

**METROPOLITAN LYNCHBURG -
MOORE COUNTY
WATER AND SEWER DEPARTMENT**

Lynchburg, Tennessee

June 30, 2012

WINNETT
Associates, PLLC

Certified Public Accountants and Consultants

INTRODUCTORY SECTION

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OFFICIALS
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2012

UTILITY BOARD

Penny Smith - Chairman

Marty Copeland – Vice Chairman

Wayne Brandon

Coleman March

Oscar McGee

OTHER OFFICIALS

Rick Garland - Manager

Sandra Bedford - Office Manager

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Members of Utility Board
Metropolitan Lynchburg - Moore County
Water and Sewer Department
Lynchburg, Tennessee

We have audited the accompanying statement of net assets of Metropolitan Lynchburg - Moore County Water and Sewer Department as of June 30, 2012, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Metropolitan Lynchburg - Moore County Water and Sewer Department and are not intended to present fairly the financial position of Metropolitan Lynchburg - Moore County, Tennessee, and the results of its operations and changes in cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Metropolitan Lynchburg - Moore County Water and Sewer Department as of June 30, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2012, on our consideration of Metropolitan Lynchburg - Moore County Water and Sewer Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Metropolitan Lynchburg - Moore County Water and Sewer Department has not presented the management's discussion and analysis that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards and state financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole. The introductory section and the other schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Winnett Associates, LLC

September 11, 2012

STATEMENT OF NET ASSETS
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2012

<u>ASSETS</u>			
UTILITY PLANT:			
Utility plant in service - Notes B(2) and C	\$	16,069,030	
Less accumulated depreciation and amortization		(4,187,440)	
		11,881,590	
Construction in progress		88,900	\$ 11,970,490
CURRENT ASSETS:			
Cash - Note D		309,770	
Accounts receivable, net of allowance for uncollectible accounts of \$390 - Notes B(3) and I		113,225	
Grant receivable		574	
Other receivables		292	
Unbilled water and sewer charges		94,869	
Inventories - Note B(4)		56,768	
Prepaid insurance		5,488	
		TOTAL CURRENT ASSETS	580,986
OTHER ASSETS:			
Utility deposits		510	
Restricted cash - Note D		55,728	56,238
		TOTAL ASSETS	\$ 12,607,714
<u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES:			
Current maturities of long-term debt	\$	206,814	
Accounts payable		50,905	
Accrued wages, payroll taxes, and withholdings		14,034	
Accrued interest		8,352	
Accrued vacation pay		15,588	
Deferred fees		26,698	
Customer deposits - Note I		23,606	
		TOTAL CURRENT LIABILITIES	\$ 345,997
LONG-TERM DEBT:			
Revenue bonds - Note E		4,210,559	
Less: Deferred loan costs-Note B(5)		(41,183)	
Current portion		(64,768)	
		NET REVENUE BONDS	4,104,608
Notes payable - Note F		1,158,092	
Less current portion		(142,046)	
		NET NOTES PAYABLE	1,016,046
		NET LONG-TERM DEBT	5,120,654
		TOTAL LIABILITIES	5,466,651
NET ASSETS:			
Invested in capital assets, net of related debt		6,390,351	
Restricted for debt retirement		55,728	
Unrestricted		694,984	
		TOTAL NET ASSETS	7,141,063
		TOTAL LIABILITIES AND NET ASSETS	\$ 12,607,714

The accompanying notes are an integral part of this financial statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

**METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT**

For the year ended June 30, 2012

OPERATING REVENUES: - Note E

Water sales	\$ 1,316,457
Sewer service charges	241,923
Penalties	18,066
Service fees	9,085
Sanitation revenue	7,200
Tap connection fees	17,545
Pre-treatment income	9,952
Surcharges	59,961
Miscellaneous	3,671
Uncollectible accounts	<u>(1,021)</u>

TOTAL OPERATING REVENUES \$ 1,682,839

OPERATING EXPENSES:

General and administrative	265,881
Water operating expenses	852,208
Sewer operating expenses	176,241
Utility maintenance	<u>168,032</u>

TOTAL OPERATING EXPENSES 1,462,362

OPERATING INCOME 220,477

NONOPERATING REVENUES (EXPENSES):

Interest income	3,562
Interest expense	<u>(213,851)</u>

TOTAL NONOPERATING REVENUES (EXPENSES), NET (210,289)

INCOME (LOSS) BEFORE CONTRIBUTIONS, GRANTS, AND TRANSFERS 10,188

Tap fees in excess of cost	7,355
Contributions from developers	12,736
Grants	22,317
Transfers to Metropolitan Government	<u>(23,321)</u>

CHANGE IN NET ASSETS 29,275

TOTAL NET ASSETS - BEGINNING 7,111,788

TOTAL NET ASSETS - ENDING \$ 7,141,063

Provision for depreciation and amortization for the year totalled \$445,366.

