 31, 2014**

	Business-type Activity - Enterprise Fund
Operating Revenues:	
Charges for services	\$ 31,708
Total Operating Revenues	<u>31,708</u>
Operating Expenses:	
Electricity	4,351
Insurance	510
Office supplies	655
Payroll taxes	666
Professional fees	3,100
Salaries	8,700
Supplies	7,394
Telephone	1,097
Travel and education	2,890
Total Operating Expenses before Depreciation	<u>29,363</u>
Depreciation	4,564
Total Operating Expenses	<u>33,927</u>
Operating Income (Loss)	<u>(2,219)</u>
Non-Operating Revenues (Expenses):	
Interest	392
Total Non-Operating Revenue (Expenses)	<u>392</u>
Change in net position	(1,827)
Total net position, beginning	<u>181,241</u>
Total net position, ending	<u>\$ 179,414</u>

The accompanying notes are an integral part of this statement.

**CHEROKEE HILL UTILITY DISTRICT
OF POLK COUNTY, TENNESSEE
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014**

	Business-type Activity - Enterprise Fund
Cash Flows from Operating Activities:	
Receipts from customers	\$ 34,407
Payments to suppliers	(22,864)
Payments to employees	<u>(9,366)</u>
Net cash provided by (used in) operating activities	<u>2,177</u>
Cash Flows from Investing Activities:	
Interest income	<u>391</u>
Net cash provided by (used in) investing activities	<u>391</u>
Net increase (decrease) in cash and cash equivalents	2,568
Cash and cash equivalents, beginning of year	<u>104,111</u>
Cash and cash equivalents, end of year	<u>\$ 106,679</u>
Reconciliation of total cash and cash equivalents:	
Cash	\$ 70,657
Cash equivalents	<u>36,022</u>
	<u>\$ 106,679</u>
<i>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</i>	
Operating income (loss)	\$ (2,219)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	4,564
Change in assets and liabilities:	
Accounts receivable	(171)
Prepaid expenses	(8)
Accounts payable	28
Other accrued expenses	<u>(17)</u>
	<u>4,396</u>
Net cash provided by (used in) operating activities	<u>\$ 2,177</u>

The accompanying notes are an integral part of this statement.

**CHEROKEE HILLS UTILITY DISTRICT
OF POLK COUNTY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2014**

1. NATURE OF ACTIVITIES

The Utility District was incorporated by decree of the Polk County Court on June 3, 1957. The petition for incorporation of the Utility District requested that it be empowered to conduct, operate, and maintain a system for the furnishing of water and recreational facilities. The Utility District provides water to approximately one hundred customers. The recreational facilities are limited and generate no revenue and create only minimal expense. The Utility District reports revenues and expenses on an accrual basis.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

The Board of Commissioners, a 3 member group constituting an ongoing group, has responsibility over all activities of the Cherokee Hills Utility District related to its providing water service. The board is appointed by the county commissioners. However, the utility is not included in any other governmental "reporting entity" as defined in section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since the board members have decision making authority, the power to designate management, and the responsibility to significantly influence operations and primary operations and primary accountability for fiscal matters.

Basis of Accounting:

The financial statements have been prepared on the accrual basis as required by generally accepted accounting principles. The Utility's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The District was not required to adopt Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments as amended by Statement No. 37, Basic Financial Statements and Management's Discussions and Analysis for State and Local Governments. However, certain components of the pronouncement were implemented by the District. GASB Statement No. 34 established standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset groups:

- Invested in capital assets, net of related debt – Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted – Net Position whose use is subject to externally imposed situations that can be fulfilled by actions of the District pursuant to those stipulations or that expires by the passage of time.
- Unrestricted – Net assets that are not subject to externally imposed stipulations. Unrestricted Net Position may be designated for specific purposes by action of management or the Board of commissioners or may otherwise be limited by contractual agreements with outside parties.

**CHEROKEE HILLS UTILITY DISTRICT
OF POLK COUNTY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2014**

Support and Revenue Recognition:

The Utility District recognizes support and revenue on the accrual basis of accounting, thereby recognizing revenue when billed and expenses when incurred.

Operating and Non-Operating Revenue:

The Utility defines non-operating revenues as interest and any other investment type revenue. All other revenues, which primarily are customer related, are considered operating revenues.

Use of Estimates:

The preparation of Financial Statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions they may undertake in the future, actual results could differ from these estimates. Estimates are used when accounting for allowances for uncollectible accounts receivable, depreciation, revenue, and contingencies.

Cash and Cash Equivalents:

For purposes of the Statement of Cash Flows, the Utility considers all cash on hand and in banks, including savings accounts and Certificate of Deposits with maturity of less than three months, as cash equivalents.

Capital Assets:

Capital assets are carried at cost less accumulated depreciation and include expenses which substantially increase the useful lives of existing assets. All capital assets with a useful life exceeding one year are capitalized regardless of cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Water lines are being depreciated over forty years and other equipment over ten years with no salvage value.

Measurement focus, basis of accounting, and basis of presentation:

The accounts of the Utility District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The operations of this fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenue, and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs (such as depreciation or debt service).

**CHEROKEE HILLS UTILITY DISTRICT
OF POLK COUNTY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2014**

The basic financial statements of the Utility District are composed of the following:

- Proprietary fund financial statements
- Notes to the financial statements

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net position.

2. UTILITY RATES

The Utility District charges a flat rate per quarter for their service. Water usage is not metered. The rate charged for water service is \$75 per quarter.

3. COMPENSATION OF COMMISSIONERS

In prior years, the Commissioners of the Utility District received compensation of \$900. However, in 2014, this compensation was discontinued as a cost saving measure.

4. CASH

At December 31, 2014 cash and savings consisted of the following:

<u>Type of Account</u>	<u>Location of Deposit</u>	<u>Balance</u> <u>12/31/2014</u>
Checking	Peoples Bank of East TN	\$ 70,657
Certificate of deposit	Peoples Bank of East TN	<u>36,022</u>
		<u>\$ 106,679</u>

Deposits are entirely insured by FDIC Coverage of \$250,000.

5. CUSTOMERS

At December 31, 2014 the Utility had 109 customers.

6. INSURANCE COVERAGE

The following is a schedule of insurance coverage at December 31, 2014:

<u>Insurer</u>	<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Exp. Date</u>
Auto Owner Insurance Co.	General Liability & Fire	\$300,000	09/30/15

**CHEROKEE HILLS UTILITY DISTRICT
OF POLK COUNTY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2014**

7. ADDITIONS AND RETIREMENTS TO PROPERTY, PLANT AND EQUIPMENT

	Balance <u>12/31/2013</u>	Addition <u>(Retirements)</u>	Balance <u>12/31/2014</u>
Land	\$ 32,740	\$ -	\$ 32,740
Water Lines & Equipment	<u>189,467</u>	<u>-</u>	<u>189,467</u>
	<u>\$ 222,207</u>	<u>\$ -</u>	<u>\$ 222,207</u>

Depreciation expense for 2014 was \$4,564.

8. RISK FINANCING ACTIVITIES

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

E. RENE BIDEZ

CERTIFIED PUBLIC ACCOUNTANT

P.O. BOX 999 • McCAYSVILLE, GA 30555 • (706) 964-9000 • FAX (706) 964-9001

MEMBER: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Commissioners
Cherokee Hills Utility District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activity and major fund of the Cherokee Hills Utility District, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Cherokee Hills Utility District's basic financial statements and have issued our report thereon dated June 26, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cherokee Hills Utility District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cherokee Hills Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cherokee Hills Utility District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. See findings 2012-01 and 2014-01.

Compliance and Other Matters

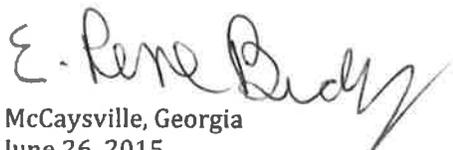
As part of obtaining reasonable assurance about whether the Cherokee Hills Utility District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2012-02 and 2012-03.

Cherokee Hills Utility District's Response to Findings

Cherokee Hills Utility District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Cherokee Hills Utility District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "E. Rene Budy". The signature is written in dark ink and is positioned above the typed name and date.

McCaysville, Georgia
June 26, 2015

**CHEROKEE HILLS UTILITY DISTRICT
OF POLK COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2014**

Significant Deficiencies:

2012-01 – Segregation of Duties

Criteria: Segregation of employees' duties is a common practice in an effective internal control structure. Policies should be in place requiring the segregation of certain duties.

Condition/Context: During the course of our testing procedures, we noted several areas in which the segregation of duties could be improved. Ideally, the duties of cash handling and bookkeeping should be segregated in order to prevent those handling cash from having access to the accounting records. Also, the duties of posting detailed transactions to the general ledger system should be segregated from other functions, such as cash reconciliation, accounts receivable, accounts payable and/or purchasing.

Effect: Without segregation of duties within these functions, there is increased exposure that the District's assets could be intentionally or unintentionally misappropriated.

Cause: The limited number of employees involved in these functions and the resulting overlapping of duties causes segregation of duties to be difficult.

Recommendation: We recommend the District continue their efforts in the design of their internal controls in order to operate with effective segregation of duties. Having adequate segregation of duties will ensure the proper recording and recognition of accounting transactions and will lessen the potential for misappropriation of the District's assets.

Response: This is a reoccurring item. Due to the size of the District's administration, total segregation of duties is not practical at this time. The Board of Commissioners will continue to be closely involved in financial reporting and will continue to provide oversight as practical in order to mitigate risk of misappropriation of assets.

2014-01 – Material Adjustments and Maintenance of General Ledger

Criteria: The District is responsible for preparing annual financial statements in accordance with generally accepted accounting principles (GAAP). Timely recording of transactions on an accrual basis is in accordance with GAAP and provides more meaningful financial information.

Condition/Context: Although the year-end financial statements are prepared on the appropriate accrual basis, the District maintains its general ledger on a cash basis throughout the year. Accrual entries for revenue, receivable, expenditures, payables and other general ledger account adjustments are posted only at year end. Reconciliations are prepared on a timely basis for some transaction classes, but not all.

Effect: Failure to properly account for and reconcile revenue, receivables, expenditures, payables and other general ledger transactions could distort financial information provided to management and the Board of Commissioners, and could result in critical financial decisions being made in consideration of incomplete data.

**CHEROKEE HILLS UTILITY DISTRICT
OF POLK COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2014**

Cause: Routine preparation of reconciliations of all detailed account balances within the general ledger is not being performed due to limited available personnel.

Recommendation: We recommend that the general ledger account balances be reconciled on a timely routine basis, and that all year-end closing entries are made, if possible, by District personnel. We understand that the financial information is accurately reported on the general ledger on the cash basis. However, material entries were required as a result of audit procedures to accurately present the financial statements on a basis consistent with U.S. GAAP. Should limited staffing be a concern, we recommend that the District outsource the year end closing entries to an accounting firm so that financial statements are properly stated before they are audited.

Response: The District will consider this recommendation and explore the above as well as alternative options for implementation.

Instances of Noncompliance:

2012-02 – Noncompliance with State Reporting Requirement

Criteria: As required by TCA 7-82-401 the District is required to publish financial information including travel expenses in the local paper.

Condition/Context: Although the District was aware of this requirement, no such information was published.

Effect: Failure to publish this information per state law causes the District to be in non-compliance with the Comptroller of Tennessee's office at December 31, 2014. It also inhibits the free flow of information to the general public, which is the intent of the requirement.

Cause: The information was not disbursed to the public as required.

Recommendation: It is our recommendation that due diligence be taken to ensure that such information is published during future years so as to remove any instances of noncompliance with state law. This is a finding that has been repeated from previous years.

Response: The District agrees with this finding and will take measures to report the financial information in 2015.

2012-03 – Noncompliance with State Reporting Requirement

Criteria: As required by TCA 7-82-410(h)(i), the District is required to compile information sufficient to complete the annual report for the American Water Works Association water loss survey.

Condition/Context: The information is not available for the District to comply with this reporting model in that water usage by customers is not metered. Information necessary to complete the reporting model includes several components of water produced, treated and billed by the District, including, but not limited to, accounted for billed gallons of water and unaccounted for water loss.

Effect: Due to the unmetered use of water by customers, the District is unable to document the consumption

**CHEROKEE HILLS UTILITY DISTRICT
OF POLK COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2014**

of water by customers as well as the volume of water treated and placed into service. This causes incomplete data and the District's inability to complete the required report.

Cause: The District is unable to implement a metered system due to cost constraints. Current revenue stream does not permit for adequate cash flow to service debt requirements for such a project.

Recommendation: It is our recommendation that the District continue to research ways to fund a metering project, if possible, while continuing communication with the Comptroller of Tennessee as to how to satisfy the reporting requirement in alternative ways.

Response: The District agrees with this finding and agrees that a meter project is not feasible financially at this time unless otherwise funded by grant or similar awards. However, they plan to continue communication with the Comptroller on the issue.

Attachment B



STATE OF TENNESSEE
Utility Management Review Board
James K. Polk State Office Building
505 Deaderick Street, Suite 1500
Nashville, Tennessee 37243-1402
Phone (615) 401-7841 Fax (615) 741-6216

April 22, 2015

RETURN RECEIPT REQUESTED

Honorable Hoyt T. Firestone
Polk County Executive
P.O. Box 128
Benton, TN 37307-0128

and

Mr. L. J. Hoogendoorn, Manager
And Board of Commissioners
Cherokee Hills Water Association Utility District
P. O. Box 228
Copperhill, TN 37317-0228

Dear Sirs:

Please read the attached memorandum and call me at the earliest convenience to set up a conference call. I would like Mr. Hoogendorn, Mr. Broccoli, and Mr. Firestone to be on the call. I would like to discuss the memorandum and possible solutions to the District's ongoing water loss issues.

If you have any questions, please feel free to contact me at (615) 401-7954 or Betsy.Knotts@cot.tn.gov.

Very truly yours,

A handwritten signature in black ink, appearing to read "Betsy Knotts".

Betsy Knotts
Assistant General Counsel
Comptroller of the Treasury



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF GENERAL COUNSEL**

**Justin P. Wilson
Comptroller**

**James K. Polk State Office Building
505 Deaderick Street, Suite 1700
Nashville, Tennessee 37243-1402
Phone (615) 401-7786
Fax (615) 741-1776**

**Stephanie S. Maxwell
General Counsel**

April 22, 2015

MEMORANDUM

To: Cherokee Hills Utility District (the "District") Board of Commissioners

From: Betsy Knotts, Assistant General Counsel 

Subject: Investigation¹ of the District by the Utility Management Review Board—Water Loss

Legally Created Utility District

Based on my review of the District's Petition for Incorporation dated June 3, 1957, and the subsequent petitions to extend the District's boundaries as well as the District's Bylaws, I believe the District is a legally created utility district and therefore, a political subdivision of the state of Tennessee. It is my understanding that the District has been operating as if it were a privately owned water association and not as a political subdivision of the state of Tennessee and that the District recently changed its name to "Cherokee Hills Water Association." Please note the following: Changing an entity's name from utility district to water association is not the proper way to change an entity's legal status. In addition, there is no statutory authority in Tennessee for a utility district to transfer all of its assets and liabilities directly to a private owner.

To my knowledge, only one utility district in the state of Tennessee has successfully completed a transfer of its assets to a private owner by merging with a county and having the county transfer the utility system assets to a private company. For more information relating to this transfer, please see the attached copy of the draft agreement between Suck Creek Utility District/Marion County/Tennessee American Water Company and a relevant Order of the Tennessee Regulatory Authority. If the District is interested in exploring an indirect transfer of the system to a private entity, I recommend that it engage an attorney to handle the proper transfer documentation and to advise the District as to the legal differences between status as a political subdivision and status as a privately owned public utility. In addition, please understand that a privately owned public utility system will be regulated by the Tennessee Department of Environment and Conservation and the Tennessee Regulatory Authority.

¹ T.C.A. § 7-82-709

Water Loss

In order to be in compliance with state law, the District must start measuring the usage of its water and performing an annual water audit. The law requires utility systems to measure water usage in order to prevent the loss of treated water which helps preserve the revenues of the District. Simply stated, if your system loses treated water, it loses money.

Please find an engineering firm to assess your system for metering. To start your search, I have included the names of three engineering firms that do these kinds of assessments. If there is a charge for this type of assessment, the District will be responsible for it. The Utility Management Review Board (the "UMRB") is not authorized to pay for any of these charges to the District.

Please report the engineer's findings to our office as soon as possible so we can provide a case update to the UMRB at its next meeting on June 4, 2015. This kind of information will help the District and the UMRB determine what the best plan of action is, including financing options for the District, if necessary.

Please note that if the District continues to be noncompliant, I will recommend that the UMRB initiate legal proceedings against the District pursuant to T.C.A. § 7-82-709(b).

CTI Engineers Inc.
David L. Jones
djones@ctiengr.com
112 Durwood Rd., Ste. A
Knoxville, TN 37922
Phone: (865) 246-2750

GRW Engineers, Inc.
Jim Hilborn
jhilborn@grwinc.com
404 BNA Dr., Ste. #201
Nashville, TN 37217
Phone: (615) 366-1600

Rye Engineering, PLC
Seth W. Rye, P.E.
srye@ryeengineering.com
4210 N. Main St.
Erin, TN 37061
Phone: (931) 289-2300

Attachment C

GEORGE N. McCOIN
ATTORNEY AT LAW
443 WORTH STREET, NW
CLEVELAND, TENNESSEE 37311-5076

GEORGE N. McCOIN
ERIC BROOKS (ASSOCIATE)

OF COUNSEL:
ANN Y. McCOIN

TELEPHONE: (423) 479-2157
FACSIMILE: (423) 478-5033

June 22, 2015

Cherokee Hills Utility District
Board of Commissioners
P.O. Box 228
Copperhill, TN 37317-0228

VIA REGULAR U.S. MAIL AND CERTIFIED
MAIL - RETURN RECEIPT REQUESTED
7012 3460 0001 9263 4291

Re: Cherokee Hills Utility District

Dear Board of Commissioners:

This letter is a follow up to the meeting held on Tuesday, June 9, 2015. In attendance at the meeting were the Cherokee Hills Utility District Board of Commissioners, Betsy Knotts, Assistant General Counsel for the State of Tennessee Comptroller of the Treasury, and Eric Brooks, County Attorney.

As you are aware, the District is currently not in compliance with state law for the following reasons: (1) the District does not have a way to measure its water usage and loss (i.e. no water meters) and (2) the District has not been performing an annual water audit.

During the meeting, several possible solutions were discussed that would allow the District to become compliant. Based upon the discussion at the meeting, it is my understanding that the District desires to solve this matter by taking the steps necessary to become private. As explained at the meeting, a utility district cannot convey itself out of existence. Because of this, the District cannot simply convey its interest to a private homeowner or property owner association. The transaction necessary to become private would involve three parties: (1) Cherokee Hills Utility District, (2) Polk County, Tennessee, and (3) the private homeowner or property owner association (it is my understanding that a private homeowner or property owner association has not been established yet).