The accompanying notes are an integral part of this financial statement.

STATEMENT OF CASH FLOWS
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

For the year ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers, including other funds	\$ 1,646,600	
Payments to suppliers	(541,612)	
Payments to or on behalf of employees	(498,216)	
NET CASH PROVIDED BY OPERATING ACTIVITIES		\$ 606,772

CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:

Transfers to Metropolitan Government		(23,321)
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	(210,579)	
Loan proceeds	109,683	
Borrowings repaid	(257,458)	
Contributions, grants, and transfers in aid of construction	47,512	
Interest paid	(214,126)	
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		(524,968)

CASH FLOWS FROM INVESTING ACTIVITIES:

Certificate of deposit	49,977	
Interest income	3,562	
NET CASH PROVIDED BY INVESTING ACTIVITIES		53,539
INCREASE IN CASH AND CASH EQUIVALENTS		112,022
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		146,587
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>\$ 258,609</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH

PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 220,477	
Depreciation and amortization	445,366	
Changes in operating assets and liabilities:		
Accounts receivable	(34,427)	
Other assets	13,489	
Accrued revenue	(23,148)	
Inventories	(8,500)	
Accounts payable	(5,366)	
Accrued wages and payroll taxes	(2,590)	
Accrued vacation pay	1,248	
Customer deposits and deferred fees	224	
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 606,772</u>	

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2012

NOTE A - GENERAL

These financial statements include the accounts of Metropolitan Lynchburg - Moore County Water and Sewer Department (the Department). The Department is owned by Metropolitan Lynchburg - Moore County, Tennessee (the Primary Government) and is governed by the Metropolitan Council and a Utility Board composed of members of the Council. The Department does not represent a separate legal entity separate and apart from the Primary Government.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Department conform to generally accepted accounting principles as applicable to enterprise funds. The Department applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB, in which case, GASB prevails. A proprietary activity may also elect to apply all FASB statements and interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The Department has not elected this option. The following is a summary of significant policies:

(1) Accounting Method

These financial statements have been prepared on the accrual basis of accounting. The Department accrues the unbilled revenue from the dates of the most recent meter readings to the balance sheet date.

(2) Utility Plant and Depreciation

Utility plant in service is reported at cost and includes improvements, with a cost in excess of \$3,000, that significantly add to utility plant or extend useful lives. Cost of maintenance and repairs are charged to expense, as are tap connection costs.

Depreciation is calculated by the straight-line method to allocate the cost of the assets over their estimated useful lives using guidelines set forth by the Utility Review Board. The estimated useful lives are as follows:

Structures	20-50 years
Utility plant other than structures and equipment	25-50 years
Equipment	5-10 years

(3) Allowance for Uncollectible Accounts

The Department provides an allowance for uncollectible accounts equal to estimated losses that will be incurred in collection of all receivables. The estimated losses are based on historical collection experience and a review of the current status of the outstanding receivables.

(4) Inventories

Inventories are stated at cost, first-in, first-out method.

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Amortization of Deferred Loan Costs

Deferred loan costs are being amortized, on the straight-line method, over the life of the bonds.

(6) Compensated Absences

The costs of vacation pay granted to employees are recorded as expenditures when earned.

(7) Cash Equivalents

For purposes of the statement of cash flows, the Department considers all highly liquid investments (including restricted assets) purchased with an original maturity of three months or less to be cash equivalents.

(8) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(9) Capitalized Interest

Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

- (10) Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Department are charges to customers for sales and services. The Department also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative and maintenance expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

- (11) As a general rule, when both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2012

NOTE C - UTILITY PLANT ADDITIONS AND RETIREMENTS

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions &</u> <u>Reclassifications</u>	<u>Retirements &</u> <u>Reclassifications</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital assets not being depreciated or amortized:				
Land and land rights	\$ 92,459			\$ 92,459
Construction in progress	<u>62,917</u>	<u>\$ 25,983</u>		<u>88,900</u>
Total capital assets not being depreciated or amortized	<u>155,376</u>	<u>25,983</u>	<u>\$ -</u>	<u>181,359</u>
Other capital assets:				
General	230,956	107,607		338,563
Water	13,355,669	47,625	3,296	13,399,998
Sewer	1,701,985	92,311		1,794,296
Maintenance	246,598	3,939	107,922	142,615
Acquisition adjustment	<u>301,099</u>			<u>301,099</u>
Utility plant	15,836,307	251,482	111,218	15,976,571
Less accumulated depreciation/amortization for:				
General	74,623	58,563		133,186
Water	2,398,315	354,749	3,547	2,749,517
Sewer	1,100,513	51,918	-	1,152,431
Maintenance	128,208	22,814	68,460	82,562
Acquisition adjustment	54,689	15,055	-	69,744
Total accumulated depreciation/amortization	<u>3,756,348</u>	<u>503,099</u>	<u>72,007</u>	<u>4,187,440</u>
Other capital assets, net	<u>12,079,959</u>	<u>(251,617)</u>	<u>39,211</u>	<u>11,789,131</u>
Capital assets, net	<u>\$ 12,235,335</u>	<u>\$ (225,634)</u>	<u>\$ 39,211</u>	<u>\$ 11,970,490</u>

NOTE D - CASH AND RESTRICTED FUNDS

The following is a summary of cash and restricted funds at June 30, 2012:

	<u>Cash Equivalents</u>	<u>Certificates of Deposit</u>	<u>Total</u>
Cash for general use:	\$ 257,881	\$ 51,889	\$ 309,770
Restricted funds:			
Bond reserve fund	<u>728</u>	<u>55,000</u>	<u>55,728</u>
	<u>\$ 258,609</u>	<u>\$ 106,889</u>	<u>\$ 365,498</u>

The Bond Reserve fund is restricted for future bond and interest payments. The Department has also designated \$204,693 to be used to fund capital asset replacements.

Legal Provisions: All deposits with financial institutions must be secured by one of two methods depending on whether the financial institution participates in the bank collateral pool

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2012

NOTE D - CASH AND RESTRICTED FUNDS (Continued)

administered by the state treasurer. Participating banks determine the aggregate balance of their public funds accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure. For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the Department.

Types of investments authorized: State statutes authorize the entity to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; the metropolitan government's own legally issued bonds or notes; the State Treasurer's Investment Pool; and repurchase agreements. The entity has no policy that would further limit its investments.

NOTE E - REVENUE BONDS

A summary of transactions for the year ended June 30, 2012, includes the following:

Balance - beginning of year	\$ 4,328,974
Bond payments	<u>(118,415)</u>
	\$ 4,210,559
Less current maturities	<u>(64,768)</u>
Revenue bonds, less current maturities - end of year	<u>\$ 4,145,791</u>

Details of water and sewer revenue bonds are as follows:

Series 1994 Water Revenue and Tax Bonds, 5.5%, payable \$462 per month including principal and interest with final maturity in 2032	\$ 66,192
Series 1997 Water Revenue and Tax Bonds, 4.875%, payable \$1,459 per month including principal and interest with final maturity in 2036	242,928
Series 2000 Water Revenue and Tax Bonds, 4.75% payable \$1,711 per month including principal and interest with final maturity in 2038	305,184

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2012

NOTE E - REVENUE BONDS (Continued)

Series 2001 Water Revenue and Tax Bonds, 4.75% payable \$1,012 per month including principal and interest with final maturity in 2040	186,594
Series 2006 Water Revenue and Tax Bonds, 4.25% payable \$4,652 per month including principal and interest with final maturity in 2045	981,767
Series 2008 Water Revenue and Tax Bonds, 4.12% payable \$8,700 per month including principal and interest with final maturity in 2046	1,887,439
Series 2008 Water Revenue and Tax Bonds, 4.625% payable \$2,606 per month including principal and interest with final maturity in 2047	540,455
	\$4,210,559

The bonds are payable from and secured primarily by a pledge of the net revenues of the Department; in the event such revenues are insufficient, the bonds are further secured by the taxing power of the Metropolitan Government.

The annual requirements to amortize principal and interest for all revenue bonds as of June 30, 2012, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 64,768	\$ 183,362
2014	67,949	179,191
2015	70,992	176,148
2016	74,173	172,968
2017	77,497	169,643
2018-2022	442,847	792,853
2023-2027	551,596	684,104
2028-2032	680,550	551,619
2033-2037	790,027	385,954
2038-2042	790,647	214,763
2043-2047	599,513	51,085
	\$4,210,559	\$3,561,690

Under provisions of the bond agreements, the Department is required to establish and maintain various funds as follows:

(a) Revenue Fund

All revenues are to be deposited in this fund and shall be disbursed for the establishment of the other required funds.