As mentioned at the meeting, the District will lose its current tax exempt status by converting the utility from public to private. Based on the present appraised value of the property of the District at the assessment rate for utilities, taxes in the amount of \$4,128.00 will be assessed each year. Please note that the amount of taxes owed each year may vary.

In order for the County to make a decision in this matter, the District will need to present a proposed agreement, as well as, any other documentation and information requested. As discussed, the District will need to retain its own legal counsel, at its own expense. In addition, the District will be responsible for any costs or fees associated with the possible transaction.

Your attorney will need to prepare the necessary documents to form a private homeowner or property owner association, draft the proposed agreement and any other documentation for the possible

transaction, as well as, provide to the County any additional information requested. Once an attorney has been retained, please have the attorney contact both Betsy Knotts and myself so that we may discuss this matter in more detail.

As you should be aware, time is of the essence in this matter. Because of this, it is imperative that the District proceed in a time efficient manner. If my understanding of the District's decision is incorrect or if the District has opted to pursue one of the other options discussed at the above referenced meeting please notify Betsy Knotts and myself immediately.

Please note that nothing contained in this letter shall constitute an acceptance on behalf of Polk County to enter into an agreement. Polk County reserves the right to reject or modify, in whole or in part, any proposed agreement presented. Acceptance by Polk County of any agreement presented is expressly subject to approval by the Polk County Commission.

Please forward a copy of this letter to all the members of the Board. Should you have any questions, you may contact me at (423) 479-2157 or eric@gnmccoin.com or Betsy Knotts at (615) 401-7954 or Betsy.Knotts@cot.tn.gov.

Sincerely,

A handwritten signature in black ink that reads "Eric Brooks". The signature is written in a cursive, flowing style.

ERIC BROOKS
COUNTY ATTORNEY

Cc: Hoyt T. Firestone
Cc: Betsy Knotts



STATE OF TENNESSEE
Utility Management Review Board

James K. Polk State Office Building
505 Deaderick Street, Suite 1500
Nashville, Tennessee 37243-1402
Phone (615) 401-7841 Fax (615) 741-6216

June 23, 2015

Board of Commissioners
Cherokee Hills Utility District
P. O. Box 228
Copperhill, TN 37317-0228

RETURN RECEIPT REQUESTED

and

Mr. L. J. Hoogendoorn, Manager
Cherokee Hills Utility District
160 Cherokee Trail
Copperhill, TN 37317

Dear Sirs,

As requested by Mr. Broccoli, I have attached a preliminary checklist of the steps the Cherokee Hills Utility District (the "District") must take in order to properly transfer ownership of its water system to a nonprofit homeowners association. It is imperative that the District hire legal counsel for this transaction. The District's attorney, the Polk County attorney, and I will work together to complete this transaction in the most expeditious manner possible. Your continued cooperation is appreciated.

If you have any questions, please feel free to contact me at (615) 401-7954 or Betsy.Knotts@cot.tn.gov.

Very truly yours,

A handwritten signature in black ink, appearing to read "Betsy Knotts".

Betsy Knotts
Assistant General Counsel
Comptroller of the Treasury

Cc: Hoyt Firestone
Cc: Eric Brooks

**Cherokee Hills Utility District Plan
June 24, 2015**

- (1) Engage legal representation (attorney contact information was e-mailed to Mr. Broccoli on June 22, 2015)
- (2) County executive to appoint the District commissioners as required by state law
- (3) District's attorney to assist in creating a nonprofit homeowners association (the "HOA") that will acquire the system
- (4) District's attorney, Polk County attorney, and UMRB counsel to draft tri-party transfer agreement and any supporting affidavits
- (5) Polk County Commission to review and approve the transfer agreement at a regularly scheduled meeting on July 16, 2015 or August 20, 2015
- (6) The District and the HOA to review and approve the transfer agreement
- (7) UMRB counsel to report on the District's status at the regularly scheduled UMRB meeting on August 6, 2015

Betsy Knotts

From: John Broccoli A C Electrical Service Inc <ACESInc@etcmail.com>
Sent: Monday, June 29, 2015 11:06 AM
To: Betsy Knotts
Cc: Hoog
Subject: Your 6/23/15

Follow Up Flag: Follow up
Flag Status: Flagged

Betsy,

Thank you for your response to our inquiries, and the list of steps to resolve our problem. I don't think that item #2, however, can be accomplished. I believe our original charter called for the commissioner by name and further stated that as commissioners needed to be replaced, they would be invited and installed by the existing commissioners.

One of our local attorneys has offered to help us with our legal matters, so we are proceeding accordingly. We will keep you posted on our progress.

Thx
Broc

Attachment D

From: Sherwin Smith [<mailto:Sherwin.Smith@tn.gov>]

Sent: Monday, July 06, 2015 10:54 AM

To: Betsy Knotts; Tom Moss

Subject: RE: Confirmation of TDEC Compliance

Hi Betsy:

The following information is relative to your question below:

Cherokee Hills UD was last surveyed 2/11/2015, and received a score of 99. In the past 5 years, they have 1 TCR monitoring violation (September 2011).

Lone Oak UD was last surveyed 6/20/2014, and received a score of 100. They do not have any violations listed during the past 5 years.

Consequently, the public water systems for each of these Utility Districts appear to be in good shape with no apparent compliance problems. If you have further questions, please let me know.

Thanks,

Sherwin



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF GENERAL COUNSEL

Justin P. Wilson
Comptroller

James K. Polk State Office Building
505 Deaderick Street, Suite 1700
Nashville, Tennessee 37243-1402
Phone (615) 401-7786
Fax (615) 741-1776

Stephanie S. Maxwell
General Counsel

MEMO

To: Utility Management Review Board (“UMRB”) Members

From: Betsy Knotts, counsel to the UMRB

A handwritten signature in blue ink, appearing to read "B. Knotts".

Date: July 22, 2015

Subject: Investigation of Lone Oak Utility District pursuant to TCA § 7-82-709(a)¹

Background

Lone Oak Utility District (“District”) has been under the jurisdiction of the Utility Management Review Board (“Board”) for financial distress since December of 2006. At its meeting on June 5, 2014, the Board endorsed the District’s proposal to explore the legality of leasing the system to Tennessee-American Water Company (“TAWC”), to research the legality of the ongoing Operations and Maintenance Agreement (“Agreement”) between the District and TAWC, and to submit their findings and a corrective action plan within 90 days to the Board.

At its meeting on December 4, 2014, the Board reviewed the legal opinions submitted on behalf of the District and expressly noted that the District had not submitted a corrective action plan. Based on the District’s continued noncompliance, the Board initiated an investigation of the District pursuant to TCA § 7-82-709(a) to be completed by August 6, 2015. Immediately after that meeting, counsel to the UMRB (“Counsel”) informed the District of the ongoing UMRB investigation. On December 24, 2014, Counsel received an e-mail from District Commissioner John Lyman stating that all of the District commissioners had tendered their resignations effective December 31, 2014, and that all future correspondence should be

¹ Under Tenn. Code Ann. §7-82-709(a), “Notwithstanding any provision of law to the contrary, the utility management review board shall have the authority, in the case of public water systems of utility districts, to investigate, with the assistance of the department of environment and conservation and the comptroller of the treasury, and determine the financial, technical, and managerial capacity of the systems to comply with the requirements of the federal and the state acts; and to require systems to take appropriate action to correct any deficiencies in such areas, including, but not limited to, changes in ownership, management, accounting, rates, maintenance, consolidation, alternative water supply, or other procedures. The utility management review board also may approve or disapprove such corrections as a condition for any public water system of a utility district to receive assistance from the authority under § 68-221-1206(a)(3)”.

directed to Mr. Keith Cartwright, Sequatchie County Executive. In January of 2015, Mr. Cartwright appointed three interim commissioners to the District's board in accordance with TCA § 7-82-307(d). The newly appointed board held its first meeting on February 5, 2015.

On January 30, 2015, Counsel requested² copies of documents relating to the financial, managerial, and technical capacity of the District. On March 25, 2015, Counsel received a formal yet incomplete response³ to the records request. The District was not able to locate all the minutes of meetings prior to February of 2015 and was not able to locate approvals of additions to the District's system, as described in Section III of the Agreement. On June 18, 2015, Counsel and Board staff attended a District board meeting. At that meeting, District commissioners discussed correspondence⁴ received from TAWC's attorney relating to the possible termination of the Agreement. The District discussed making an offer to TAWC to purchase the facilities it owns in the District's system. The District also discussed the possibility of consolidating with Walden's Ridge Utility District if the Agreement were terminated.

Deficiencies as of July 22, 2015

The District has the following managerial, financial, and technical⁵ deficiencies:

1. District records are grossly incomplete;
2. District remains in financial distress;
3. District's rates are being set by the Tennessee Regulatory Authority; and
4. District's financial relationship with TAWC needs to be formally clarified.

Recommendation from Counsel

First, I recommend that the UMRB review and discuss the deficiencies noted above.

Second, I recommend that the UMRB direct counsel to draft an order memorializing the following corrective plan of action and that the UMRB decide upon an appropriate deadline for completion of the plan:

- District to clarify financial relationship with TAWC by properly terminating or amending the Agreement to allow the District to set sufficient rates to eliminate its financial distress status.

² See Attachment A for copy of Counsel's request.

³ See Attachment B for District's response to request for records.

⁴ See Attachment C for letter to District from attorney for TAWC.

⁵ See Attachment D for evidence of compliance with TDEC regulations.

- If the Agreement is terminated, the District or the UMRB will initiate consolidation negotiations with a neighboring utility district (such as Walden's Ridge Utility District) pursuant to TCA § 7-82-704(a).

Attachment A



STATE OF TENNESSEE
Utility Management Review Board
James K. Polk State Office Building
505 Deaderick Street, Suite 1500
Nashville, Tennessee 37243-1402
Phone (615) 401-7841 Fax (615) 741-6216

January 30, 2015

RETURN RECEIPT REQUESTED

Mr. D. Keith Cartwright, County Executive
Sequatchie County Government
P. O. Box 595
Dunlap, TN 37327-0595

Dear Mr. Cartwright:

Pursuant to the Utility Management Review Board's ("UMRB") ongoing investigation¹ of Lone Oak Utility District, I am requesting copies of the following documents:

1. The executed Operations and Maintenance Agreement ("O & M Agreement") between Lone Oak Utility District ("District") and Tennessee-American Water Company ("Company") and any subsequent amendments or other supporting documentation thereto;
2. The minutes of the District's past three meetings;
3. All District and Company approvals of additions to the District's system, as described by Section III of the O & M Agreement;
4. A certified representation of the flow of funds between the District and the Company for the most recently audited fiscal year, (the document must include specific identifiers for each revenue source such as surcharges, rates, fees, all as described in Section V of the O & M Agreement);
5. A certified representation of the ownership of all system assets that specifically identifies the assets owned by the Company and the assets owned by the District; and

¹ Tennessee Code Annotated § 7-82-709

6. Any other documentation relating to the financial relationship between the Company and the District.

If you have any questions, please feel free to contact me at (615) 401-7954 or Betsy.Knotts@cot.tn.gov.

Very truly yours,



Betsy Knotts
Assistant General Counsel
Tennessee Comptroller of the Treasury

Attachment B

BRANSTETTER, STRANCH & JENNINGS, PLLC

ATTORNEYS AT LAW
227 SECOND AVENUE NORTH
FOURTH FLOOR

NASHVILLE, TENNESSEE 37201-1631
TELEPHONE (615) 254-8801 ~ FACSIMILE (615) 250-3937

CECIL D. BRANSTETTER, SR., 1920- 2014
R. IAN JENNINGS*
JOE P. LENISKI, JR.
DONALD L. SCHOLLES
MIKE STEWART
JAMES G. STRANCH, III
J. GERARD STRANCH, IV
MICHAEL J. WALL

ASSOCIATES:
RAQUEL L. BELLAMY
KARLA M. CAMPBELL
BEN GASTEL*
SEAMUS T. KELLY

OF COUNSEL:
ROBERT E. RICHARDSON, JR. **

March 25, 2015

* ALSO ADMITTED IN GA
** ONLY ADMITTED IN OH

Betsy Knotts, Assistant General Counsel
Tennessee Comptroller of the Treasury
Utility Management Review Board
James K. Polk State Office Building
505 Deaderick Street, Suite 1500
Nashville, TN 37243-1402

Re: Lone Oak Utility District

Dear Betsy:

I am writing you to response to your January 30, 2015 to D. Keith Cartwright, County Executive, requesting documents and information on Lone Oak Utility District.

All three Commissioners of Lone Oak Utility District submitted resignations from the Board in December of 2014 to be effective on December 31, 2014. I received a call from Keith Cartwright requesting my assistance in how to move forward with the District's conduct of business due to the simultaneous resignations. I assisted Mr. Cartwright in making three interim appointments to the Board in accordance with T.C.A. § 7-82-307(d). The newly appointed Board held its first Board meeting on February 5, 2015. At this Board meeting I was hired to work with Lone Oak Utility District to assist the new Board as they began running the District. The District had scheduled its second Board meeting for March 5, 2015, which had to be postponed due to the weather. The Board is having its second Board meeting tomorrow, March 26th.

Since I was hired by the Board, the Board members and I have been trying to gather records and assess the current status of Lone Oak Utility District. With the information the Board has been able to obtain to date from Tommy Johnson and other third parties, including Tennessee American Water Company, the District can respond to some but not all of your requests. Referencing the documents requested using the items number in your letter, the District responds and has enclosed the following:



Betsy Knotts, Assistant General Counsel

March 25, 2015

Page 2

1) A copy of the executed Operations and Maintenance Agreement between the District and Tennessee American Water Company dated May 13, 2002.

2) The District is still trying to locate all the minutes of past Board meetings. The District will follow up with you on this request when the Board has completed gathering and reviewing the District's records it can find. The District will be approving the minutes of its February 5, 2015 Board meeting tomorrow which can be forwarded to you.

3) To the extent these exist, the District will forward them to you when the Board has completed gathering and reviewing the District's records.

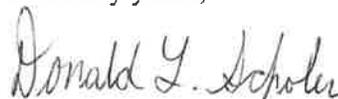
4) The District receives a letter monthly from Tennessee American similar to the enclosed letter dated January 7, 2014 with a check for the amount owed the District from Tennessee American's billing for the previous month under the Agreement. The District will have to meet with Tennessee American to provide the breakdown of how the monthly rate is billed and what comprises the monthly rate. The District sends an invoice once a year to Tennessee American for it to reimburse the District the expenses it agreed to pay annually under Section V(E) of in the Agreement. I have enclosed the invoice sent to Tennessee American dated December 27, 2013 for the 2013 calendar year.

5) I have enclosed information received from Tennessee American which describes the water system assets of the Lone Oak owned by it. All of the other assets of the water system are owned by the District.

6) The only financial relationship between the District and Tennessee American is set forth in the Operations and Maintenance Agreement.

As soon as the District finds additional documents, they will be provided to you. Currently, the District's financial records, to the extent they exist, have been given to the District's auditor for its 2014 audit. When these are returned, any documents in the above request for 2014 will be forwarded to you.

Sincerely yours,



DONALD L. SCHOLES

Enclosures

c: Board of Commissioners
Honorable Keith Cartwright

American Water

PO Box 5600
Cherry Hill, NJ 08034



LONE OAK UTILITY DISTRICT
943 US 127
SIGNAL MOUNTAIN TN 37377-7649

Route: MAIL

Cherry Hill, NJ 08034

Invoice No.	Company Name	Remarks	Invoice amount
LONE OAK DEC2013	Tennessee-American Water	202522	1,088.76
Sum total			1,088.76

Lone Oak Utility District

943 US 127

Signal Mountain, TN 37377

423-886-3884

Invoice # 2013-1

December 27, 2013

Bill To: Tennessee American Water Company

P.O. Box 6338

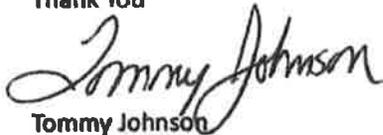
1101 South Broad Street

Chattanooga, TN 37401

Please remit payment for the expenses of the Lone Oak Utility District for the 2012 Calendar year.

Insurance	\$3641.00
Johnson Murphy and Wright (audit)	\$5339.00
Board Member Fee's	\$3600.00
State of Tennessee Fee's	\$318.78
Total	\$12,898.78

Thank You


Tommy Johnson

Lone Oak Utility District

American Water
PO Box 5600
Cherry Hill, NJ 08034



LONE OAK UTILITY DISTRICT
943 US 127
SIGNAL MOUNTAIN TN 37377-7649

Route: MAIL

American Water
PO Box 5600
Cherry Hill, NJ 08034

Check No. 2600002865
Check Date.01/10/2014

Invoice No	Company Name	Remarks	Invoice amount
2013-1	Tennessee-American Water	202522	12,898.78
Sum total			12,898.78

11 - 12/31

THIS OPERATIONS AND MAINTENANCE AGREEMENT is made this 13th day of May 2002, by and among the TENNESSEE-AMERICAN WATER COMPANY, a Tennessee corporation (hereinafter "Company ") and LONE OAK UTILITY DISTRICT, (hereinafter "LOUD"), a public utility district established under the provisions of Tennessee Code Annotated § 7-82-104 et. seq.

WITNESSETH:

WHEREAS, LOUD owns and/or intends to construct certain water distribution facilities within the area known as Lone Oak and vicinity in Sequatchie County, Tennessee, serving approximately two hundred (200) customers within that area; and

WHEREAS, LOUD water utility facilities to be constructed and retained by LOUD are generally shown and described on the map attached to and incorporated herein as Exhibit 1; and

WHEREAS, LOUD believes it is in the best interests of LOUD and the residents of Sequatchie County for Company to operate, construct, maintain, repair and replace LOUD water utility facilities under this O&M Agreement reflected on Exhibit 1, such water utility facilities being hereinafter referred to as the "LOUD System," and to be the exclusive provider of the total water requirements to the residents of Lone Oak and vicinity under this O&M Agreement; and

WHEREAS, Company has offered to enter into this O&M Agreement and to undertake the operation, maintenance, repair and replacement of LOUD System and to be the exclusive provider for the total water requirements of the customers served from LOUD System.

NOW, THEREFORE, for and in consideration of the premises, which are hereby made an integral part of this O&M Agreement and which are not to be construed as mere recitals, the covenants and agreements contained herein and other good and valuable considerations, the receipt and sufficiency of all of which are hereby acknowledged, Company and LOUD agree:

I. Supply of Water to Customers of LOUD.

A. Company agrees to provide to LOUD customers served from LOUD System, subject to the terms, conditions, undertakings, agreements and limitations provided in this O&M Agreement, their total water requirements. Water delivered to LOUD 's customers served from LOUD System shall be supplied from water purchased by Company from Walden's Ridge Utility District, or from Company's own source, and Company will be paid for the water supplied to LOUD customers in the manner set forth in Section V of this O&M Agreement.