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2012

NOTE E - REVENUE BONDS (Continued)

(b) Operation and Maintenance Fund

The money transferred from the revenue fund is to be deposited to this fund for payment of current expenses. The maximum balance of this fund shall not exceed one-fourth of the amount budgeted for current expenses for the fiscal year.

(c) Bond Funds

The next monies available are to be used to establish bond funds to be used to pay the principal and interest on the bonds as such payments are due. As part of the Bond Funds, Debt Service Reserve Accounts are also to be funded in the amount of \$5,544 for the 1994 series, \$17,508 for the 1997 series, \$20,532 for the 2000 series, and \$12,144 for the 2001 series. All reserve accounts were funded as required at June 30, 2012.

As required by provisions of the bond agreements, the beginning and end of the year balances of the required funds are as follows:

	<u>June 30, 2011</u>	<u>June 30, 2012</u>
Revenue	\$ 240,591	\$ 307,881
Operation and Maintenance	1,866	1,899
Bond	60,996	55,728

Principal and interest payments for these revenue bonds as a percentage of pledged revenue totaled 18% for the year.

NOTE F - NOTES PAYABLE

The repayment schedule for the Department's office building loan with Farmers Bank, which bears interest of 3.23%, is as follows:

Year Ending	<u>Principal</u>	<u>Interest</u>
June 30,		
2013	\$ 13,743	\$ 317
2014	<u>2,256</u>	<u>6</u>
	<u>\$ 15,999</u>	<u>\$ 323</u>

Repayment schedules for loans the Department has with Moore County Bank are as follows:

Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
June 30,				
2013	\$ 34,829	\$ 3,850	\$ 8,101	\$ 827
2014	36,087	2,592	8,435	590
2015	37,389	1,290	8,681	346
2016	<u>15,912</u>	<u>160</u>	<u>7,449</u>	<u>93</u>
	<u>\$ 124,217</u>	<u>\$ 7,892</u>	<u>\$ 32,666</u>	<u>\$ 1,856</u>

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2012

NOTE F - NOTES PAYABLE (Continued)

The notes are secured by the full faith and credit of the Metropolitan Government of Lynchburg/Moore County and bear interest rates of 3.55% and 2.86% respectively.

The Department has a line of credit with Farmers Bank in the amount of \$300,000, bearing an interest rate of 2.34%. No draws have been made on this line as of June 30, 2012.

Metropolitan Lynchburg-Moore County, Tennessee (the Primary Government) has borrowed under the State's revolving loan program for the Department's construction projects. The principal and interest payments required under the terms of the first loan, which is secured by the Department's revenues and has a stated interest rate of 2.95%, are as follows:

	<u>Principal</u>	<u>Interest</u>
2013	\$ 41,688	\$ 17,760
2014	43,036	16,412
2015	44,323	15,125
2016	45,648	13,800
2017	47,013	12,435
2018-2022	257,011	40,229
2023-2025	<u>139,282</u>	<u>5,198</u>
Total	<u>\$618,001</u>	<u>\$120,959</u>

Principal and interest payments as a percentage of pledged revenue totaled 4% for the year for this loan.

The Department has borrowed \$127,447 on a second loan to finance sewer system improvements. As the project is still in process, the repayment schedule has not been finalized, but the obligation will be non-interest bearing.

The Department has purchased water lines from Winchester Utilities under three agreements which require the following payments.

2013	\$ 18,103	\$ 14,206	\$ 11,376
2014	18,103	14,206	11,375
2015	18,103	14,206	11,376
2016	18,103	14,206	11,375
2017	6,035	14,206	11,376
2018-2019	<u> </u>	<u>10,656</u>	<u>22,750</u>
Total	<u>\$ 78,447</u>	<u>\$ 81,686</u>	<u>\$ 79,628</u>

The obligations are non-interest bearing.

Notes payable activity for the year ended June 30, 2012, is as follows:

<u>Balance</u> <u>June 30, 2011</u>	<u>Draws</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2012</u>
\$1,187,451	\$109,683	\$139,042	\$1,158,092

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2012

NOTE F - NOTES PAYABLE (Continued)

The Department capitalized no interest cost during the current year.

NOTE G - RISK MANAGEMENT

The Department is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The Department obtains insurance coverage covering the above risks of loss through a public risk entity pool, Tennessee Risk Management Trust (TRMT), which is a public entity risk pool created under the auspices of the Tennessee Governmental Tort Liability Act to provide governmental insurance coverage. The creation of the TRMT provides for it to be self-sustaining through member premiums.