B. Company shall monitor the water quality and be responsible for compliance with all state and federal standards for furnishing water to the public.

C. In the event of an extended shortage of water, or if the supply of water from Company is otherwise diminished or impaired, the supply of water to the customers of LOUD shall be reduced or diminished proportionally among the customers of LOUD. Reasonable notification of any anticipated shortage of water shall be given to customers of LOUD.

II. Term of This O&M Agreement.

The term of this O&M Agreement shall extend for forty (40) years from the date hereof and thereafter may continue in effect from year to year by mutual consent of the parties.

III. Future Additions to and Future Extension of LOUD System.

Subsequent to and/or in conjunction with the construction of the LOUD system, Company and LOUD are aware that there may be written requests by LOUD for future additional use of water by customers of LOUD and that there may be future approved LOUD additions and extensions made to LOUD System. In addition to the other requirements set forth in this O&M Agreement, LOUD and Company hereby specifically agree that such additional use, additions and extensions will be made if there is sufficient supply and/or treatment capacity

and distribution and pumping facilities from any reasonable source, including the LOUD System and Company's transmission and distribution mains, adequate to serve LOUD's customers and if it is otherwise economically feasible to meet the total of the then present and anticipated needs of both the customers of LOUD and all other customers of Company or any water system served by Company. Further, LOUD and Company agree as follows:

A. Future Additions. All future additions to LOUD System constructed by LOUD shall be subject to this O&M Agreement; provided, however, that future additions to LOUD System must be approved by both Company and LOUD, and provided further, that where LOUD has indicated its approval for a new addition, Company's approval of the new addition may be withheld only on the grounds of (i) insufficient water supply and/or treatment capacity from any reasonable source, (ii) failure of the new addition to meet Company's engineering standards for design or construction, or (iii) adverse impact of the new addition on Company's operation and maintenance of system.

B. Future Extension. Customer extensions from LOUD system and within LOUD boundary lines may be installed by either LOUD or Company. When LOUD receives a request for a customer extension, LOUD shall notify Company in writing within 30 days of its receipt of said request whether it will install the customer extension or desires Company to make the installation.

(1) In the event LOUD desires Company to install and own the customer extension and Company agrees to such installation; (i) Company shall contract on its own behalf with the customer requesting the extension and make the installation in accordance with the applicable Rules and Regulations of the Tennessee Regulatory Authority (hereinafter the "Rules and Regulations"); (ii) all customers attaching to the customer extension shall be

billed in accordance with Section V, and (iii) the customer extension shall be, without further cost or expense of any kind, the property of Company.

(2) In the event LOUD elects to install at its expense and own the customer extension, the construction for that customer extension by LOUD will be contracted to a contractor acceptable to Company and the lowest responsive and responsible bidder, and all plans and specifications for that extension shall be submitted to and approved by Company, which approval will not be unreasonably withheld, before becoming a part of LOUD system and being subject to Company's obligations under this O&M Agreement. When that extension is contracted, Company, on behalf of and as agent for LOUD, shall contract directly with such contractor to provide the extension and shall have the right, but not the obligation, to provide an inspector, at the cost of Company, to inspect the construction of the extension. Any extension deposits taken by Company on behalf of and as agent for LOUD pursuant to the Rules and Regulations will be retained by Company and credited against the cost of the extension, and the balance of the deposit above the cost of the extension, if any, will be returned to the contracting customer. Company, on behalf of and as agent for LOUD, will make refunds to the contracting customers for the extensions pursuant to the Rules and Regulations.

(3) Refunds made pursuant to the Rules and Regulations to customers contracting directly with Company pursuant to subparagraph III.B. shall be the sole responsibility of Company, and the cost of such extensions, to the extent refunded or reimbursed to customers, shall be properly includable in Company's depreciable utility plant in calculating Company's cost of service in regard to the LOUD System and resulting rates of LOUD.

IV. Operation and Maintenance of LOUD System by Company for LOUD.

A. Company hereby agrees to operate, maintain, repair and replace (i) LOUD System, and (ii) all water lines added thereto as additions and extensions subject to the provisions of Paragraphs B and C below.

B. Under the terms of this O&M Agreement and as a part of the Base Rate (as defined in Section V.A.), the Company is responsible for maintenance items (as defined on Exhibit 2 attached hereto and incorporated by referenced, hereinafter "Maintenance Items") that are necessary in the normal operation of the LOUD System. When the Company is required to install, relocate and/or replace capital items as defined on Exhibit 2 ("Capital Items"), the "unit of property"¹ included within the Capital Item is to be installed, relocated or replaced at cost by the Company; provided, however, that in every such instance the unit of property shall be, and remain, the property of Company and shall be properly includable in the depreciable utility plant of Company in the LOUD system in calculating the cost of service and resulting rates of LOUD. In the event LOUD desires to maintain ownership of said unit of property that is installed, relocated and/or replaced by Company, LOUD must reimburse Company for the actual cost incurred within thirty (30) days after the work is completed.

C. LOUD agrees that, in those instances in which Company installs, replaces or relocates any unit of property on LOUD System pursuant to the provisions of this Section IV at its own expense, LOUD will, simultaneously therewith, convey to Company all related rights of way, easements, licenses or other property interests necessary for Company to have and own such unit of property in the location and manner in which it is installed, replaced or relocated on LOUD System.

¹ The definition of "unit of property" is set forth in the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners ("NARUC").

D. LOUD agrees that the Company shall have the right to install, maintain and operate for its own use radio and telephone communications equipment, including without limitation, antennae, on existing or future water tanks and/or stand pipes at no charge.

V. Reading Meters, Billing of Customers and Payments to LOUD.

A. All customers served within the franchise boundary of the LOUD System under this O&M Agreement shall be the customers of LOUD. Company shall read all meters of the customers of LOUD and render bills to those customers, as agent for and on behalf of LOUD, in a manner consistent with the meter reading and billing practices of Company employed in billing its own customers, such bills to be rendered and collected by Company on behalf of LOUD and to be computed based on the usage of each LOUD customer. The base rate (the "Base Rate") of LOUD shall be set by LOUD and is subject to approval by Company. The Base Rate of LOUD to be initially charged to its customers is set forth in Exhibit 3 attached hereto. Thereafter on an annual basis, the Base Rate will be reviewed and adjusted if necessary so as to adequately compensate the Company for its cost of service ("Cost of Service") incurred under this Agreement, based on the Cost of Service incurred during the previous year. The Cost of Service of Company shall reflect all expenses incurred in the performance of Company's obligations under this Agreement, including without limitation Maintenance Items, Capital Items, security expenses, water supply expenses, customer service, water quality expenses, all associated labor and/or benefit expenses, materials and supplies and a reasonable rate of return.² If upon review of its Cost of Service, Company determines that the Base Rate does not cover its Cost of Service, Company may request LOUD to make an adjustment in the Base Rate. Any adjustment in the Base Rate by LOUD is subject to approval by Company and shall take effect

² The rate of return shall be no less than the Company's authorized rate of return by the TRA at the time of any adjustment in the Base Rate.

within ____ days after the date of the request by Company. Company may also request an adjustment in the Base Rate more often than annually in the event it experiences extra ordinary increases in its Cost of Service during the year. In the event LOUD and Company do not agree on the amount of the adjustment of the Base Rate, Company and/or LOUD have the right to terminate the Agreement (see Section XII).

LOUD may also impose on its customers additional fees or charges, including, without limitation, tap fees, fire service fees and/or other fees deemed necessary by LOUD (collectively "Surcharge(s)"). Any tap fees charged by LOUD after the initial system buildout shall be collected and turned over to Company as contributed property of LOUD. Any Surcharges, exclusive of tap fees, are payable to LOUD by Company within thirty (30) days of collection by the Company from the customer. Company is not responsible for any Surcharge that is billed but not collected.

It is the intent of Company and LOUD under this O&M Agreement that the bills delivered to each customer of LOUD on behalf of LOUD reflect the amount due for the water used (such amount to be determined by applying the applicable rates of LOUD to the consumption of water by each LOUD customer as determined by the individual monthly or estimated meter readings of the respective LOUD customers). The bills delivered to the customers of LOUD will be delivered by, and be payable to, Company, as agent for LOUD.

B. Company, in consideration of the respective rights, duties, obligations, agreements and undertakings of the parties under this O&M Agreement, shall be entitled to receive from LOUD an amount for water service rendered to LOUD's customers equal to the consumption of each individual LOUD customer at the Base Rate. Company shall prepare and deliver a monthly statement to LOUD which shall reflect the total amount billed by Company as agent for LOUD, the total amount of water delivered and the total Surcharge collected, if any. In

addition, the monthly statement to be provided to LOUD by Company will also include the costs of any additions or extensions, and related refunds, made at the cost of LOUD under Section III, and the cost of any fire hydrants under Section VIII installed at the cost of LOUD. Company billing records of LOUD customers will be available to LOUD for inspection upon reasonable notice.

C. In order to assist in the financing of the construction of the LOUD System, LOUD and/or the Sequatchie County Commission has agreed to seek a total of \$967,900.00 grant from the Environmental Protection Agency, and a \$500,000.00 grant from the Tennessee Department of Economic & Community Development (the "CDBG Grant"). Company intends to make a like kind capital investment in Company's system in the amount of \$259,041.

D. LOUD agrees to have its accountants review, at least annually, at the expense of LOUD, the system of accounts maintained by Company for LOUD and report the results of that review to LOUD and Company.

E. In addition to the other obligations, duties and responsibilities set forth in this O&M Agreement, Company agrees to pay directly to LOUD the reasonable costs of the following four items on behalf of LOUD, up to maximum aggregate amount for all four items of \$4,800 in each calendar year through 2005 and thereafter \$6,000 in calendar years 2006 and 2007:

1. Board of Director Expenses
2. Engineering, Legal and Accounting Expenses
3. Liability Insurance and Bonds
4. Miscellaneous Supplies and Expenses

In the event that either Company or LOUD determines that the maximum aggregate amount in any calendar year is inadequate or excessive to pay the reasonable costs of the above-mentioned four items, then the parties may agree to an adjustment. After calendar year

2007, the parties will review this section when the Base Rate is reviewed to determine if an adjustment is necessary.

VI. Installation of Domestic Services.

The grants secured by LOUD include funding for the installation of some domestic service lines including meter settings and taps. To the extent that LOUD does not have funds available or elects to not pay for such items, the Company may at its option, at its expense install domestic service lines including meter settings and taps. The service lines will run from the main to the established curb line or within the public right-of-way nearest the main. All service lines installed at Company's expense from LOUD System to LOUD customer's property line, meter settings and taps shall be the property of Company.

VII. Installation of Private Fire Protection Services.

Private fire protection service, approved by LOUD and agreed to by Company, may be installed by Company from LOUD System, but only in accordance with the Rules and Regulations. Private fire protection service will be installed by Company at the expense of the applicant. A fire service fee will be billed by Company to the applicant and paid by the applicant directly to Company at a rate equal to the then approved private fire protection rate of Company.

VIII. Installation of Public Fire Hydrants.

Public fire protection facilities approved by LOUD and agreed to by Company may be installed in the future on LOUD System covered by this O&M Agreement at the request of an appropriate governmental unit, and installation shall be made in accordance with the Rules and Regulations.

IX. Water Service Franchise Territories.

It is expressly understood and agreed by Company and LOUD that:

A. Company shall be permitted to serve customers within the water service franchise area of LOUD as are necessary to enjoy and fulfill its rights and obligations under this O&M Agreement, subject to the terms and conditions set forth in this O&M Agreement.

B. LOUD agrees that, as a part of the consideration for this O&M Agreement, Company shall have the right, subject to capacity limitations of the District's facilities, to transfer water without charge through the LOUD System, and all future additions and future extensions thereto, and to serve customers inside LOUD's service area and the Suck Creek Utility District ("SCUD")³ service area. In addition, Company shall have the right during the term of this Agreement and after termination of this Agreement, subject to capacity limitations, to transfer water through the LOUD System, and all future additions and future extensions thereto, to serve customers outside of LOUD's service area and SCUD's service area for a reasonable charge to be negotiated between the parties. During the term of this Agreement and after its termination, the Company shall also have, to the same extent as LOUD, the right to access all public rights-of-way, streets, alleys, sidewalks and utility easements that are necessary to install, maintain, test, repair, replace, extend and/or modify the LOUD System and/or the Company's property in the LOUD service area.

X. Right of First Refusal.

In the event the Company desires to sell or transfer its entire assets located within the LOUD service area, then the Company must offer to LOUD the opportunity to buy those assets located and situated in its service area upon the same terms and conditions being offered to some

³ Such right to transfer water through the LOUD System to serve customers in SCUD service area shall continue after termination of this Agreement, subject only to a reasonable charge for water pumping expenses incurred by LOUD for said water.

other party. A statutory merger, consolidation, recapitalization, or sale or transfer of common stock of the Company does not constitute a sale or transfer of assets for purposes of this right of first refusal. LOUD will have sixty (60) days to accept the offer and an additional sixty (60) days to close said transaction, in the event it elects to exercise the option to purchase.

XI. Force Majeure.

Neither LOUD or Company shall be liable for damages to the other for any act, omission, or circumstance occasioned by or in consequence of any strikes, lockouts, acts of the public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, droughts, washouts, civil disturbances, explosions, defects, leakage, breakage, or accident to machinery or lines of pipe, and any other cause, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension and which by the exercise of due diligence such party is unable to prevent or overcome. Failure to prevent or settle any strike or strikes shall not be considered to be a matter within the control of the party claiming suspension. Such causes or contingencies affecting such performance shall not relieve LOUD or its customers from its obligations to make payment of amounts due hereunder.

In the event of any type of water curtailment or interruption event, or any procedure, regulation or law for curtailment or interruption is utilized by, or imposed upon, Company, then LOUD shall abide by such curtailment or interruption procedures so as to restrict its customers in an appropriate manner.

XII. Termination. In the event Company and/or LOUD exercise the right to terminate this Agreement as provided in Section V.A., Company may require LOUD to purchase any Company property which Company acquired in the performance of this Agreement for the

property's net book value or fair market value whichever is higher. LOUD agrees to close any such purchase within 120 days of the date Company requires the purchase by LOUD.

XIII. Conditions Precedent to Effectiveness of O&M Agreement.

Company and LOUD understand and agree that this O&M Agreement, and the obligations of each of them hereunder, are expressly conditioned upon the following, each of which is a condition precedent to the validity and enforceability of this O&M Agreement:

- A. In the event that TRA approval of this O&M Agreement is necessary, TRA must approve all of the terms, conditions, undertakings, agreements and limitations in such agreement.
- B. Inclusion in depreciable utility plant of Company of any amounts expended by Company for the cost of installing, replacing or relocating any water lines or facilities on LOUD System which are defined as a "unit of property" in the NARUC Uniform System of Accounts and which are relocated or replaced by Company at its cost pursuant to Section IV under this O&M Agreement and the cost to Company to install service lines, meter settings and taps on LOUD system pursuant to Section VI.
- C. In the event TRA approval of this O&M Agreement is necessary, the TRA shall not have attached to its Order any terms, conditions or limitations which shall adversely affect this O&M Agreement or the economic feasibility of this project between the parties insofar as take any action or refrain from taking any action which, in the opinion of their respective counsel, might require them, or either of them, to breach any of their obligations under any Mortgage Indenture, as supplemented, or any other agreement to which either of them might be a party.
- D. The Company shall have approved this O&M Agreement and all of the terms, conditions, undertakings, agreements and limitations in such agreement.

E. Company authorization to transfer sufficient quantities of water through one of a number of water utility districts in the counties adjacent to the LOUD service area to satisfy Company's obligations under Section I hereof.

F. Company being the exclusive provider of water to LOUD customers.

G. LOUD obtaining the grant or other satisfactory funding for the construction of the LOUD system referenced in Section V.D.

H. LOUD obtaining approval from the appropriate funding agencies, if necessary.

XIV. Representations and Warranties.

A. LOUD represents and warrants to Company as follows:

(1) The execution, delivery and performance of this O&M Agreement by LOUD has been duly authorized, and this O&M Agreement constitutes a valid and binding obligation of LOUD enforceable in accordance with its terms; and

(2) The execution and performance of this O&M Agreement in accordance with its terms by LOUD will not violate any provisions of law or violate the terms or conditions of any grants or loans made to LOUD for construction of LOUD System.

B. Company represents and warrants to LOUD as follows:

(1) The execution, delivery and performance of this O&M Agreement by Company have been duly authorized, and this O&M Agreement constitutes a valid and binding obligation of Company enforceable in accordance with its terms; and

(2) The execution and performance of this O&M Agreement in accordance with its terms by Company will not violate any provisions of Company's indentures.

XV. Assignability.

This O&M Agreement shall be binding upon the successors and assigns of the respective parties hereto.

XVI. Notice.

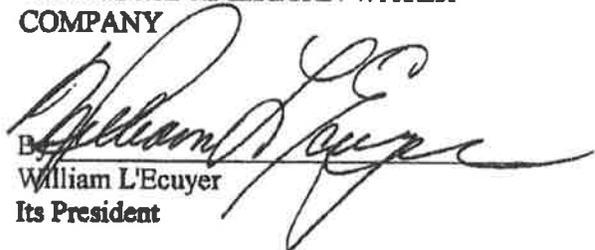
Any notice, demand or request given hereunder shall be deemed sufficient if in writing and sent by certified mail, postal charges prepaid, to Tennessee-American Water Company, Attention: President, William L'Ecuyer and to LOUD, addressed to Lone Oak Utility District, c/o Tommy Johnson, Chairman, 5895 Taft Highway, Signal Mountain, TN 37377, or to such address as the parties shall indicate by written notice to the other parties.

XVII. Captions.

The captions preceding the text of the sections of this O&M Agreement are inserted solely for convenience and reference and shall not be used to construe, interpret or affect any provision of this O&M Agreement.

IN WITNESS WHEREOF, Tennessee-American Water Company, a corporation, and LOUD, a public corporation, have caused this O&M Agreement to be signed, by their proper officers thereunto duly authorized, all as of the day and year first above written.

TENNESSEE-AMERICAN WATER
COMPANY


By _____
William L'Ecuyer
Its President

LONE OAK UTILITY DISTRICT

By: Tommy Johnson
Its: Chairman

By: Muller
Its: Commissioner

By: L. Bodley
Its: Commissioner

STATE OF TENNESSEE,
COUNTY OF HAMILTON, to-wit:

The foregoing instrument was acknowledged before me this 13th day of
May, 2002, by William L'Ecuyer, President of Tennessee-American Water
Company, a Tennessee corporation, on behalf of the corporation.

My commission expires April 7, 2004

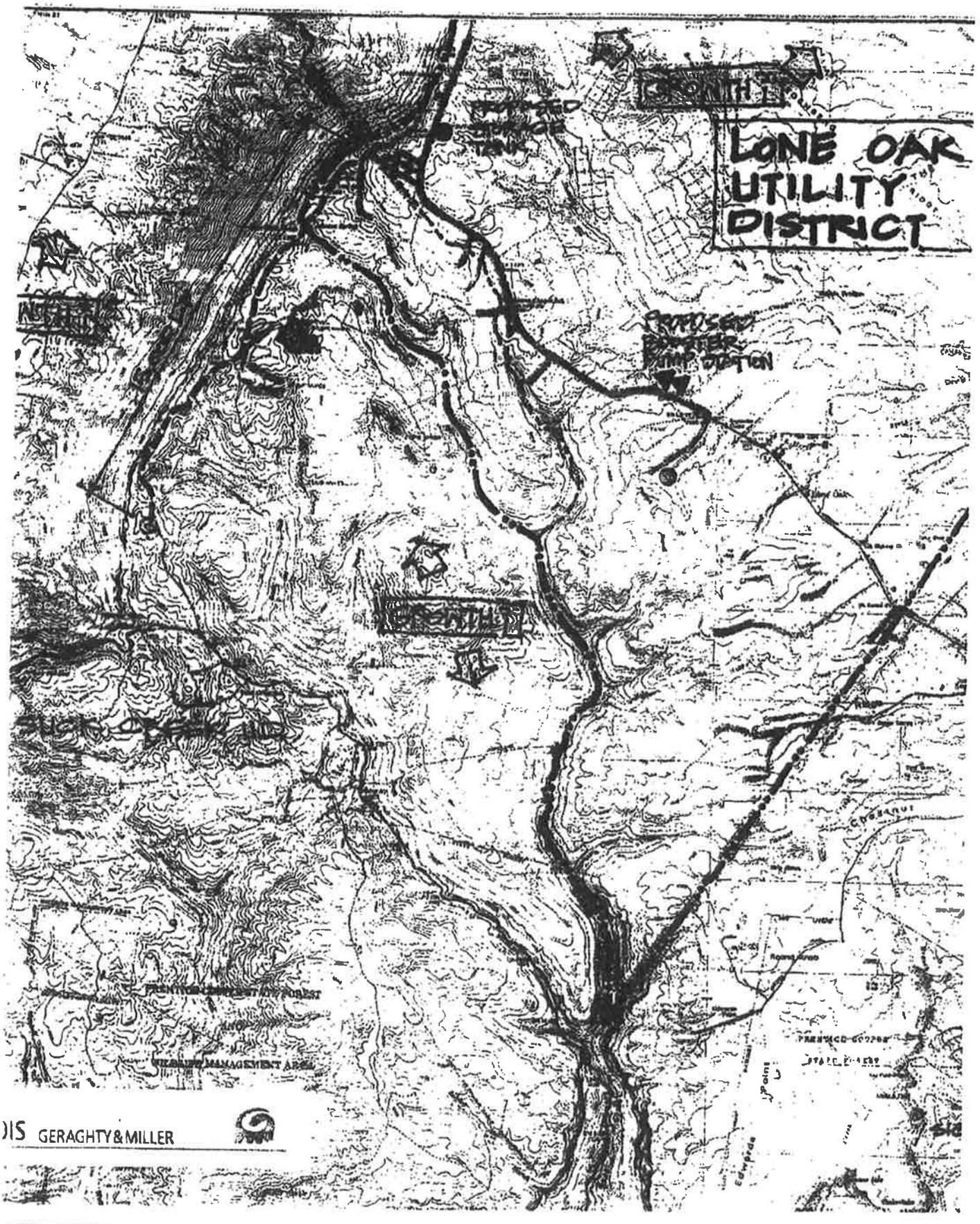
Jan R. McArthur
Notary Public

STATE OF TENNESSEE,
COUNTY OF Sequatchie, to-wit:

The foregoing instrument was acknowledged before me this 7th day of
March, 2002, by Tommy Johnson, Chairman, Lone Oak Utility District, a public
utility district, and its commissioners, on behalf of the public utility district.

My commission expires 9-1-2002

Carrie Eastley
Notary Public



LONE OAK UTILITY DISTRICT

PUMP
STATION

RESERVOIR

GIS GERAGHTY & MILLER



Exhibit 2.

Definition and Examples of Maintenance Expenses and Capital Expenses

- A. **Maintenance Expenses** generally include expenses incurred in normal day-to-day system operation, including maintenance and repair labor and consumable materials. Examples include, but are not limited to:
- Repairing leaks where clamps, O-rings, packing materials, and similar supplies can be used
 - Expenses associated with general inspection and testing within the system, including leak detection, pressure testing, and flow testing of lines, hydrants and pumps
 - Expenses associated with maintaining and lubricating valves, hydrants and pumps
 - Touch-up painting of tanks
- B. **Capital Expenses** generally include expenses incurred for major repairs, overhauls, additions and extensions of the water system. Included with these are expenses related to the main listed item, including paving materials, gravel, line location, and labor. Examples include, but are not limited to:
- Replacing a damaged section of pipe, including fittings
 - Replacing or major rebuild of service line up to customer meters
 - Replacement or major overhaul of pumps, valves, and fire hydrants
 - Replacement of customer meters
 - Water tank painting/repainting
 - Additions to and Extensions of the water delivery system

Exhibit 3

**LONE OAK UTILITY DISTRICT
RECOMMENDED BASE RATE PRICING**

Residential Service

Monthly Rate:

- **\$22.95 for first 2000 Gallons (Minimum charge)**
- **5.25 per 1000 gallons over 2000 Gallons**

Tap Fee: \$600.00

Sample Calculations:

<u>Gallons</u>	<u>Price</u>
2000	\$ 22.95
3000	28.20
4000	33.45
5000	38.70
6000	43.95
7000	49.20

BRANSTETTER, STRANCH & JENNINGS, PLLC

ATTORNEYS AT LAW
227 SECOND AVENUE NORTH
FOURTH FLOOR

NASHVILLE, TENNESSEE 37201-1631
TELEPHONE (615) 254-8801 ~ FACSIMILE (615) 250-3937

CECIL D. BRANSTETTER, SR., 1920-2014
R. JAN JENNINGS*
JOE P. LENISKI, JR.
DONALD L. SCHOLES
MIKE STEWART
JAMES G. STRANCH, III
J. GERARD STRANCH, IV
MICHAEL J. WALL

ASSOCIATES:
RAQUEL L. BELLAMY
KARLA M. CAMPBELL
BEN CASTEL*
SEAMUS T. KELLY

OF COUNSEL:
ROBERT E. RICHARDSON, JR. **

March 26, 2015

* ALSO ADMITTED IN GA
** ONLY ADMITTED IN OH

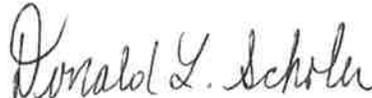
Betsy Knotts, Assistant General Counsel
Tennessee Comptroller of the Treasury
Utility Management Review Board
James K. Polk State Office Building
505 Deaderick Street, Suite 1500
Nashville, TN 37243-1402

Re: Lone Oak Utility District

Dear Betsy:

I failed to include the documents I referenced in response to Item 5 in my letter to you yesterday. These documents are enclosed.

Sincerely yours,



DONALD L. SCHOLES

Enclosures

c: Board of Commissioners
Honorable Keith Cartwright





Tennessee American Water
109 Wiehl Street
Chattanooga, TN 37403
www.amwater.com

P 423-771-4740
F 423-771-4736

September 4, 2014

Mr. John Lyman
Chairman
Lone Oak Utility District Board of Directors
5895 Taft Highway
Signal Mountain, TN 37377

RE: Tennessee American Water Assets serving Lone Oak Utility District

Dear Mr. Lyman,

Pursuant to the operations and management agreement, the Tennessee American Water's net asset value, for assets specifically serving and located within Lone Oak Utility District is \$291,629.49. This is based on an original book value of \$360,559.77 less an accumulated depreciation of \$68,930.27.

Attached are schedules reflecting a summary of the assets, the accumulated depreciation details, and details regarding the assets. If you have any questions regarding this information, please don't hesitate to contact me at Linda.Bridwell@amwater.com or 859-268-6373.

Sincerely,

Linda C. Bridwell, PE
Manager Rates and Regulation, TN & KY

C: Deron E. Allen
Kevin N. Rogers

**Lone Oak Assets
As of July 31, 2014**

Summary of Net Book Value of Assets

<u>Asset</u>	<u>Utility Plant Account No.</u>	<u>In-Service Balance</u>	<u>Accumulated Depreciation Adjustment</u>	<u>Net Book Value balance</u>
Mains	331001	\$ 255,497.50	\$ 41,462.77	\$ 214,034.73
Services	333000	36,701.79	4,533.02	32,168.77
Meters	334100	33,881.71	15,863.15	18,018.56
Meter Installations	334200	8,033.24	1,813.59	6,219.65
Hydrants	335000	13,261.18	2,978.94	10,282.24
SCADA	346190	<u>13,184.35</u>	<u>2,278.80</u>	<u>10,905.54</u>
Total		<u>\$ 360,559.77</u>	<u>\$ 68,930.27</u>	<u>\$ 291,629.49</u>

Schedule of Net Book Value

Lone Oak Assets

Calculation of Net Book Value of Assets

Asset	Description	Utility Plant Account No.	In Service Date	In Service Amount	Balance	Depreciation rate prior to 10/08	Depreciation Rate as of 10/08	Accumulated Depreciation Adjustment	NBV balance	
Mains	Mains Lone Oak Utility - WO 50020908	331001	9/30/2002	\$ 253,753.06	\$ 253,753.08	1.42%	1.25%			
			12/31/2002	0.00	253,753.08	Sept - Dec		1,201.10	252,551.96	
			12/31/2003	0.00	253,753.06				3,603.29	248,948.67
			12/31/2004	0.00	253,753.06				3,603.29	245,345.38
			1/1/2005	572.98	254,326.04				-	245,918.36
			1/1/2005	631.56	254,957.60				-	246,549.92
			12/31/2005	0.00	254,957.60				3,620.40	242,829.52
			12/31/2006	0.00	254,957.60				3,620.40	239,309.12
			1/1/2007	1417.14	256,374.74				-	240,726.26
			1/1/2007	283.42	256,658.16				-	241,009.68
			1/1/2007	23241.02	279,899.18				-	264,250.70
			12/31/2007	0.00	279,899.18				3,974.57	260,276.13
			9/30/2008	0.00	279,899.18	Jan - Sept			2,980.93	257,295.20
			12/31/2008	0.00	279,899.18	Oct - Dec			874.68	256,420.52
			12/31/2009	0.00	279,899.18				3,498.74	252,921.78
			12/31/2010	0.00	279,899.18				3,498.74	249,423.04
			12/31/2011	0.00	279,899.18				3,498.74	245,924.30
			12/31/2012	0.00	279,899.18				3,498.74	242,425.56
			12/31/2013	0.00	279,899.18				3,498.74	238,926.82
			7/31/2014	0.00	279,899.18	Jan - July			2,040.93	236,885.89
Services	Services Lone Oak Utility	333000	1/1/2005	\$ 22,519.70	\$ 22,519.70	2.28%	1.11%			
			4/30/2005	0.00	22,519.70	Jan - April		171.15	22,348.55	
			5/26/2005	6,410.46	28,930.16				-	26,759.01
			12/31/2005	0.00	28,930.16	May - Dec			439.74	26,319.27
			12/31/2006	0.00	28,930.16				659.61	27,659.66
			1/1/2007	566.86	29,497.02				-	28,226.52
			12/31/2007	0.00	29,497.02				672.53	27,553.99
			9/30/2008	0.00	29,497.02	Jan - Sept			504.40	27,049.59
			12/31/2008	0.00	29,497.02	Oct - Dec			81.85	26,967.74
			1/1/2009	5,558.35	35,055.37				-	32,526.09
			1/31/2009	0.00	35,055.37	Jan only			27.28	32,498.80
			12/31/2009	0.00	35,055.37	Feb - Dec			356.69	32,142.12
			1/1/2010	100.29	35,155.66				-	32,242.41
			1/31/2010	0.00	35,155.66	Jan only			32.43	32,209.98
			12/31/2010	0.00	35,155.66	Feb - Dec			357.71	31,852.27
			1/1/2011	7,995.04	43,150.70				-	39,847.31
			1/31/2011	0.00	43,150.70	Jan only			32.52	39,814.79
			12/31/2011	0.00	43,150.70	Feb - Dec			439.06	39,375.73
			1/1/2012	251.97	43,402.67				-	39,627.70
			1/1/2012	753.83	44,156.50				-	40,381.53
1/31/2012	0.00	44,156.50	Jan only			39.91	40,341.62			
12/31/2012	0.00	44,156.50	Feb - Dec			449.29	39,892.33			
1/1/2013	3,202.04	47,358.54				-	43,094.37			
1/31/2013	0.00	47,358.54	Jan only			40.84	43,053.52			
12/31/2013	0.00	47,358.54	Feb - Dec			481.87	42,571.65			
7/31/2014	0.00	47,358.54	Jan - July			306.65	42,265.00			
Meters	Meters Lone Oak Utility	334100	1/1/2005	\$ 33,259.79	\$ 33,259.79	0.98%	7.47%			
			12/31/2005	0.00	33,259.79				325.95	32,933.84

			12/31/2006	0.00	33,259.79			325.95	32,607.90		
			12/31/2007	0.00	33,259.79			325.95	32,281.95		
			9/30/2008	0.00	33,259.79	Jan - Sept		244.46	32,037.49		
			12/31/2008	0.00	33,259.79	Oct - Dec		621.13	31,416.37		
			12/31/2009	0.00	33,259.79			2,484.51	28,931.86		
			12/31/2010	0.00	33,259.79			2,484.51	26,447.35		
Meters - Displacement 5/8" (Direct Read, Remote Read, Encoder Type)	334100		1/1/2011	523.53	33,783.32			-	26,970.88		
			1/31/2011	0.00	33,783.32	Jan only		207.04	26,763.84		
			12/31/2011	0.00	33,783.32	Feb - Dec		2,313.31	24,450.53		
			12/31/2012	0.00	33,783.32			2,523.61	21,926.91		
Meters - Displacement 5/8" (Direct Read, Remote Read, Encoder Type)	334100		1/1/2013	98.39	33,881.71			-	22,025.30		
			1/31/2013	0.00	33,881.71	Jan only		210.30	21,815.00		
			12/31/2013	0.00	33,881.71	Feb - Dec		2,320.05	19,494.95		
			7/31/2014	0.00	33,881.71	Jan - July		1,476.40	18,018.56		
						1.64%	2.73%				
Meter Installatic	Meter 5/8" Install	334200	5/25/2005	\$ 6,984.30	\$ 6,984.30			\$ -	\$ 6,984.30		
			12/31/2005	0.00	6,984.30	June - Dec		66.82	6,917.48		
			12/31/2006	0.00	6,984.30			114.54	6,802.94		
			12/31/2007	0.00	6,984.30			114.54	6,688.40		
			9/30/2008	0.00	6,984.30	Jan - Sept		85.91	6,602.49		
			12/31/2008	0.00	6,984.30	Oct - Dec		47.67	6,554.82		
			12/31/2009	0.00	6,984.30			190.67	6,364.15		
			12/31/2010	0.00	6,984.30			190.67	6,173.48		
Meters - Meter Settings/Installations (Yoke, Copperhorn)			1/1/2011	1,048.94	8,033.24			219.31	7,003.11		
			1/31/2011	0.00	8,033.24	Jan only		15.89	6,987.22		
			12/31/2011	0.00	8,033.24	Feb - Dec		201.03	6,786.19		
			12/31/2012	0.00	8,033.24			219.31	6,566.88		
			12/31/2013	0.00	8,033.24			219.31	6,347.58		
			7/31/2014	0.00	8,033.24	Jan - July		127.93	6,219.65		
						2.21%	2.30%				
Hydrants	Hydrants Lone Oak Utility	335000	1/1/2005	\$ 12,727.99	\$ 12,727.99			\$ -	\$ 12,727.99		
			12/31/2005	0.00	12,727.99			281.29	12,446.70		
			12/31/2006	0.00	12,727.99			281.29	12,165.41		
			1/1/2007	2,834.27	15,562.26			-	14,999.68		
			12/31/2007	0.00	15,562.26			343.93	14,655.76		
			9/30/2008	0.00	15,562.26	Jan - Sept		257.94	14,397.81		
			12/31/2008	0.00	15,562.26	Oct - Dec		89.48	14,308.33		
			12/31/2009	0.00	15,562.26			357.93	13,950.40		
			12/31/2010	0.00	15,562.26			357.93	13,592.47		
			12/31/2011	0.00	15,562.26			357.93	13,234.53		
			12/31/2012	0.00	15,562.26			357.93	12,876.60		
			12/31/2013	0.00	15,562.26			357.93	12,518.67		
			7/31/2014	0.00	15,562.26	Jan - July		208.79	12,309.88		
						4.43%	4.21%				
SCADA	Instrumentation - Control System - Data Radio	346190	1/1/2007	\$ 13,184.35	\$ 13,184.35			\$ -	\$ 13,184.35		
			12/31/2007	0.00	13,184.35			291.37	12,892.97		
			9/30/2008	0.00	13,184.35	Jan - Sept		218.53	12,674.44		
			12/31/2008	0.00	13,184.35	Oct - Dec		75.81	12,598.63		
			12/31/2009	0.00	13,184.35			303.24	12,295.39		
			12/31/2010	0.00	13,184.35			303.24	11,992.15		
			12/31/2011	0.00	13,184.35			303.24	11,688.91		
			12/31/2012	0.00	13,184.35			303.24	11,385.67		
			12/31/2013	0.00	13,184.35			303.24	11,082.43		
			7/31/2014	0.00	13,184.35	Jan - July		176.89	10,905.54		
			Total Original Cost	\$397,919.28				Total Accumulated Depreciation	\$ 71,314.76	\$ 326,604.61	Net Book Value
			Total Original Cost less Contributed Property	\$360,559.77						\$ 291,629.49	Net Book Value

Notes:

The basis for calculation of Depreciation in PowerPlant changed effective January 2009.

Depreciation is based on the accounting period beginning UPIS balance.

Prior to 2009, the Depreciation basis is the period ending balance.

Beginning in January 2009, assets placed into service are not included in the Basis of Depreciation in the first month of service.