Settled claims in the past three years have not exceeded the coverage.

NOTE H - INCOME TAXES

As a governmental entity, the Department is exempt from federal, state and local income taxes.

NOTE I - SIGNIFICANT CONCENTRATIONS

The Department operates principally to distribute water to residents of Moore County, Tennessee. The Department grants credit to its customers, which at June 30, 2012, totaled \$113,225. Deposits from these customers, totaling \$23,606 at June 30, 2012, are held as security for these accounts receivable.

Water and sewer revenues from Jack Daniel Distillery account for approximately twenty-two percent of the Department's total water and sewer revenues.

NOTE J - ENVIRONMENTAL CONTINGENCY

The Department's facilities and operations are subject to a wide range of environmental protection laws related to the use and disposal of hazardous materials. As a result, there is the possibility that environmental conditions may arise which would require the Department to incur clean up costs. As in prior years, management continues its efforts to comply, and to determine compliance, with all applicable environmental protection laws and does not believe such costs, if any, would materially affect the Department's financial position or its future cash flows.

NOTE K - FUNDING APPROVAL

The Department has been approved for funding in the amount of \$1,615,000 from the State Revolving Loan Fund for sewer system improvements. Personnel reviewing the Department's request recommended that the Department generate additional revenue in order to service the loan. The Department has implemented rate increases in January 2010, 2011, and 2012 to generate the additional revenue needed.

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2012

NOTE L - TRANSFERS

In prior years the Metropolitan government provided funding to the Department to complete a water service expansion project. Surcharges to customers benefiting from the expansion have been collected by the Department and transferred to the Metropolitan government. The amount transferred for the year totaled \$23,321.

NOTE M - COMMITMENTS

The Utility Board has awarded a contract for Collection System Rehabilitation in the amount of \$1,100,740 to Cleary Construction Co. As of June 30, 2012, no costs had been incurred under this contract.

SUPPLEMENTARY INFORMATION

SCHEDULE OF INCOME - BUDGET AND ACTUAL
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

Year ended June 30, 2012

	Budget	Actual	Favorable (Unfavorable)
REVENUES			
Water sales	\$ 1,356,900	\$ 1,316,457	\$ (40,443)
Sewer service charges	237,544	241,923	4,379
Surcharges	59,000	59,961	961
Penalties	20,000	18,066	(1,934)
Pre-treatment income	10,000	9,952	(48)
Miscellaneous	4,648	3,671	(977)
Service fees	7,700	9,085	1,385
Sanitation revenue	7,200	7,200	-
Tap connection fees	20,000	17,545	(2,455)
Uncollectible accounts	(3,000)	(1,021)	1,979
TOTAL REVENUES	<u>1,719,992</u>	<u>1,682,839</u>	<u>(37,153)</u>
OPERATING EXPENSES			
General and administrative	267,548	265,881	1,667
Water operating expenses	843,509	852,208	(8,699)
Sewer operating expenses	176,323	176,241	82
Utility maintenance expenses	193,184	168,032	25,152
TOTAL OPERATING EXPENSES	<u>1,480,564</u>	<u>1,462,362</u>	<u>18,202</u>
Operating income	239,428	220,477	(18,951)
NONOPERATING INCOME (EXPENSE)			
Interest income	5,042	3,562	(1,480)
Interest expense	(216,425)	(213,851)	2,574
Total nonoperating income (expense), net	<u>(211,383)</u>	<u>(210,289)</u>	<u>1,094</u>
NET INCOME (LOSS) BEFORE			
CONTRIBUTIONS, GRANTS, AND TRANSFERS	28,045	10,188	(17,857)
Tap fees in excess of cost	-	7,355	7,355
Grants	-	22,318	22,318
Contributions from developers	-	12,736	12,736
Transfers to Metropolitan Government	(23,000)	(23,321)	(321)
	<u>\$ 5,045</u>	<u>\$ 29,275</u>	<u>\$ 24,231</u>

See independent auditor's report.

SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL

METROPOLITAN LYNCHBURG - MOORE COUNTY

WATER AND SEWER DEPARTMENT

Year Ended June 30, 2012

	Budget	Actual	Favorable (Unfavorable)
GENERAL AND ADMINISTRATIVE:			
Salaries and wages	\$ 135,809	\$ 136,590	\$ (782)
Payroll taxes and employee benefits	35,252	35,804	(552)
Telephone	6,800	6,183	617
Utilities	4,300	3,637	663
Depreciation and amortization	32,572	32,574	(2)
Insurance	1,100	1,073	27
Surety bond	265	-	265
Postage	12,000	10,338	1,662
Advertising	150	116	34
Office equipment service contract	5,300	5,289	11
Legal and professional fees	7,100	7,000	100
Maintenance and repair	1,600	1,678	(78)
Fuel	8,000	6,913	1,087
Supplies	9,000	10,882	(1,882)
General services	2,650	2,487	163
Vehicle maintenance and repair	1,500	1,401	99
Dues and subscriptions	2,800	2,764	36
Miscellaneous	1,350	1,151	199
GENERAL AND ADMINISTRATIVE	<u>267,548</u>	<u>265,881</u>	<u>1,667</u>
WATER:			
Plant operations:			
Salaries and wages	102,619	108,475	(5,856)
Payroll taxes and employee benefits	17,195	18,970	(1,775)
Telephone	2,750	2,101	649
Electricity	103,265	104,382	(1,117)
Treated water	60,000	58,447	1,553
Education	500	372	128
Chemicals	104,000	100,276	3,724
Depreciation	355,500	354,684	816
Maintenance and repair	7,000	6,917	83
Raw water	5,000	4,854	146
Postage	65	35	30
Advertising	850	808	42
Insurance	13,500	13,354	146
Lab expense	4,000	4,158	(158)
State fees	3,500	3,456	44
Miscellaneous supplies	2,800	2,336	464
Subscriptions and dues	160	160	-
	<u>782,704</u>	<u>783,785</u>	<u>(1,081)</u>
Distribution:			
Electricity	24,000	27,126	(3,126)
Meters and parts	5,400	4,747	653
Maintenance and repair	14,000	17,171	(3,171)
Tap connection and construction expense	15,000	16,950	(1,950)
Engineering fee	905	1,189	(284)
Lab fees	1,500	1,240	260
	<u>60,805</u>	<u>68,423</u>	<u>(7,618)</u>
WATER OPERATING EXPENSES	<u>\$ 843,509</u>	<u>\$ 852,208</u>	<u>\$ (8,699)</u>

See independent auditors' report.

SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL (Continued)

**METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT**

Year Ended June 30, 2012

	Budget	Actual	Favorable (Unfavorable)
SEWER:			
Plant Operations:			
Salaries and wages	\$ 33,036	\$ 34,537	\$ (1,501)
Payroll taxes and employee benefits	15,428	15,546	(118)
Telephone	1,600	1,563	37
Electricity	31,000	29,445	1,555
Education	310	310	-
Maintenance and repair	3,500	4,639	(1,139)
Vehicle maintenance and repair	200	114	86
Insurance	2,714	3,233	(519)
Postage	50	11	39
Miscellaneous supplies	2,000	1,924	76
Fuel	375	413	(38)
State fees	3,460	3,490	(30)
Pre-treatment expense	5,000	4,628	372
Depreciation	46,800	45,623	1,177
Chemicals	12,600	13,385	(785)
	<u>158,073</u>	<u>158,861</u>	<u>(788)</u>
Collection:			
Electricity	14,500	14,421	79
Maintenance and repair	3,000	2,364	636
Tap connections	750	595	155
	<u>18,250</u>	<u>17,380</u>	<u>870</u>
SEWER OPERATING EXPENSES	<u>176,323</u>	<u>176,241</u>	<u>82</u>
UTILITY MAINTENANCE			
Salaries and wages	107,409	102,133	5,276
Payroll taxes and employee benefits	44,551	44,819	(268)
Electricity	1,000	868	132
Insurance	2,035	2,035	-
Maintenance and repair	1,300	1,491	(191)
Education	-	55	(55)
Vehicle maintenance and repair	7,000	7,598	(598)
Depreciation	13,439	12,485	954
Fuel	8,750	9,480	(730)
Miscellaneous supplies	5,700	4,694	1,006
Utility maintenance tools	2,000	2,078	(78)
Allocable expenses	-	(19,704)	19,704
UTILITY MAINTENANCE EXPENSES	<u>193,184</u>	<u>168,032</u>	<u>25,152</u>
TOTAL OPERATING EXPENSES	<u>\$ 1,480,564</u>	<u>\$ 1,462,362</u>	<u>\$ 18,202</u>

See independent auditors' report.