Contributed Property

Asset	Description	Utility Plant Account No.	In Service Date	In Service Amount	Balance	Depreciation rate prior to 10/08	Depreciation Rate as of 10/08	Accumulated Depreciation Adjustment	NBV balance
						1.42%	1.25%		
Mains	ACQUIRE 860' OF 6" WATER MAIN AND 1 FIRE HYDRANT IN SOURWOOD RIDGE ESTATES.	271120	6/1/2009	\$ (24,401.68)	\$ (24,401.68)			\$ -	\$ (24,401.68)
			12/31/2009	0.00	(24,401.68)	July - Dec		(152.51)	(24,249.17)
			12/31/2010	0.00	(24,401.68)			(305.02)	(23,944.15)
			12/31/2011	0.00	(24,401.68)			(305.02)	(23,639.13)
			12/31/2012	0.00	(24,401.68)			(305.02)	(23,334.11)
			12/31/2013	0.00	(24,401.68)			(305.02)	(23,029.09)
			7/31/2014	0.00	(24,401.68)	Jan - July		(177.93)	(22,851.16)
						2.21%	2.30%		
Hydrant	ACQUIRE 860' OF 6" WATER MAIN AND 1 FIRE HYDRANT IN SOURWOOD RIDGE ESTATES.	271150	5/1/2009	(2,301.08)	\$ (2,301.08)			\$ -	\$ (2,301.08)
			12/31/2009	0.00	(2,301.08)	June - Dec		(30.87)	(2,270.21)
			12/31/2010	0.00	(2,301.08)			(52.92)	(2,217.28)
			12/31/2011	0.00	(2,301.08)			(52.92)	(2,164.36)
			12/31/2012	0.00	(2,301.08)			(52.92)	(2,111.43)
			12/31/2013	0.00	(2,301.08)			(52.92)	(2,058.51)
			7/31/2014	0.00	(2,301.08)	Jan - July		(30.87)	(2,027.63)
						2.28%	1.11%		
Services	Contributions	271230	1/1/2009	(5,250.00)	\$ (5,250.00)			\$ -	\$ (5,250.00)
			4/30/2009	0.00	(5,250.00)	Jan - Apr		(19.43)	(5,230.58)
	ACQUIRE A SERVICE LATERAL IN SOURWOOD RIDGE ESTATES.	271230	5/1/2009	(158.75)	(5,408.75)			-	(5,387.33)
			5/31/2009	0.00	(5,408.75)	May only		(4.86)	(5,382.47)
			12/31/2009	0.00	(5,408.75)	June - Dec		(35.01)	(5,347.46)
	Contributions	271230	1/1/2010	(2,250.00)	(7,658.75)			-	(7,597.46)
			1/31/2010	0.00	(7,658.75)	Jan		(5.00)	(7,592.46)
			12/31/2010	0.00	(7,658.75)	Feb - Dec		(77.91)	(7,514.55)
			1/31/2011	0.00	(7,658.75)	Jan		(7.08)	(7,507.47)
	Contributions	271230	2/1/2011	(3,000.00)	(10,658.75)			-	(10,507.47)
			2/28/2011	0.00	(10,658.75)	Feb		(7.08)	(10,500.39)
			12/31/2011	0.00	(10,658.75)	Mar - Dec		(98.57)	(10,401.81)
			12/31/2012	0.00	(10,658.75)			(118.29)	(10,283.52)
			12/31/2013	0.00	(10,658.75)			(118.28)	(10,165.23)
			7/31/2014	0.00	(10,658.75)	Jan - July		(68.00)	(10,096.23)
Total Original Cost of Contributed Assets				(\$37,359.51)		Total Accumulated Amortization		\$ (2,384.49)	\$ (34,975.02) Net Book Value

GLCO	GLDCT	GLFY	GLDGJ	GLPN	GLJEL	GLEXA	GLANI	GLOBJ	GLSBL	GLSBLT	GLAA	OBJ Description
00026	F2	7	07/21/07	12	23	LONE OAK Assoc's to 101	26040206.101500.331210	101500	50020906	W		(750.00)
00026	RI	4	07/22/04	7	1	Lone Oak Utility District	26040206.105125.21	105125	50020906	W		(750.00) Permits
00026	RI	5	01/05/05	1	1	Johnathan Shelly Construction	26030204.105125.21	105125	50020906	W		(750.00) Permits
00026	RI	5	01/10/05	1	1	Namanny, Ronald or Harriet	26030204.105125.21	105125	50020906	W		(750.00) Permits
00026	RI	5	04/14/05	4	1	Tina Doyle & Bruce J. Everton	26040206.105125.21	105125	50020906	W		(750.00) Permits
00026	RI	5	05/13/05	5	1	Johnathan Shelly Construction	26030204.105125.21	105125	50020906	W		(750.00) Permits
00026	RI	5	05/27/05	8	1	Wheeler's Family Homes Inc	26040206.105125.21	105125	50020906	W		(750.00) Permits
00026	RI	5	09/08/05	9	1	Rallo's	26040206.105125.21	105125	50020906	W		(750.00) Permits
00026	RI	5	11/03/05	11	1	Teague, Trisha	26040206.105125.21	105125	50020906	W		(750.00) Permits
00026	JE	5	11/16/05	11	19	Correct Err Rpt BUs	26040206.105125.21	105125	50020906	W		(2,250.00) Permits
00026	JE	5	11/16/05	11	21	Correct Err Rpt BUs	26030204.105125.21	105125	50020906	W		2,250.00 Permits
00026	RI	6	02/03/06	2	1	Reynolds, Mark & Darlene	26040206.105125.21	105125	50020906	W		(750.00) Permits
00026	RI	6	03/28/06	4	1	Stewart, Milton	26040206.105125.21	105125	50020906	W		(750.00) Permits
00026	RI	6	04/12/06	4	1	Hollis, John	26040206.105125.21	105125	50020906	W		(750.00) Permits
00026	RI	6	11/10/06	11	1	Scott, Judy	26040206.105125.21	105125	50020906	W		(750.00) Permits
00026	RI	7	02/28/07	2	1	Mr W S Swan III or Mrs. W S Sw	26040206.105125.21	105125	50020906	W		(750.00) Permits
00026	RI	7	11/26/07	11	1	McMahan, David or Deborah	26040206.105125.21	105125	50020906	W		(750.00) Permits
00026	II	3	01/31/03	2	1	MAINS, LONE OAK UTILITY DIST	26020206.105150.1	105150	50020906	W		787.05 Materials & Supplies
00026	II	3	01/31/03	2	3	MAINS, LONE OAK UTILITY DIST	26020206.105150.1	105150	50020906	W		6,820.68 Materials & Supplies
00026	II	3	01/31/03	2	5	MAINS, LONE OAK UTILITY DIST	26020206.105150.1	105150	50020906	W		1,508.00 Materials & Supplies
00026	II	3	01/31/03	2	1	LONE OAK UTILITY DIST., MAINS	26020206.105150.1	105150	50020906	W		5,499.64 Materials & Supplies
00026	F9	3	06/09/03	6	12	Trf To New IP	26020206.105150.1	105150	50020906	W		(14,615.37) Materials & Supplies
00026	F9	3	06/09/03	6	1	Trf To New IP	26040206.105150.11	105150	50020906	W		14,615.37 Materials & Supplies
00026	PV	3	01/10/03	1	1	Neptune Technology - REMIT	26020206.105150.21	105150	50020906	W		25,648.00 Materials & Supplies
00026	II	3	02/19/03	2	1	LONE OAK UTILITY DISTRICT	26020206.105150.21	105150	50020906	W		1,339.68 Materials & Supplies
00026	II	3	02/19/03	2	1	LONE OAK UTILITY DISTRICT	26020206.105150.21	105150	50020906	W		689.28 Materials & Supplies
00026	II	3	02/19/03	2	3	LONE OAK UTILITY DISTRICT	26020206.105150.21	105150	50020906	W		491.88 Materials & Supplies
00026	JE	3	02/28/03	3	2	Redistribute Costs	26020206.105150.21	105150	50020906	W		(25,648.00) Materials & Supplies
00026	F9	3	06/09/03	6	2	Trf To New IP	26040206.105150.21	105150	50020906	W		2,520.84 Materials & Supplies
00026	F9	3	06/09/03	6	13	Trf To New IP	26020206.105150.21	105150	50020906	W		(2,520.84) Materials & Supplies
00026	IR	3	08/13/03	8	1	LONE OAK	26040206.105150.21	105150	50020906	W		389.36 Materials & Supplies
00026	JE	4	04/02/04	3	4	Reclass CC 143045	26040206.105150.21	105150	50020906	W		229.42 Materials & Supplies
00026	JE	4	04/02/04	3	4	Reclass CC 143046	26040206.105150.21	105150	50020906	W		357.00 Materials & Supplies
00026	PV	4	04/19/04	4	1	Mueller Co-Box 360502-REMIT	26040206.105150.21	105150	50020906	W		3,384.80 Materials & Supplies
00026	II	4	04/22/04	4	1	NO EXPLANATION ON 271	26040206.105150.21	105150	50020906	W		35.01 Materials & Supplies
00026	II	4	04/22/04	4	3	NO EXPLANATION ON 271	26040206.105150.21	105150	50020906	W		17.88 Materials & Supplies
00026	PV	4	04/22/04	4	1	Clow Valve Co -REMIT ALL USE	26040206.105150.21	105150	50020906	W		873.18 Materials & Supplies
00026	IR	4	09/10/04	9	1	LONE OAK	26040206.105150.21	105150	50020906	W		77.40 Materials & Supplies
00026	IR	4	09/10/04	9	3	LONE OAK	26040206.105150.21	105150	50020906	W		930.65 Materials & Supplies
00026	IR	4	09/10/04	9	5	LONE OAK	26040206.105150.21	105150	50020906	W		743.20 Materials & Supplies
00026	IR	4	09/10/04	9	7	LONE OAK	26040206.105150.21	105150	50020906	W		218.42 Materials & Supplies
00026	IR	4	09/10/04	9	9	LONE OAK	26040206.105150.21	105150	50020906	W		852.73 Materials & Supplies
00026	IR	4	09/10/04	9	11	LONE OAK	26040206.105150.21	105150	50020906	W		205.38 Materials & Supplies
00026	IR	4	09/10/04	9	1	LONE OAK	26040206.105150.21	105150	50020906	W		(77.40) Materials & Supplies
00026	IR	4	09/10/04	9	3	LONE OAK	26040206.105150.21	105150	50020906	W		(930.65) Materials & Supplies
00026	IR	4	09/10/04	9	5	LONE OAK	26040206.105150.21	105150	50020906	W		(743.20) Materials & Supplies
00026	IR	4	09/10/04	9	7	LONE OAK	26040206.105150.21	105150	50020906	W		(218.42) Materials & Supplies
00026	IR	4	09/10/04	9	9	LONE OAK	26040206.105150.21	105150	50020906	W		(852.73) Materials & Supplies
00026	IR	4	09/10/04	9	11	LONE OAK	26040206.105150.21	105150	50020906	W		(205.38) Materials & Supplies
00026	IR	4	09/10/04	9	1	LONE OAK	26040206.105150.21	105150	50020906	W		(77.40) Materials & Supplies
00026	IR	4	09/10/04	9	3	LONE OAK	26040206.105150.21	105150	50020906	W		(930.65) Materials & Supplies
00026	IR	4	09/10/04	9	5	LONE OAK	26040206.105150.21	105150	50020906	W		(743.20) Materials & Supplies
00026	IR	4	09/10/04	9	7	LONE OAK	26040206.105150.21	105150	50020906	W		(218.42) Materials & Supplies
00026	IR	4	09/10/04	9	9	LONE OAK	26040206.105150.21	105150	50020906	W		(852.73) Materials & Supplies
00026	IR	4	09/10/04	9	11	LONE OAK	26040206.105150.21	105150	50020906	W		(205.38) Materials & Supplies
00026	IR	4	09/10/04	9	1	LONE OAK	26040206.105150.21	105150	50020906	W		(594.56) Materials & Supplies
00026	PV	6	02/02/06	2	1	Consolidated Technologies Inc-	26040206.105150.21	105150	50020906	W		2,312.50 Materials & Supplies
00026	PV	6	03/10/06	3	1	Consolidated Technologies Inc-	26040206.105150.21	105150	50020906	W		2,812.50 Materials & Supplies
00026	PV	6	03/23/06	3	1	Consolidated Technologies Inc-	26040206.105150.21	105150	50020906	W		2,375.00 Materials & Supplies
00026	PV	6	05/17/06	5	1	Consolidated Technologies Inc-	26040206.105150.21	105150	50020906	W		2,500.00 Materials & Supplies
00026	PV	6	05/22/06	5	1	Consolidated Technologies Inc-	26040206.105150.21	105150	50020906	W		1,875.00 Materials & Supplies

00026	PV	6 06/26/06	6	1 Consolidated Technologies Inc-	26040206.105150.21	105150	50020906	W	625.00	Materials & Supplies
00026	PV	3 04/16/03	4	2 H Spaight Overman - REMIT	26020206.105175.21	105175	50020906	W	140.00	Professional Services
00026	F9	3 06/09/03	6	3 Trf To New IP	26040206.105175.21	105175	50020906	W	140.00	Professional Services
00026	F9	3 06/09/03	6	14 Trf To New IP	26020206.105175.21	105175	50020906	W	(140.00)	Professional Services
00026	PV	3 11/03/03	11	1 Baker Donelson Bearman & Caldwell	26040206.105175.21	105175	50020906	W	56.00	Professional Services
00026	PV	3 11/03/03	11	2 Baker Donelson Bearman & Caldwell	26040206.105175.21	105175	50020906	W	49.10	Professional Services
00026	PV	3 11/18/03	11	2 Baker Donelson Bearman & Caldwell	26040206.105175.21	105175	50020906	W	303.00	Professional Services
00026	JA	3 07/10/03	7	314 FASTR - ALLOC FJ26 2602F	26040206.105260.21	105260	50020906	W	2,927.75	Capital Overhead
00026	JA	3 02/06/03	2	114 FASTR - ALLOC FJ26 2602F	26020206.105260.21	105260	50020906	W	6,748.76	Capital Overhead
00026	JA	3 03/13/03	3	144 FASTR - ALLOC FJ26 2602F	26020206.105260.21	105260	50020906	W	4,844.12	Capital Overhead
00026	JA	3 03/13/03	3	148 FASTR - ALLOC FJ26 2602F	26020206.105260.21	105260	50020906	W	835.51	Capital Overhead
00026	JA	3 04/10/03	4	150 FASTR - ALLOC FJ26 2602F	26020206.105260.21	105260	50020906	W	(4,964.94)	Capital Overhead
00026	JA	3 05/08/03	5	220 FASTR - ALLOC FJ26 2602F	26020206.105260.21	105260	50020906	W	29.75	Capital Overhead
00026	F9	3 06/09/03	6	4 Trf To New IP	26040206.105260.21	105260	50020906	W	7,493.20	Capital Overhead
00026	F9	3 06/09/03	6	15 Trf To New IP	26020206.105260.21	105260	50020906	W	(7,493.20)	Capital Overhead
00026	JA	3 07/10/03	7	210 FASTR - ALLOC FJ26 2602F	26020206.105260.21	105260	50020906	W	(2,927.75)	Capital Overhead
00026	JA	3 07/10/03	7	214 FASTR - ALLOC FJ26 2602F	26020206.105260.21	105260	50020906	W	(504.97)	Capital Overhead
00026	JA	3 07/10/03	7	222 FASTR - ALLOC FJ26 2602F	26020206.105260.21	105260	50020906	W	(28.04)	Capital Overhead
00026	JA	3 07/10/03	7	318 FASTR - ALLOC FJ26 2602F	26040206.105260.21	105260	50020906	W	504.97	Capital Overhead
00026	JA	3 07/10/03	7	326 FASTR - ALLOC FJ26 2602F	26040206.105260.21	105260	50020906	W	28.04	Capital Overhead
00026	F9	3 08/05/03	8	3 Correct Error Report	26040206.105260.21	105260	50020906	W	(3,460.76)	Capital Overhead
00026	F9	3 08/05/03	8	20 Correct Error Report	26020206.105260.21	105260	50020906	W	3,460.76	Capital Overhead
00026	JA	3 09/26/03	9	150 FASTR - ALLOC FJ26 2602F	26040206.105260.21	105260	50020906	W	41.66	Capital Overhead
00026	JA	3 12/05/03	12	772 FASTR - ALLOC FJ26 2602F	26040206.105260.21	105260	50020906	W	42.42	Capital Overhead
00026	JA	3 12/05/03	12	774 FASTR - ALLOC FJ26 2602F	26040206.105260.21	105260	50020906	W	15,713.93	Capital Overhead
00026	JA	4 02/12/04	2	84 FASTR - ALLOC CO26ALLOC	26040206.105260.21	105260	50020906	W	4,718.79	Capital Overhead
00026	JA	4 04/15/04	4	52 FASTR - ALLOC CO26ALLOC	26040206.105260.21	105260	50020906	W	54.42	Capital Overhead
00026	JA	4 05/13/04	5	42 FASTR - ALLOC CO26ALLOC	26040206.105260.21	105260	50020906	W	400.05	Capital Overhead
00026	JA	4 08/12/04	8	36 FASTR - ALLOC CO26ALLOC	26040206.105260.21	105260	50020906	W	(69.60)	Capital Overhead
00026	JA	4 10/14/04	10	46 FASTR - ALLOC CO26ALLOC	26040206.105260.21	105260	50020906	W	(336.15)	Capital Overhead
00026	JA	4 11/11/04	11	68 FASTR - ALLOC CO26ALLOC	26040206.105260.21	105260	50020906	W	2,347.79	Capital Overhead
00026	JA	5 02/03/05	2	50 FASTR - ALLOC CO26ALLOC	26030204.105260.21	105260	50020906	W	(112.50)	Capital Overhead
00026	JA	5 05/05/05	5	38 FASTR - ALLOC CO26ALLOC	26040206.105260.21	105260	50020906	W	(96.25)	Capital Overhead
00026	JA	5 06/09/05	6	44 FASTR - ALLOC CO26ALLOC	26030204.105260.21	105260	50020906	W	(56.25)	Capital Overhead
00026	JA	5 07/07/05	7	36 FASTR - ALLOC CO26ALLOC	26040206.105260.21	105260	50020906	W	(56.25)	Capital Overhead
00026	JA	5 10/06/05	10	46 RECORD CONSTRUCTION OH OCT 05	26040206.105260.21	105260	50020906	W	(262.50)	Capital Overhead
00026	JE	5 11/16/05	11	20 Correct Err Rpt BUs	26040206.105260.21	105260	50020906	W	(168.75)	Capital Overhead
00026	JE	5 11/16/05	11	22 Correct Err Rpt BUs	26030204.105260.21	105260	50020906	W	168.75	Capital Overhead
00026	JA	5 12/02/05	12	52 RECORD CONSTRUCTION OVERHEAD	26030204.105260.21	105260	50020906	W	(18.88)	Capital Overhead
00026	JE	5 12/02/05	12	14 Reverse Alloc	26030204.105260.21	105260	50020906	W	18.88	Capital Overhead
00026	JA	6 03/09/06	3	40 RECORD CONSTRUCTION OVERHEAD	26040206.105260.21	105260	50020906	W	117.19	Capital Overhead
00026	JA	6 04/06/06	4	48 RECORD CONSTRUCTION OH APR 06	26040206.105260.21	105260	50020906	W	389.06	Capital Overhead
00026	JA	6 05/25/06	5	48 Record Construction OH May 06	26040206.105260.21	105260	50020906	W	258.75	Capital Overhead
00026	JA	6 06/30/06	6	30 Record Construction OH	26040206.105260.21	105260	50020906	W	56.25	Capital Overhead
00026	JA	6 11/30/06	11	32 RECORD 81 90 CONSTR OH NOV 06	26040206.105260.21	105260	50020906	W	(127.50)	Capital Overhead
00026	JA	7 02/28/07	2	40 FASTR - ALLOC CO26ALLOC2	26040206.105260.21	105260	50020906	W	(183.75)	Capital Overhead
00026	F9	3 11/20/03	11	1 Reclassify Expenses	26040206.105275.21	105275	50020906	W	151,182.68	Contracted Services
00026	JE	4 01/21/04	1	1 TO REDISTRIBUTE BALANCE IN	26040206.105275.21	105275	50020906	W	50,849.00	Contracted Services
00026	F1	5 12/03/05	12	16 TRANSFER CWP TO UPIS	26040206.105900.21	105900	50020906	W	(245,243.06)	
00026	F1	6 02/03/06	2	46 TRANSFER CWP TO UPIS	26040206.105900.21	105900	50020906	W	(2,312.50)	
00026	F1	6 03/09/06	3	44 TRANSFER CWP TO UPIS	26040206.105900.21	105900	50020906	W	632.81	
00026	F1	6 04/05/06	4	50 TRANSFER CWP TO UPIS	26040206.105900.21	105900	50020906	W	(4,826.68)	
00026	F1	6 05/26/06	5	48 TRANSFER CWP TO UPIS	26040206.105900.21	105900	50020906	W	(3,863.75)	
00026	F1	6 06/30/06	6	30 TRANSFER CWP TO UPIS	26040206.105900.21	105900	50020906	W	(681.25)	
00026	F1	6 12/01/06	11	32 TRANSFER CWP TO UPIS	26040206.105900.21	105900	50020906	W	877.50	
00026	F1	7 02/28/07	2	40 TRANSFER CWP TO UPIS2	26040206.105900.21	105900	50020906	W	933.75	
00026	F2	7 12/01/07	12	18 Utilization Assets to 101	260400.105900.21	105900	50020906	W	750.00	
00026	CC	4 01/29/04	1	24 RONALD C SCHLEIFER	260205.186704	186704	50020906	X	229.42	
00026	CC	4 01/29/04	1	27 RONALD C SCHLEIFER	260205.186704	186704	50020906	W	357.00	
00026	JE	4 04/02/04	3	2 Reclass CC 143045	260205.186704	186704	50020906	X	(229.42)	
00026	JE	4 04/02/04	3	2 Reclass CC 143046	260205.186704	186704	50020906	X	(357.00)	
00026	JE	4 05/14/04	5	1 Correct w/o's	260205.186704	186704	50020906	W	(357.00)	
00026	JE	4 05/14/04	5	2 Correct w/o's	260205.186704	186704	50020906	X	357.00	

Total W/O Transfer \$ 253,753.06

Tennessee American
 Lone Oak Asset Listing
 As of May 6, 2014

ledger_status	description	in_service_year	accum_quantity	accum_cost	company_id	gl_account_t_id	utility_account_id	asset_id	depr_group_id
10	Hydrants Lone Oak Utility	1/1/05	1	12,727.99	26	101000	335000	2947266	260121
10	Mains Lone Oak Utility	9/30/02	1	253,753.06	26	101000	331001	2947254	260091
10	Meters Lone Oak Utility	1/1/05	1	33,259.79	26	101000	334100	2947268	260106
10	Services Lone Oak Utility	1/1/05	1	22,519.70	26	101000	333000	2947267	260103
	1 ACQ MAIN & FH IN SOURWOOD RIDGE	6/1/09	1	(24,401.68)	26	252006	271120	8569928	260263
	1 ACQ MAIN & FH IN SOURWOOD RIDGE	5/1/09	1	(2,301.08)	26	252006	271150	8257713	260267
	1 ACQUIRE 1 SER LAT IN SOURWOOD	5/1/09	1	(156.75)	26	252006	271230	8257911	260253
98	Contributions	2/1/11	3	(3,000.00)	26	271000	271230	19348129	260225
98	Contributions	1/1/10	3	(2,250.00)	26	271000	271230	9832837	260225
98	Contributions	1/1/09	3	(5,250.00)	26	271000	271230	8644210	260225
	1 Work Order Addition	1/1/07	1	2,834.27	26	101000	335000	5933144	260123
	1 Work Order Addition	1/1/07	3	1,417.14	26	101000	331001	5933146	260093
	1 Work Order Addition	1/1/07	3	283.42	26	101000	331001	5933147	260093
10	Main 2" -Mass	1/1/05	1	572.98	26	101000	331001	3078380	260087
10	Main 6" -Mass	1/1/05	1	631.56	26	101000	331001	3078381	260090
10	Meter 5/8" Install	5/25/05	1	6,984.30	26	101000	334200	2947712	260120
	1 Work Order Addition	1/1/13	0.01	98.39	26	101000	334100	60732177	260111
	1 Work Order Addition	1/1/11	3	523.53	26	101000	334100	40265703	260111
	1 Work Order Addition	1/1/11	3	1,048.94	26	101000	334200	40265708	260120
	1 Work Order Addition	1/1/07	1	566.86	26	101000	333000	5933142	260105
	1 Work Order Addition	1/1/09	1	5,558.35	26	101000	333000	8619262	260105
	1 Work Order Addition	1/1/07	860	23,241.02	26	101000	331001	5933135	260093
10	Service 3/4"	5/26/05	1	6,410.46	26	101000	333000	2947714	260105
	1 Work Order Addition	1/1/12	0	251.97	26	101000	333000	41983841	260105
	1 Work Order Addition	1/1/12	1	753.83	26	101000	333000	50643280	260105
	1 Work Order Addition	1/1/11	3	7,995.04	26	101000	333000	22832997	260105
	1 Work Order Addition	1/1/10	0	100.29	26	101000	333000	10022830	260105
	1 Work Order Addition	1/1/13	0.01	3,202.04	26	101000	333000	60732172	260105
	1 Work Order Addition	1/1/07	1	26368.69	26	101000	346190	6174503	260105
	1 PUR RADIO SYSTEM	1/1/07	0	0	26	101000	346190	5324578	260105
Total Original Cost of Assets				373,744.11					

long_description	property_group_id	unit_of_measure_id	compute_0023	long_desc	long_description
Hydrants Lone Oak Utility	531	1	2005	Flow Contr	TN-Chattanooga Not Classified (Network)
Mains Lone Oak Utility	501	10	2002	Pipe and F	TN-Chattanooga Not Classified (Network)
Meters Lone Oak Utility	505	1	2005	Meters - Mi	TN-Chattanooga Not Classified (Network)
Services Lone Oak Utility	501	10	2005	Pipe and F	TN-Chattanooga Not Classified (Network)
ACQUIRE 860' OF 6" WATE	1	1	2009	Non-unitize	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
ACQUIRE 860' OF 6" WATE	1	1	2009	Non-unitize	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
ACQUIRE A SERVICE LATI	1	1	2009	Non-unitize	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Contributions	599	1	2011	Contributio	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Contributions	599	1	2010	Contributio	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Contributions	599	1	2009	Contributio	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Flow Control - Fire Hydrant (	531	1	2007	Flow Contr	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Flow Control - Gate Valve	531	1	2007	Flow Contr	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Flow Control - Valve/Curb B	531	1	2007	Flow Contr	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Main 2" -Mass : Lone Oak	501	10	2005	Pipe and F	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Main 6" -Mass : Lone Oak	501	10	2005	Pipe and F	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Meter 5/8" Install	505	1	2005	Meters - M	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Meters - Displacement 5/8" (	505	1	2013	Meters - Di	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Meters - Displacement 5/8" (	505	1	2011	Meters - Di	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Meters - Meter Settings/Inst	505	1	2011	Meters - M	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Pipe and Fittings - Copper 1	600	1	2007	Service Lin	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Pipe and Fittings - Copper 3.	600	1	2009	Service Lin	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Pipe and Fittings - Ductile Irc	501	10	2007	Pipe and F	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Service 3/4"	600	1	2005	Service Lin	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Service Line - Copper 1"	600	1	2012	Service Lin	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Service Line - Copper 3/4"	600	1	2012	Service Lin	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Service Line - Copper 3/4"	600	1	2011	Service Lin	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Service Line - Copper 3/4"	600	1	2010	Service Lin	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Service Line - Copper 5/8"	600	1	2013	Service Lin	Lone Oak - Sequatchie County, TN ALL NETWORK ASSETS
Instrumentation - Control System - Data	1	1	2007	Instrument:	Suck Creek - Marion County, TN ALL NETWORK ASSETS
PUR RADIO SYSTEM (SCADA EQUIP	0	0	2007	PUR RADIA	Suck Creek - Marion County, TN ALL NETWORK ASSETS

Attachment C

BAKER DONELSON
BEARMAN, CALDWELL & BERKOWITZ, PC

1800 REPUBLIC CENTRE
633 CHESTNUT STREET
CHATTANOOGA, TENNESSEE 37450

PHONE: 423 756 2010
FAX: 423 756 3447

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JOE A. CONNER, SHAREHOLDER
Direct Dial: 423.752.4417
Direct Fax: 423.752.9527
E-Mail Address: jconner@bakerdonelson.com

June 17, 2015

Mr. Don Scholes
Branstetter, Stranch & Jennings, PLLC
227 Second Avenue North
Nashville, Tennessee 37201

Re: Tennessee-American Water Company - Lone Oak Utility District

Dear Don:

As we have discussed over the phone, the Board of the Lone Oak Utility District (the "District") is interested in exploring a means of ending the 40 year Operations and Maintenance Agreement (the "Agreement") with Tennessee-American Water Company ("TAWC") entered on May 13, 2002. We look forward to meeting with you and representatives of the Board in my office on Friday, June 12th to discuss possible options.

You also requested that TAWC provide responses to the information request that you prepared on behalf of the Board. A copy of the information request is attached. As we discussed, the individuals for both the District and TAWC with knowledge of the negotiation and implementation of the Agreement are no longer either on the Board or employed by TAWC. TAWC has reviewed the available files relating to the Agreement in an attempt to provide you with responsive information. However, some of the information you have requested either does not exist or has not been located at this time.

In this process, it would be helpful if you could forward me copies of all Board minutes and/or resolutions. Please let me know if those records are available for our review. The following responses are based the information that is currently available and we reserve the right to correct or supplement our responses based on further review or discovery of relevant records.

- 1) It is our understanding that the \$8.44 per month was originally calculated and charged to customers to cover the debt service of the District. It has not been increased because to TAWC's knowledge, the District has not increased its debt obligation and the District has not requested TAWC to increase the amount.
- 2) It appears that TAWC approached the Board in 2008 with a means to decrease the customer rates by incorporating District customer rates into a tariff that would be applicable to customers of the District, Suck Creek and Lookout Mountain (the "Mountain Tariff"). The initial request

would have resulted in District customers receiving a rate decrease. This request also required TRA approval and was submitted in TRA Docket No. 08-00039. Unfortunately, the TRA denied the request and ordered a 4.37% increase on all customers across the board. The Board was advised of the TRA's order and did not object to the increase in customer rates. TAWC's records do not reflect that the Board has ever objected to the rate increases that have been implemented. As you are aware, there is not a formal rate adjustment procedure provided for in the Agreement.

3) Other than the monthly \$8.44, TAWC has not billed any specific surcharges prior to 2014. In 2014, the TRA approved three system wide surcharges that actually have resulted in a decrease in rates at this time. We will be glad to discuss this further at the meeting.

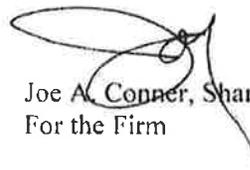
4) TAWC first identified the customers of the District and the tariff amount in Docket No. 04-00288 in the revenue analysis. Revenues were additionally identified in Docket No. 06-00290 with an unchanged rate for District customers. As reflected above, TAWC presented a reduced rate in Docket No. 08-00039 for District customers, which was denied. District customer rates were subsequently increased in conjunction with Docket No. 08-00039, Docket 10-00189, and Docket No. 12-00049. It is our understanding that discussions were conducted with members of the Board regarding these rate increases. As indicated above, the procedure for increasing District customer rates in conjunction with TAWC rate cases was in line with the course of dealing between the District and TAWC. The Board did not previously object to this procedure.

5) TAWC has not installed any water line additions or extensions in the District pursuant to Section III of the Agreement. The assets that have been installed in the District include meters, meter settings, services, one hydrant, capitalized main repairs, and SCADA monitoring equipment. As reflected in V. C of the Agreement, TAWC made a like kind initial capital investment of approximately \$250,000.

6) TAWC has located an excel file which generates the monthly disbursement request going back to August 2012. We are continuing to review our files to determine if there are additional attachments or monthly statements retained prior to August 2012.

7) The TRA was not required to approve the Agreement.

Very truly yours,



Joe A. Conner, Shareholder
For the Firm

JAC/lmr

**INFORMATION AND DOCUMENT REQUEST TO TENNESSEE-AMERICAN WATER
COMPANY FROM LONE OAK UTILITY DISTRICT BOARD OF COMMISSIONERS**

- 1) Lone Oak Utility District (the District) receives a check each month from Tennessee-American Water Company (TAWC) which is revenue TAWC receives from the District's customers which belongs to the District. The amount of the monthly check equals the product of the number of District customers each month and \$8.44.
 - Please explain how the monthly amount of \$8.44 per customer per month was originally calculated.
 - Please reference the section of the Operations and Maintenance Agreement between the District and TAWC (the Agreement) which obligates TAWC to pay the District \$8.44 per customer per month and how this section has been applied to arrive at this monthly obligation amount.
 - Please explain why this \$8.44 rate has never been changed during the term of the Agreement.

- 2) Section V.A. of the Agreement provides that the established a "base rate" of \$22.95 for the first 2000 gallons of water and \$5.25 per 1000 gallons over 2000 gallons for water used by District customers. Annually, TAWC has the right to request the District to adjust the Base Rate to reflect changes TAWC cost of service under the Agreement.
 - Please state the number of times TAWC requested the District's Board of Commissioners to increase the base rate under Section V.A. since the Agreement was made on May 13, 2002.
 - Please state the number of times the District's Board of Commissioners approved an increase in the base rate and the dates the District's Board approved increases in the base rate since the Agreement was made on May 13, 2002.
 - Please provide a copy of any writing between the District and TAWC which sets forth any requests by TAWC to increase the base rate and which sets forth the District's approval of a change in the base rate.

- 3) Section V.A. of the Agreement permits the District to charge its customers additional fees or charges in addition to the base rate which are called "surcharges."
 - Please state whether TAWC has ever billed the District's customers for surcharges imposed by the District.

- If any surcharges have been billed, please state the amount of each surcharge, the purpose of each surcharge and when TAWC began to bill each surcharge.
- 4) Section V.A of the Agreement provides, “All customers within the franchise boundary of the LOUD system under this O&M Agreement shall be customers of LOUD. Attached is a sheet in the tariff of TAWC on file with the Tennessee Regulatory Authority (TRA) effective November 1, 2012, which describes a rate approved by the TRA for TAWC’s Lone Oak Utility District customers.
- If the persons being provided water service within the franchise boundary of the District are customers of the District, please explain why the rate for the District’s customers has been set by the TRA.
 - Please state the first year that the TRA approved a rate for the District’s customers and provide the docket number of the first rate case proceeding at the TRA in which the TRA approved this rate.
 - Please identify in the Agreement or in any other document where the District authorized TAWC to ask the TRA to set the rates for the customers of the District.
- 5) According to the assets listing you provided to the District with a cover letter to John Lyman dated September 4, 2014, TAWC made an initial investment of \$253,793 in the District’s water system in 2002. As of July 31, 2014, this assets listing shows the total original cost of TAWC assets in the District’s water system of \$350,559.77.
- Please provide any written authorization which TAWC received from the District to make additions to the District’s original water system or to make customer water line extensions to the District’s original water system with TAWC funds under Section III of the Agreement.
 - Please identify the assets in the assets listing which were constructed and paid for by TAWC pursuant to Section III of the Agreement.
- 6) Under Section V.B of the Agreement, TAWC is required to deliver a monthly statement to the District which is to include the following information: (a) the total amount billed by TAWC for the District; (b) the total amount of water delivered; (c) the total surcharge collected; (d) the cost of any additions or extensions and related refunds made at the District’s costs under Section III; and (e) the cost of any fire hydrants installed by TAWC at the District’s cost under Section IV.

- Please provide the District a copy of all monthly statements prepared and/or delivered to the District under Section V.B of the Agreement.
- 7) Section XIII of the Agreement provides that in the event TRA approval of the Agreement is necessary, the TRA must approve all terms in the Agreement.
- Please state whether the TRA was required to approve the Agreement.
 - If the answer is yes, please state when the TRA approved the Agreement and provide a copy of the TRA Order approving the Agreement.

TENNESSEE-AMERICAN WATER COMPANY
LONE OAK UTILITY DISTRICT - O & M

TRA No. 19
Second Revision of Sheet No. 4R-LO
Cancelling
First Revision of Sheet No. 4R-LO

CLASSIFICATION OF SERVICE
RESIDENTIAL

For all residential customers of Lone Oak.

VOLUMETRIC RATES:

Cost per 1,000 Gallons

<u>Monthly Use</u>	<u>Lone Oak General Water Service</u>	
First 1,997 gallons	\$42.03	(I)
All over 1,997 gallons	\$7.2655 per 1,000 gallons	(I)

VOLUMETRIC RATES:

Cost per 100 Gallons

<u>Monthly Use</u>	<u>Lone Oak General Water Service</u>	
First 1,997 gallons	\$42.03	(I)
All over 1,997 gallons	\$0.72655 per 100 gallons	(I)

VOLUMETRIC RATES:

Cost per CCF

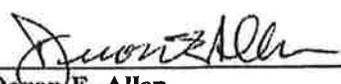
<u>Monthly Use</u>	<u>Lone Oak General Water Service</u>	
First 2.67 CCF	\$42.03	(I)
All over 2.67 CCF	\$5.4346 per CCF	(I)

(I) Increase

ISSUED: October 2, 2012

EFFECTIVE: November 1, 2012

BY:


Deron E. Allen
PRESIDENT

1101 Broad Street
Chattanooga, Tennessee 37401

Attachment D

From: Sherwin Smith [<mailto:Sherwin.Smith@tn.gov>]

Sent: Monday, July 06, 2015 10:54 AM

To: Betsy Knotts; Tom Moss

Subject: RE: Confirmation of TDEC Compliance

Hi Betsy:

The following information is relative to your question below:

Cherokee Hills UD was last surveyed 2/11/2015, and received a score of 99. In the past 5 years, they have 1 TCR monitoring violation (September 2011).

Lone Oak UD was last surveyed 6/20/2014, and received a score of 100. They do not have any violations listed during the past 5 years.

Consequently, the public water systems for each of these Utility Districts appear to be in good shape with no apparent compliance problems. If you have further questions, please let me know.