SCHEDULE OF REVENUE BOND PRINCIPAL AND INTEREST REQUIREMENTS

**METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT**

June 30, 2012

Year Ending June 30,	Series 1994		Series 1997		Series 2000		Series 2001	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 1,951	\$ 3,583	\$ 5,791	\$ 11,717	\$ 6,146	\$ 14,386	\$ 3,354	\$ 8,790
2013	2,084	3,460	6,091	11,417	6,471	14,061	3,517	8,627
2014	2,201	3,343	6,395	11,113	6,785	13,747	3,687	8,457
2015	2,325	3,219	6,714	10,794	7,115	13,418	3,866	8,278
2016	2,456	3,088	7,048	10,460	7,460	13,072	4,054	8,090
2017	2,595	2,949	7,400	10,108	7,822	12,710	4,251	7,893
2018	2,741	2,803	7,768	9,740	8,202	12,330	4,457	7,687
2019	2,896	2,648	8,156	9,352	8,600	11,932	4,674	7,470
2020	3,059	2,485	8,562	8,946	9,017	11,515	4,901	7,243
2021	3,232	2,312	8,989	8,519	9,455	11,077	5,138	7,006
2022	3,414	2,130	9,437	8,071	9,914	10,618	5,388	6,756
2023	3,607	1,937	9,908	7,600	10,395	10,137	5,649	6,495
2024	3,810	1,734	10,402	7,106	10,900	9,632	5,924	6,220
2025	4,025	1,519	10,920	6,588	11,429	9,103	6,211	5,933
2026	4,252	1,292	11,465	6,043	11,984	8,548	6,513	5,631
2027	4,492	1,052	12,036	5,472	12,566	7,966	6,829	5,315
2028	4,746	798	12,636	4,872	13,176	7,356	7,161	4,983
2029	5,013	531	13,266	4,242	13,816	6,716	7,508	4,636
2030	5,296	248	13,928	3,580	14,486	6,046	7,873	4,271
2031	1,997	16	14,622	2,886	15,189	5,342	8,255	3,889
2032			15,351	2,157	15,927	4,605	8,656	3,488
2033			16,116	1,392	16,700	3,832	9,076	3,068
2034			16,920	588	17,511	3,021	9,517	2,627
2035			3,007	11	18,361	2,171	9,979	2,165
2036					19,252	1,280	10,463	1,681
2037					16,506	331	10,971	1,173
2038							11,504	540
2039							7,218	108
2041								
2042								
2043								
2044								
2045								
2046								
2047								
	\$ 66,192	\$ 41,147	\$ 242,928	\$ 162,774	\$ 305,185	\$ 224,952	\$ 186,594	\$ 148,520

See independent auditors' report.

<u>Series 2006</u>		<u>Series 2008</u>		<u>Totals</u>	
Principal	Interest	Principal	Interest	Principal	Interest
\$ 14,267	\$ 41,557	\$ 33,259	\$ 103,329	\$ 64,768	\$ 183,362
14,885	40,939	34,901	100,687	67,949	179,191
15,530	40,294	36,394	99,194	70,992	176,148
16,203	39,621	37,950	97,638	74,173	172,968
16,905	38,919	39,574	96,014	77,497	169,643
17,638	38,186	41,267	94,321	80,973	166,167
18,402	37,422	43,032	92,556	84,602	162,538
19,200	36,624	44,873	90,715	88,399	158,741
20,032	35,792	46,793	88,795	92,364	154,776
20,900	34,924	48,796	86,792	96,510	150,630
21,806	34,018	50,884	84,704	100,843	146,297
22,751	33,073	53,062	82,526	105,372	141,768
23,737	32,087	55,332	80,256	110,105	137,035
24,766	31,058	57,701	77,887	115,052	132,088
25,839	29,985	60,170	75,418	120,223	126,917
26,959	28,865	62,745	72,843	125,627	121,513
28,127	27,697	65,432	70,156	131,278	115,862
29,346	26,478	68,133	67,455	137,082	110,058
30,618	25,206	71,154	64,434	143,355	103,785
31,945	23,879	71,200	64,388	143,208	100,400
33,329	22,495	77,376	58,212	150,639	90,957
34,774	21,050	80,689	54,899	157,355	84,241
36,281	19,543	84,144	51,444	164,373	77,223
37,853	17,971	87,747	47,841	156,947	70,159
39,493	16,331	91,505	44,083	160,713	63,375
41,205	14,619	95,424	40,164	164,106	56,287
42,991	12,833	99,511	36,077	154,006	49,450
44,854	10,970	103,772	31,816	155,844	42,894
46,797	9,027	108,217	27,371	155,014	36,398
48,826	6,998	112,852	22,736	161,678	29,734
50,942	4,882	117,686	17,902	168,628	22,784
53,149	2,675	122,727	12,861	175,876	15,536
31,417	848	127,985	7,603	159,402	8,451
		65,963	2,960	65,963	2,960
		29,643	1,354	29,643	1,354
\$ 981,767	\$ 836,866	\$ 2,427,893	\$ 2,147,431	\$ 4,210,559	\$ 3,561,690