Thanks,

Sherwin

2/13/2015	jw	Gary Tinsley	not given	Mooreburg UD	High disconnect/ no office hours	UD allowed to set its own fees and office hours
2/13/2015	jw	Barbara Tenderman	931-845-4590	Iron City UD	high bills	wants an investigation
2/24/2015	jw	Janet	615-545-1327	H.B. & T.S. UD	high bills, irregular billing, attitude, cut off not done	explained UMRB procedures and utilities in general
2/24/2015	jw	David Satterfield	615-452-6166	Castalian Springs UD	changed UD elected commissioner term of office to fit need of commissioner	suggested he put complaint in writing and I will take it to the atty.
3/6/2015	jw	Vanderbilt Mort	HOTLINE	Chuckey UD	UD is charging back water bill for new owner and saying a lien will be put on the property.	Called UD who followed up with their atty. The practice will stop because it is not legal
3/18/2015	jw	Albert	256*232-3712	Consolidated UD	billing cycle too short	policy set by UD
3/19/2015	jw	Jennifer Carter	423-736-5060	Russellville-Whitesburg UD	non paymt cut off	UD won't cut water back on after 3:30
3/26/2015	jw	Alexander Hill		West Warren-Viola UD	general concers	explained UMRB procedures'
3/31/2015	jw	Carl Moulten	865-705-6713	Hallsdale Powell UD	going to be charged for sewer	He misunderstood info he rec'd from UD. Not going to be charged for sewer.
4/2/2015	jw	Sean Kelly	865-607-1347	NE Knox UD	keeps getting bills from UD	tried for 4 months to not get bills from UD and to get deposit refunded Explained UMRB procedures
4/7/2015	jw	Mary		North Stewart UD	high bill - no leaks	explained UMRB procedures
4/14/2015	jw	Heather Connor	931-26/-8688	Old Gainesboro Rd UD	leak fixed but UD will only adjust one month per year - still \$1200 water bill	explained UMRB procedures
5/12/2015	jw	Pastor Perry Woods	731-589-1277	Lake County Gas UD	high bill not same as others in class	explained UMRB procedures
5/18/2015	jw	Darrel Johnson	931-845-4583	Iron City UD	Rate increases going into effect with no explanation of where the expenses are going	explained Iron City has been financially distressed for years in contradiction to State law
5/18/2015	jg	Darrel Johnson	931-845-4583	Iron City UD	Rate increases going into effect with no explanation of where the exoenses are going	explained Iron City has been financially distressed for years in contradiction to State law
5/19/2015	jw		931-845-4414	Iron City UD	high rates	high rates
5/22/2015	jw	Phillip	865-258-2399	Tuckaleechee UD	water cut off for 5 days late after 11 years promptness	explained that they were within the authority to cut water off
5/22/2015	jw	Sherry	859-492-4647	Hallsdale Powell UD	water smells like cat urine	referred to Knoxville EFO
5/22/2015	jw	Ernest Womack	423-506-2469	Riceville UD	someone else using his meter UD won't correct	explained UMRB procedures
6/1/2015	jw	not given	931-845-2225	Iron City UD	raising rates	tried to answer questions
6/1/2015	jw	William Tate Jr	Rep Weaver/email	Castalian Springs	gouging customers	tried to answer his questions.615-374-8181
6/1/2015	jw	Tricia Townsend	619-922-2541	Iron City UD		
6/2/2015	jw	Margaret Stanton	931-845-4664	Iron City UD	questions re rate increase	tried to answer questions
6/2/2015	jw	Joan from St. Joe	931-845-4141	Iron City UD	how would a take over occur	explained process
6/3/2015	jw	Jim Ramsey	423-658-5554	Griffith Creek UD	billing dispute requested info	explained process - he to sent info, I will contact UD

6/3/2015	jw	Allen	931-217-8235	Woodlawn UD	all bills increasing w/o reason	explained UMRB procedures.
6/11/2015	jg	Dave McFarland	423-277-3580	Witt UD	Discrimination and Leak issues	
6/11/2015	jg/jw	Jim Ramsey	423-658-5554	Griffith Creek UD	Double Billing	requested info and ret'd call
6/15/2015	jw	Stephen Seybold	email	Cunningham UD	credit card fees	sent letter w/ UMRB role
6/16/2015	jw	not given	931-294-3073	Bedford County UD	water quality/fire hydrant issues	referred to TDEC Field office.
6/18/2015	jw	Clark Culver	email	First UD Hardin	commissioner training issues	BK - notify LGA and suggest possible additional info from Culver
6/19/2015	jw	Kirk Johnson	931-580-8889	Horton Highway UD	unknown	left msg
6/22/2015	jw	Lonnie Hood	423-313-1444	Ocoee UD	developer fees - spiteful attitude of mgr.	explained UMRB procedures
6/22/2015	jw	Wendy Ruby	931-623-4221	Bon Aqua Lyles UD	high bills	explained UMRB procedures
6/22/2015	jg	Keely Mendez	931-626-4534	Minor Hill UD	High Lock Fees	explained UMRB procedures
6/24/2015	jw	Garrett Ward	865-660-1285	First UD of Knox Co.	wants a copy of charter and bylaws	referred back to UD and possibly SOS
6/24/2015	jw	Mark	731-414-8452	Gibson County Municipal Water	non-refundable fee for water connection	explained UMRB procedures
6/29/2015	jg	Tanya Phillips	email	not given	Large Water Bill	emailed UMRB procedures
7/13/2015	jw	Val Erie	email	Hallsdale Powell UD	high rates	explained UMRB procedures
7/13/2015	jw	Betty Wiles	Sen. Bailey	South Cumberland UD	lien on property	Called UD - will correct - back bill paid - property sold - policy followed.
7/16/2015	jw	for Jacqueline Helton	423-297-0491	Russellville-Whitesburg UD	high bill water cut off	customer did not follow through with agreed repayment plan after leak in back yard of 92K gallons.Explained UMRB procedures

SYSTEMS UNDER THE UMRB AUGUST 2015		
DISTRICT	COUNTY	LAST AUDIT
Bedford County UD	Bedford	June-14
Bon Aqua-Lyles UD	Hickman	August-14
Chanute - Pall Mall UD	Fentress/Polk	June-14
Cherokee Hills UD	Polk	December-14
Clay Gas UD	Clay	August-14
Cookeville Boat Dock Road UD	Putnam	December-14
Crab Orchard UD WL	Cumberland	December-14
Fall River Road UD	Lawrence	December-14
Grandview UD	Rhea	December-14
Haywood County UD	Haywood	June-14
Iron City UD	Lawrence	December-13
Lone Oak UD	Sequatchie	December-13
Minor Hill UD WL	Giles	December-12
Mooreburg UD	Hawkins	December-13
O'Connor UD	White	December-13
Quebeck-Walling UD	White	December-14
Samburg UD	Obion	January-14
Saltillo UD WL	Hardin	October-14
Tansi Sewer UD	Cumberland	February-14
Witt UD	Cumberland	September-14

Utility Management Review Board

Compliance Report

August 6, 2015

Cagle-Fredonia Utility District

Validity Score	82
Non-Revenue Water	6.7%
Change in Net Position	\$39,551

East Sevier County Utility District

Validity Score	76
Non-Revenue Water	11.0%
Change in Net Position	\$8,364

From: [Joyce Welborn](#)
To: [John Greer](#)
Subject: FW: Utility District Commissioner Training
Date: Thursday, July 23, 2015 9:18:06 AM

To be included in the UMRB packet

From: Betsy Knotts
Sent: Wednesday, July 22, 2015 8:43 AM
To: Ben Andrews
Cc: Stephanie Maxwell; Joyce Welborn; John Greer
Subject: RE: Utility District Commissioner Training

Mr. Andrews,

I have reviewed your request for Comptroller approval of utility district commissioner training relating to health standards, gas pipeline safety regulations, and recent changes to the Underground Utility Damage Prevention Act. The content of the training appears to cover board governance, financial oversight, policy-making responsibilities, and other topics reasonably related commissioner duties, as required by the state law. The training is approved for three hours of credit as long as the content of each presentation takes up at least 50 minutes and any open-ended Q&A is limited to 10 minutes. Thank you.

Don't hesitate to contact me if you have any further questions.

Betsy Knotts
Assistant General Counsel
Comptroller of the Treasury
Suite 1700, James K. Polk Building
505 Deaderick St.
Nashville, TN 37243
Phone: (615) 401-7954

From: Ben Andrews [<mailto:bpa@orud.org>]
Sent: Monday, July 20, 2015 2:14 PM
To: Betsy Knotts
Subject: Utility District Commissioner Training

Dear Ms. Knotts

Each year the Oak Ridge Utility District dedicates a full day to emphasize our dedication to safety with all employees and Board Members attending.

We are requesting three of our presentations be granted credit as Utility District Commissioner Training.

Each presentation is scheduled for one hour.

1. Mr. Steve Hawkins, State Director of TOSHA will explain ORUD's responsibilities regarding TOSHA. The General Assembly approved ORUD's entry into the Public Sector program during the last session. This voluntary program will require resources the Board must provide.
2. Ms. Annette Ponds, Chief Gas Safety Engineer for the Tennessee Regulatory Authority will present the Board with recent additions to gas pipeline safety regulations and their impact on ORUD.
3. Mr. Craig Ingram with Tennessee 811, better known as the Tennessee One-Call Board will explain the ramifications of the revisions to the Underground Utility Damage Prevention Act as passed by the last General Assembly. There will be significant new effort required by this change that the Board will be requested to fund during the upcoming budget process.

Please do not hesitate to contact me if there are questions or if you desire additional information. We thank you in advance for your favorable consideration.

Ben Andrews
General Manager

Joyce Welborn

From: Betsy Knotts
Sent: Thursday, February 12, 2015 10:31 AM
To: Ben Andrews
Cc: Joyce Welborn; John Greer; Stephanie Maxwell
Subject: RE: Emailing: gasb 62 work

Mr. Andrews,

I have reviewed your request for Comptroller approval of utility district commissioner training relating to GASB Statement 62. The content of the training appears to cover board governance, financial oversight, policy-making responsibilities, and other topics reasonably related commissioner duties, as required by the state law. The training is approved for one hour of credit as long as the content of the presentation takes up at least 50 minutes and any open-ended Q&A is limited to 10 minutes. Thank you.

Don't hesitate to contact me if you have any further questions.

Betsy Knotts
Assistant General Counsel
Comptroller of the Treasury
Suite 1700, James K. Polk Building
505 Deaderick St.
Nashville, TN 37243
Phone: (615) 401-7954

From: Ben Andrews [<mailto:bpa@orud.org>]
Sent: Thursday, February 12, 2015 10:27 AM
To: Betsy Knotts
Subject: RE: Emailing: gasb 62 work

Ms. Knotts
We will try to hold him down to one hour.
We are requesting one hour of credit.

Thanks
Ben

From: Betsy Knotts [<mailto:Betsy.Knotts@cot.tn.gov>]
Sent: Thursday, February 12, 2015 11:18 AM
To: Ben Andrews
Subject: FW: Emailing: gasb 62 work

Mr. Andrews,

Thank you for submitting this training curriculum for approval. Please advise as to how long Mr. Work plans to present these materials. Once I receive that information, I will be able to send you a final approval.

Betsy

Betsy Knotts
Assistant General Counsel
Comptroller of the Treasury
Suite 1700, James K. Polk Building
505 Deaderick St.
Nashville, TN 37243
Phone: (615) 401-7954

From: Joyce Welborn
Sent: Tuesday, February 10, 2015 10:41 AM
To: Betsy Knotts
Subject: FW: Emailing: gasb 62 work

From: Ben Andrews [<mailto:bpa@orud.org>]
Sent: Tuesday, February 10, 2015 10:01 AM
To: Joyce Welborn
Subject: Fw: Emailing: gasb 62 work

Joyce
Oak Ridge Utility District would like to get this presentation approved for its Commissioner training. I am not sure who the request should go to and would appreciate you forwarding it on.
Thanks in advance.
Ben

Sent from Surface

From: [Dwight Work](#)
Sent: Friday, February 6, 2015 3:52 PM
To: [Ben Andrews](#)

Ben:

This is the presentation that I plan to use for Commissioner training on February 25. I may make some minor tweaks to it before then.

Dwight

Your message is ready to be sent with the following file or link attachments:

gasb 62 work

Note: To protect against computer viruses, e-mail programs may prevent sending or receiving certain types of file attachments. Check your e-mail security settings to determine how attachments are handled.

"please note our new phone number"

Dwight Work, CPA | Partner
Frazier and Deeter, LLC
401 Commerce Street, Suite 920 | Nashville, TN 37219
Direct: 615.416.6830 | Main: 615.259.7600 | Direct Fax: 615.259.7603

DISCLOSURE

To ensure compliance with requirements imposed by the IRS, we are required to inform you that any U.S. federal tax advice contained in this communication (including attachments) is not intended or written to be used, and cannot be used, for the purpose of 1) avoiding penalties under the Internal Revenue Code or 2) promoting, marketing, or recommending to another party any transaction or matter addressed herein. The information contained in this message may be privileged and confidential and protected from disclosure. If the reader of this messages is not the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this communication in error, please notify us immediately by replying to this message and deleting it from your computer.

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Frazier
& Deeter
CPAs & ADVISORS

Oak Ridge Utility District

Commissioner Training

Governmental Accounting Standards Board Statement 62

Regulated Operations

Dwight Work

Frazier & Deeter, LLC

February 25, 2015



GASBS 62 – Regulated Operations

- GASBS 62 is the codification of pre-November 30, 1989 standards of the FASB and accounting and financial reporting guidance of the AICPA that relate to governmental entities.
- Regulated Operations section of GASBS 62 is contained in paragraphs 476 through 500.
- Paragraphs 476 through 500 apply to business-type activities that have regulated operations.



GASBS 62 – Regulated Operations

- Regulated Operations must meet three criteria:
 1. Regulated business-type activity's rates for regulated services provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.



GASBS 62 – Regulated Operations

- Rates for investor-owned utilities are approved by an independent regulatory agency, e.g. Tennessee Regulatory Authority, by statute.
- Rates for utilities created under Chapter 82 of Title 7 of the Tennessee Code Annotated are approved by their Board of Commissioners by statute.
- Rates for municipal electric systems in the TVA system are approved by the TVA by contract.



GASBS 62 – Regulated Operations

2. The regulated rates are designed to recover the specific regulated business-type activity's costs of providing regulated services

- Typically, the costs of providing regulated services are:
 - Operation expenses
 - Maintenance expenses
 - Principal and interest on debt
 - Return on investment
- Usually rates are set during the budget process to recover the cost of providing natural gas service.



GASBS 62 – Regulated Operations

- Some natural gas systems sell appliances. Many of the costs related to selling appliances are sometimes ignored. For example:
 - Rental of space
 - Insurance
 - Accounting
 - Billing
 - Customer service
 - Administrative and general
- If these are not charged to the appliance activity, then the sale of appliances is not a regulated operation.



GASBS 62 – Regulated Operations

- Some natural gas systems sell propane. The same discussion holds true for propane. If the rates do not recover the specific costs associated with the propane activity, it is not a regulated operation.
- Some natural gas systems are beginning to sell CNG. If the rates do not recover the specific costs associated with the CNG activity, it is not a regulated operation.



GASBS 62 – Regulated Operations

3. In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the regulated business-type activity's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period of any capitalized costs.



GASBS 62 – Regulated Operations

- The goal of this criterion is to force Management and the Regulators to give careful consideration as to whether:
 - future demand for the service will be enough to allow recovery of investments made to provide the service; or
 - Future competition will force rates to be so low that they will not be able to recover the cost of providing service.
- Franchise agreements provide some protection for the sale of natural gas.
- Protection not the same for appliances, propane or CNG.



GASBS 62 – Regulated Operations

- If a governmental utility has business-type activities and meets the previous three criteria, then it may elect to apply paragraphs 476 through 500.



GASBS 62 – Regulated Operations

- Paragraph 478 states:
 - Authoritative accounting pronouncements that apply to business-type activities in general also apply to regulated business-type activities. However, regulated business-type activities subject to paragraphs 476-500 should apply those paragraphs instead of any conflicting provisions of standards in other authoritative pronouncements.



GASBS 62 – Regulated Operations

- If a regulated business-type activity has elected to apply paragraphs 476 through 500, then these paragraphs will supersede any conflicting provisions of other authoritative pronouncements or standards.





GASBS 62 – Regulated Operations

- These paragraphs do not apply to:
 - Price controls or
 - Contracts, in general.
 - “However, if the terms of a contract between a regulated business-type activity and its customer are subject to regulation and the criteria of paragraph 476 are met with respect to that contract,” then paragraphs 476 through 500 should apply.



GASBS 62 – Regulated Operations

- Paragraph 480 allows regulators to capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following conditions are met:
 - It is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.



GASBS 62 – Regulated Operations

- Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator’s intent clearly be to permit recovery of the previously incurred cost.



GASBS 62 – Regulated Operations

- This would typically be used with large expenditures where the inclusion of the amount in expenses would distort rates.
 - Assume a \$500,000 expenditure. Board decides to capitalize the cost (create an asset) and amortize it over 10 years. The utility needs to show that revenues will be at least \$50,000 higher for ten years until the cost is recovered.



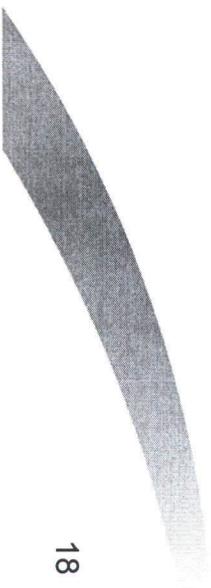
GASBS 62 – Regulated Operations

- An automatic rate-adjustment clause could be a Purchased Gas Adjustment mechanism. In cases of these types of clauses, there should be resolutions or orders of the regulator that clearly indicate the intent of the regulator.



GASBS 62 – Regulated Operations

- Rate actions of a regulator can reduce or eliminate value of an asset.
 - If a regulator excludes all or part of a cost from allowable costs and it is not probable that the cost will be included as an allowable cost in a future period, the cost cannot be expected to result in future revenue through the rate-making process. Accordingly, the carrying amount of any related asset should be reduced to the extent that the asset has been impaired.





GASBS 62 – Regulated Operations

- If a regulator does not allow a return to be earned on an asset, then the utility must consider whether the carrying value of the asset has been impaired.
 - LPG plant not being used and probably will never be used
 - Not included for rate-making purposes and carrying value of the asset is written off
 - LPG plant not being used but may be used in the future
 - Not included for rate-making purposes but carrying value left on the books



GASBS 62 – Regulated Operations

- Rate actions of a regulator can impose a liability on the regulated business-type activity.
 - A regulator may require refunds to customers.
 - A regulator can provide current rates to recover costs that are expected to be incurred in the future with the understanding that if those costs are not incurred, future rates will be reduced by corresponding amounts.