SCHEDULES
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2012

Schedule of Unaccounted For Water
(All amounts in gallons)

Water Treated and Purchased	
Water Pumped (potable)	187,513,000
Water Purchased	22,405,400
Total Water Pumped and Purchased	209,918,400
Accounted for Water	
Water Sold	147,388,390
Metered for Consumption (in house usage)	1,697,101
Fire Department/Public Usage	230,700
Flushing	7,201,558
Tank Cleaning/Filling	-0-
Street Cleaning	-0-
Bulk Sales	-0-
Water Bill Adjustments plus/minus	-0-
Total Accounted for Water	156,517,749
Unaccounted for Water	53,400,651
Percent Unaccounted for Water	25.4%

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

Schedule of Rates and Number of Customers

WATER RATES

First 2,000 gallons	\$ 20.35
All over 2,000 gallons	\$7.03per gallon

SEWER RATES

First 2,000 gallons	\$ 15.99
	\$7.99 per gallon

Number of customers at June 30, 2011:

Water	2,320
Sewer	311

See independent auditors' report.

SCHEDULE OF INSURANCE
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2012

Property	\$9,078,230
General Liability:	
Per occurrence for loss not limited by the tort liability act	1,000,000
Workman's Compensation	Statutory
Employers' Liability	1,000,000
Commercial Crime:	
Employee fidelity, depositors' forgery, and money orders and counterfeit papers	150,000
Business Auto:	
Liability - per occurrence for loss limited by the tort liability act	1,000,000
Physical damage	ACV
Public Official Liability (Errors or Omissions)	1,000,000
Boiler and Machinery	5,000,000

See independent auditors' report.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

METROPOLITAN LYNCHBURG-MOORE COUNTY WATER AND SEWER DEPARTMENT

Year ended June 30, 2012

Federal Grantor/ Pass-through Grantor	Program Name	CFDA Number	Grant Number
<u>FEDERAL AWARDS</u>			
Environmental Protection Agency/ Tennessee Department of Environment and Conservation	Capitalization Grants For Clean Water State Revolving Funds	66.458	CS47000110-0
<u>STATE FINANCIAL ASSISTANCE</u>			
Tennessee Department of Environment and Conservation	Capitalization Grants For Clean Water State Revolving Funds	N/A	CS47000110-0

TOTAL FEDERAL AND STATE AWARDS

Loans outstanding:

At June 30, 2012, there was an outstanding balance of \$618,001 on a loan obtained in a previous year through the State Revolving Loan Fund. Payments during the current fiscal year totaled \$40,488. The balance of the loan for the current project is \$127,447.

The schedule is presented using the accrual basis of accounting.

Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
\$ (16,715)	\$ 83,308	\$ 66,828	\$ (235)
(11,668)	53,796	42,467	(339)
<u>\$ (28,383)</u>	<u>\$ 137,104</u>	<u>\$ 109,295</u>	<u>\$ (574)</u>

**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**

Members of Utility Board
Metropolitan Lynchburg - Moore County
Water and Sewer Department
Lynchburg, Tennessee

We have audited the financial statements of Metropolitan Lynchburg - Moore County Water and Sewer Department (the Department) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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

We consider the following deficiency to be a material weakness in internal control over financial reporting:

Condition, Criteria, Cause and Effect: The Department does not employ anyone with training in preparing financial statements for external reporting in accordance with generally accepted accounting principles.

Recommendation: Management of the Department should determine whether it would be feasible to train or hire someone to be able to prepare financial statements in accordance with generally accepted accounting principles.

Management Response: At this time we do not believe the benefit of addressing this control deficiency would exceed the cost.

COMPLIANCE AND OTHER MATTERS

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

Metropolitan Lynchburg - Moore County Water and Sewer Department's response to the finding identified in our audit is described above. We did not audit Metropolitan Lynchburg - Moore County Water and Sewer Department's response and, accordingly, we express no opinion on it.

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

Winnett Associates, LLC

September 11, 2012