GASBS 62 – Regulated Operations

- If the regulator requires the regulated business-type activity to remain accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose, the regulated business-type activity should not recognize as revenues amounts charged pursuant to such rates. Those amounts should be deferred and recognized as revenue when the associated costs are incurred.



GASBS 62 – Regulated Operations

- A regulator can require that a gain or other reduction of net allowable costs be given to customers over future periods.
- Actions of a regulator can eliminate a liability only if the liability was imposed by actions of the regulator.



GASBS 62 – Regulated Operations

- In some cases, a regulator may require a regulated business-type activity to capitalize interest cost and a designated cost of fund equity as a part of the cost of capital assets. The capitalized costs are depreciated along with the corresponding capital asset. The change in net position is increased by the AFUDC. Capitalization occurs when it is probable that rates will be set to recover the depreciation expense and return on the undepreciated balance.



GASBS 62 – Regulated Operations

- Profit on intra-entity sales to other entities within the same reporting entity as the regulated business-type activity should not be eliminated if both the following criteria are met:
 - The sales price is reasonable.
 - It is probable that, through the rate-making process, future revenue approximately equal to the sales price will result from the regulated business-type activity's use of the services.



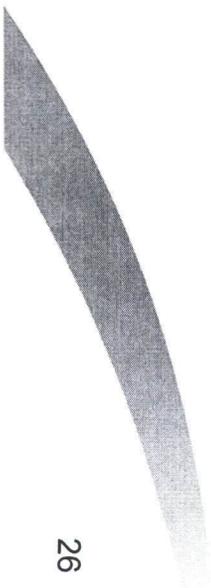
GASBS 62 – Regulated Operations

- When an operating asset or an asset under construction of a regulated business-type activity becomes impaired as defined in Statement 42, the impairment should be accounted for in accordance with that Statement.



GASBS 62 – Regulated Operations

- When it becomes probable that part of the cost of a recently completed plant will be disallowed for rate-making purposes and a reasonable estimate of the amount of the disallowance can be made, the estimated amounts of the probable disallowance should be deducted from the reported cost of the plant and recognized as a loss.



GASBS 62 – Regulated Operations

- For refunds that are recognized in a period different from a period in which the related revenue was recognized, the regulated business-type activity should disclose the effect on the change in net position and indicate the years in which the related revenue was recognized.



GASBS 62 – Regulated Operations

- In some cases a regulator may allow a cost to be capitalized and amortized over a number of years that would otherwise be expensed by an unregulated entity. The regulator may allow the annual amortization expense to be recovered in rates but not include the unamortized balance in rate base. When this occurs, the regulated entity should disclose the remaining amounts of such assets and the remaining recovery period applicable to them.



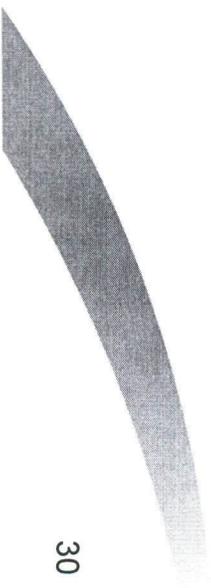
GASBS 62 – Regulated Operations

- Failure of a regulated business-type activity's operations to continue to meet the criteria in paragraph 476 can result from different causes. Examples include:
 - Deregulation
 - A change in the regulator's approach to setting rates from cost-based rate-making to another form of regulation



GASBS 62 – Regulated Operations

- Increasing competition that limits the regulated business-type activity's ability to sell utility services at rates that will recover costs
- Regulatory actions resulting from resistance to rate increases that limit the regulated business-type activity's ability to sell utility services at rates that will recover costs if the utility is unable to obtain (or chooses not to seek) relief from prior regulatory actions through appeals to the regulator or the courts.





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GASBS 62 – Regulated Operations

- Questions??

Joyce Welborn

From: Betsy Knotts
Sent: Tuesday, May 12, 2015 3:12 PM
To: Dave Schryver
Cc: Joyce Welborn; John Greer; Stephanie Maxwell
Subject: RE: APGA Request for Continuing Education Credits

Mr. Schryver,

I have reviewed your request for Comptroller approval of commissioner training hours. All sessions listed and described on the agenda as well as the 7.25 hours requested for the American Public Gas Association's Annual Conference that will be held July 27-29 are approved. All sessions appear to cover board governance, financial oversight, policy-making responsibilities, or topics reasonably related commissioner duties, as required by the state law. Feel free to contact me if you have any further questions.

Betsy

Betsy Knotts
Assistant General Counsel
Comptroller of the Treasury
Suite 1700, James K. Polk Building
505 Deaderick St.
Nashville, TN 37243
Phone: (615) 401-7954

From: Dave Schryver [<mailto:dschryver@apga.org>]
Sent: Friday, May 08, 2015 2:52 PM
To: Betsy Knotts
Subject: APGA Request for Continuing Education Credits

Ms. Knotts, please find attached the American Public Gas Association's request for approval of a total of 7.25 hours of continuing education credits for utility district commissioners who attend our Annual Conference which is scheduled for July. We understand that only the actual time the commissioners attend each session is eligible for continuing education credit. Thank you for your consideration. Dave

Dave Schryver
Executive Vice President
American Public Gas Association
201 Massachusetts Avenue, NE, Suite C-4
Washington, DC 20002
202-464-0835
[ABOUT APGA](#)

[Read about natural gas in your home or business](#)

PLEASE JOIN US AT THESE UPCOMING APGA EVENTS:

2015 APGA Annual Conference

July 26-29, 2015 | Omni InterLocken Hotel | Denver, Colo. | <http://www.apga.org/denver>

2015 APGA Gas Equipment and Application Conference

September 15-17, 2015 | Westin Buckhead | Atlanta, Ga. | <http://www.apga.org/GEAC>

2015 Gas Utility Management Conference and Board and Committee Meetings

November 1-4, 2015 | Omni Grove Park | Asheville, N.C. | <http://www.apga.org/asheville>

Joyce Welborn

From: Betsy Knotts
Sent: Wednesday, May 20, 2015 10:44 AM
To: Lynette DiMeola; 'Jamie'
Cc: Joyce Welborn; John Greer; Stephanie Maxwell
Subject: RE: TGA's Request for Commissioner Hours Training Approvals for 2015 Annual Meeting Conference

Lynette,

I have reviewed your request for Tennessee Comptroller approval of commissioner training. The following training sessions scheduled to be held at the TGA Annual Meeting, June 15-17, 2015, are approved:

1. TGA Legislative Update (0.25 hours)
2. Overview of State Energy Policies (0.75 hours)
3. Domestic Natural Gas: Securing America's Energy Future" (0.75 hours)
4. Legislating Without Congress (0.75 hours)
5. CNG: Update for South Carolina (0.75 hours)
6. The Summer of Oversupply: An Overview of U.S. Natural Gas Markets (0.75 hours)
7. APGA Update (0.5 hours)

These 7 sessions appear to cover board governance, financial oversight, policy-making responsibilities, and other topics reasonably related commissioner duties, as required by Tennessee law. Feel free to call me if you have any questions.

Betsy Knotts
Assistant General Counsel
Comptroller of the Treasury
Suite 1700, James K. Polk Building
505 Deaderick St.
Nashville, TN 37243
Phone: (615) 401-7954

From: Lynette DiMeola [mailto:ldimeola@tngas.org]
Sent: Friday, May 15, 2015 2:18 PM
To: Betsy Knotts; Stephanie Maxwell; Lauren Plunk
Cc: 'Jamie'
Subject: RE: TGA's Request for Commissioner Hours Training Approvals for 2015 Annual Meeting Conference

Thanks so much. I'm at our CNG Rally Across Tennessee next week so please copy Jamie Wellman at jwellman@tngas.org
She will forward the information to our members. Thanks again.

Lynette DiMeola

Executive Director
Tennessee Gas Association
83 Century Blvd.
Nashville, TN 37214

Office: 615-872-2412

Cell: 615-613-1709

Fax: 615-872-2413

ldimeola@tngas.org

PROMOTE ... ADVOCATE ... COLLABORATE ... EDUCATE

Take Advantage of These Upcoming TGA Opportunities!

2015 Dates:

May 18-22: CNG Rally Across Tennessee (Memphis Through Sevierville)
June 15-17: Annual Meeting | *The Mills House* | Charleston, SC
August:18-20: TGA Safety Summit | *Paris Landing State Park*
September 14-17: Fall Workshop at Leak City | Athens, Alabama
October 21&22: Fall Management Conference | *Chattanooga Embassy Suites Hamilton Place*
November 10-11: Finance & Accounting | Location TBD

2016 Dates:

April 12-14: D&O Conference | *Murfreesboro Embassy Suites*
June 27-30: TGA Annual Meeting | (Location TBA)
October 19&20: Fall Management Conference | *Chattanooga Embassy Suites Hamilton Place*

Future Dates:

March 28-30, 2017: D&O Conference | *Murfreesboro Embassy Suites*
April 9-12, 2018: D&O Conference | *Murfreesboro Embassy Suites*

For More Natural Gas Industry Related Events of Interest, go to www.tngas.org.

From: Betsy Knotts [<mailto:Betsy.Knotts@cot.tn.gov>]

Sent: Friday, May 15, 2015 1:45 PM

To: Lynette DiMeola; Stephanie Maxwell; Lauren Plunk

Subject: RE: TGA's Request for Commissioner Hours Training Approvals for 2015 Annual Meeting Conference

Thanks, Lynette. I'm handling these. I'll get back with you sometime next week.

Betsy Knotts
Assistant General Counsel
Comptroller of the Treasury
Suite 1700, James K. Polk Building
505 Deaderick St.
Nashville, TN 37243
Phone: (615) 401-7954

From: Lynette DiMeola [<mailto:ldimeola@tngas.org>]

Sent: Thursday, May 14, 2015 3:50 PM

To: Betsy Knotts; Stephanie Maxwell; Lauren Plunk; rachel.newton@cot.tn.gov

Subject: TGA's Request for Commissioner Hours Training Approvals for 2015 Annual Meeting Conference

Ladies, hope you're all doing well. I'm copying all of you on this request as last year there was some transition from Rachel on who approves these requests and I'm not sure who is handling this now. Could you make sure the correct person there take a look at this request for approved commissioner training hours for TGA's 2015 Annual Meeting? Please let me know what is approved so that I can inform my members.

Joyce Welborn

From: Betsy Knotts
Sent: Friday, May 22, 2015 10:14 AM
To: Work, Dwight
Cc: Joyce Welborn; John Greer; Stephanie Maxwell
Subject: RE: Unicoi County Agenda update
Attachments: 2015-8747600001-tw-casewr-uncoi county agenda-05152015.docx

Mr. Work,

I have reviewed your revised request for Comptroller approval of commissioner training hours. All ten sessions listed and described on the revised agenda are approved:

1. Duties of Commissioners (2 hours)
2. Ouster of Commissioners (1 hour)
3. Duties of Board and Auditors (1 hour)
4. GASB 62 Regulated Operations (1 hour)
5. Cost of Service (1 hour)
6. Implementation of GASB 68 (1 hour)
7. Internal Control and Compliance manual for TN Utility Districts (2.5 hours)
8. Financial Statement Basics (1 hour)
9. Taxation Issues Related to Employee Fringe Benefits and Updates (1 hour)
10. GASB 69 (0.5 hour)

The sessions appear to cover board governance, financial oversight, policy-making responsibilities, or topics reasonably related commissioner duties, as required by Tennessee law. Each session is approved for the length indicated on the draft agenda **as long as the content of the presentation takes up at least 50 minutes and any open-ended Q&A is limited to 10 minutes**. Total credit hours approved: 12 hours. Feel free to contact me if you have any further questions.

Betsy Knotts
Assistant General Counsel
Comptroller of the Treasury
Suite 1700, James K. Polk Building
505 Deaderick St.
Nashville, TN 37243
Phone: (615) 401-7954

From: Work, Dwight [<mailto:dwight.work@frazierdeeter.com>]
Sent: Friday, May 22, 2015 9:27 AM
To: Betsy Knotts
Subject: FW: Unicoi County Agenda update

Ms. Knotts:

Does the replacement below meet your approval? This is for the commissioner training event on June 2 and 3 for utility district natural gas commissioners and utility district water commissioners.

Thank you for your consideration. I wish for you a safe enjoyable holiday weekend.

Dwight

"please note our new phone number"

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From: Adams, Bob
Sent: Friday, May 22, 2015 6:17 AM
To: Work, Dwight
Subject: Uncoi County Agenda update

Dwight,

I have replaced the Governmental Bankruptcies with Financial Statement Basics. I have updated the file in Caseware. Below is what I updated.

Financial Statement Basics - 1 hour

This presentation will provide an overview of what the readers should look for on a full set of financial statements that are included in the audit report. Topics will include the management's discussion and analysis, the footnotes to the financial statements, supplemental information, and the internal control and compliance report. The General Report Outline as described in the State of Tennessee Local Government Audit Manual will also be discussed. The objective of this session is to provide participants the tools necessary to demonstrate suitable skill and knowledge to review financial statements.

Bob Adams, CPA

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DSW

Duties of Commissioners per the Tennessee Code – 2 hours

The Tennessee Code provides specific and general powers and duties related to Commissioners. This session will discuss those and powers and duties and provide participants with information related to the performance of their duties.

Ouster of Commissioners – 1 hour

This presentation will discuss the criteria for ouster of commissioners and provide guidance on avoiding actions that would lead to ouster proceedings.

Duties of Board and Auditors in the Audit Process – 1 hour

Management, the Board, and the Auditors have different duties when it comes to the audit process and the preparation of financial statements. This presentation will discuss the duties of each party.

GASB 62 Regulated Operations – 1 hour

The Regulated Operations section of GASB 62 provides guidance to governmental utilities that have regulated operations. This presentation will provide information as to how commissioners and management can comply with the requirements of GASB 62.

Cost of Service – 1 hour

There are typically two concepts of cost of service – overall cost of service and customer-specific cost of service. This presentation will discuss both concepts and explain why it is important to have an understanding of both concepts.

BA

Implementation of GASB 68 (employer pension accounting) and Discussion of the Future of OPEB plans – 1 hour

GASB Statement 68 (employer pension accounting) implementation will become effective in the upcoming year. This statement will have a significant impact on employers with defined benefit plans. Also in the pipeline are similar changes to accounting for OPEB liabilities. The objective of this session is to provide participants a roadmap of how these changes may impact their respective entities.

Internal control and compliance manual for TN utility districts – 2.5 hours

This presentation will provide information on a wide range of internal controls including information from the Internal Control and Compliance Manual for Tennessee Utility Districts which was released in December 2011. The objective of this session is to increase the participant's ability to oversee the entity's internal controls and to provide helpful information for the participant to strengthen their ability to help provide fiduciary oversight over the entity.

Financial Statement Basics - 1 hour

This presentation will provide an overview of what the readers should look for on a full set of financial statements that are included in the audit report. Topics will include the management's discussion and analysis, the footnotes to the financial statements, supplemental information, and the internal control and compliance report. The General Report Outline as described in the State of Tennessee Local Government Audit Manual will also be discussed. The objective of this session is to provide participants the tools necessary to demonstrate suitable skill and knowledge to review financial statements.

Taxation issues related to employee fringe benefits and updates – 1 hour

This presentation will focus on the Federal tax treatment of various employee benefits. Improper reporting of employee benefits can put governments at risk of compliance issues from oversight and taxing authorities. The objective of this session is to provide participants an overview of areas where a risk of noncompliance may exist.

GASB 69 – Governmental Combinations and Disposals of Government Operations – 0.5 hours

There is a fairly new standard from GASB providing guidance relating to acquisitions, mergers, and disposals of operations as they relate to governments. The objective of the session is to provide participants information on how these events will impact their financial statements.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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July 6, 2015

Respective Chairmen and Board Members
Water and Wastewater Financing Board
Utility Management Review Board
505 Deaderick Street
Nashville, TN 37243

Subject: Reevaluation of Uniform Depreciation Schedule
for Water and Wastewater Systems

Dear Board Members:

In 1989, the Water and Wastewater Financing Board and the Utility Management Review Board adopted the guidelines for evaluating the useful lives of assets for water and wastewater systems. These guidelines were based upon guidance provided for in the Code of Federal Regulations as well as recommendations from our office. Since then these guidelines have been used by the municipal, utility district and quasi governmental water and wastewater systems across the State of Tennessee.

Our office and the respective boards have received requests from different parties representing water and wastewater systems for a reevaluation and revision of the estimated lives provided for in our original guidelines in order to reflect more current estimations established by engineers. Historically engineer estimates have significantly exceeded our guidelines as it relates to certain water lines and other utility infrastructure assets. Engineering estimates are often related to current developments of advanced technologies and represent *anticipated* lives based upon those new developments.

In response, we have reevaluated the estimated useful lives for water and wastewater systems with a focus on utility infrastructure. As recommended by accounting standard setting bodies, we considered various sources including the current Code of Federal Regulations, engineer estimates, industry associations, and other governments in close proximity with similar infrastructure assets.

When estimating useful lives, accounting standards require that consideration should be given to several factors including the use of the asset, required maintenance and upgrades, planned replacements, and how long it is expected to meet service and technology demands based upon population growth and other factors.

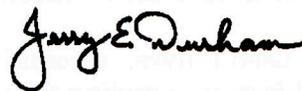
Based upon our reevaluation, we are recommending limited change to the original guidelines adopted by the boards. The underlying principles of financial responsibility and accountability require that water and wastewater systems account for and report their operations to adequately reflect the costs of running the system. We believe our proposed updates are reasonable in light of our research and experience with local water and wastewater systems.

<u>ASSET ACCOUNT</u>	<u>YEARS</u>
<i>Water Systems</i>	
Buildings (Office and Plant)	30-50
Equipment and Tools	10-15
Furniture and Fixtures	5-10
Machinery, Equipment and Vehicles	5-15
Pumps and Treatment Equipment	15-20
Transportation Equipment	5-10
Water Lines and Storage	40-50
Well / Dam	Engineer's Estimate
<i>Wastewater (Sewer) Systems</i>	
Buildings (Office and Plant)	30-50
Equipment and Tools	10-15
Furniture and Fixtures	5-10
Machinery, Equipment and Vehicles	5-15
Pumps and Treatment Equipment	15-20
Transportation Equipment	5-10
Wastewater (Sewer) System	40-50

We appreciate the concerns of local systems and their engineers. However, we believe the above useful lives represent estimates that will result in depreciation amounts that fairly represent the cost of providing water and wastewater utility services. Utility infrastructure replacements that are currently occurring across the state of Tennessee in response to excessive water losses reinforce our recommendations. We anticipate these revised guidelines will continue to provide a basis which our office and the Water and Wastewater Financing Board and Utility Management Review Board can use in establishing the minimum and maximum number of years to be used in depreciating capital assets for water and wastewater systems.

If we can be of additional assistance regarding this matter, please contact us. We look forward to hearing your views regarding our proposed changes.

Respectfully,



Assistant Director for Contract Review
Division of Local Government Audit