

**ANDERSON COUNTY WATER AUTHORITY
Clinton, Tennessee**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**For the Years Ended
June 30, 2013 and 2012**

PREPARED BY:

**Larry Clowers, General Manager
and
David Carr, CPA**

ANDERSON COUNTY WATER AUTHORITY
Clinton, Tennessee

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INTRODUCTORY SECTION



P. O. Box 70

Clinton, Tennessee 37717

Anderson County Water Authority

(865) 457-3033

November 4, 2013

Board of Directors of
Anderson County Water Authority
Clinton, Tennessee

State law and the Comptroller of the Treasury, State of Tennessee, requires that every political subdivision or municipal corporation publish within six months of the close of each fiscal year-end, a complete set of audited financial statements. This Comprehensive Annual Financial Report (CAFR) of the Anderson County Water Authority (the Authority) is published to fulfill these requirements for the fiscal years ended June 30, 2013 and 2012.

Internal Controls

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatements.

Independent Audit

Pugh & Company, P.C., CPA's has issued an unqualified ("clean") opinion on the Authority's financial statements for the years ended June 30, 2013 and 2012. As stated in the independent auditor's report, the audit was conducted in accordance with U.S. generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A)

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of MD&A. The Letter of Transmittal is designed to complement MD&A and should be read in conjunction with it. The Authority's MD&A can be found immediately following the Independent Auditor's Report.

Profile of the Authority

The Authority was created by the Tennessee General Assembly Private Act No. 40 and approved by the Anderson County Commission on July 16, 2007. The Authority started organizing activities on July 16, 2007, and began significant operations on January 1, 2009 and provides water and wastewater collection services to the unincorporated areas of Anderson County, Tennessee. The purpose of the Authority is to "acquire, construct, improve, extend, operate, and maintain a water system." The Authority's primary source of water is drawn from the Clinch River.

The Authority is governed by a Board of Directors composed of five citizens who reside in, or are customers, of the Authority. Board members are nominated by the Anderson County Mayor for a term of four years, subject to confirmation by the Anderson County Commission.

The Authority's primary capital assets consists of two water treatment plants, one office building, one wastewater treatment plant, and thirteen water reservoir tanks.

The Authority receives no financial support from Anderson County, Tennessee and has no taxing authority. The Authority's revenues are derived from water and wastewater charges based upon metered water consumption of customers. The water and wastewater rates are established by the Board of Directors.

Budgeting

The Authority adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with GAAP. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contributions, grants, borrowings and certain revenues for capital projects.

Local Economy

The Authority is located within the Knoxville Metropolitan Statistical Area (MSA) which includes Knox, Blount, Anderson, Sevier, Loudon and Union Counties. The Knoxville MSA is also the trade center for several counties in East Tennessee, and parts of Kentucky, Virginia and North Carolina.

For June 2013, the unemployment rates according to the U.S. Bureau of Labor Statistics for Anderson County, Tennessee, and the Nation were 8.6%, 8.1% and 8.2%, respectively.

Per capita income in 2012 for Anderson County, Tennessee, and the Nation was \$33,851, \$38,752, and \$43,735, respectively.

The Knoxville MSA has several large employers including the Tennessee Valley Authority, U.S. Department of Energy, Alcoa Aluminum, several hospitals, Clayton Homes, Denso, the University of Tennessee, and several regional shopping malls and centers.

Long-Term Financial Planning

The Authority has projected a 2% annual increase in the number of customers over the next several years. The Authority is planning several capital improvements including upgrading water and sewer lines, pump stations, and building additional water lines to provide new water service to various areas.

The financing of the Authority's capital improvements is by internally generated cash flows and the issuance of long-term debt.

Relevant Financial Policies

The combination of continued customer growth, moderate rate increases and the issuance of long-term debt are projected to provide the Authority with adequate resources to provide for the delivery of water and wastewater services and for capital improvements.

Major Initiatives

During FY 2014 the Authority plans to start construction of a 12 mile forced wastewater main line that will connect all of the Authority's sewer customers directly to the Clinton Utilities Board wastewater treatment plant which will reduce monthly treatment costs by 50%. This project is to be financed by a \$3,500,000 thirty year low interest rate loan, that includes a 20% principal debt forgiveness, with the State of Tennessee Revolving Loan Fund and is expected to save an estimated \$24,000 annually (net of debt service payments) in operating costs.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting. The Authority received this award for the third consecutive year for the FYE June 30, 2012. In order to be awarded a Certificate of Achievement, the Authority must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

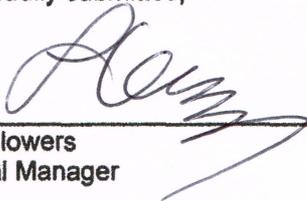
A Certificate of Achievement is valid for a period of only one year. We believe that our current comprehensive annual financial report will meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

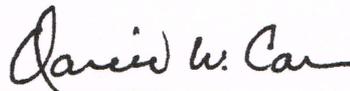
The preparation of this CAFR results from the combined efforts of our staff, accountant, and technical assistance provided by our independent auditors. Those involved have our sincere appreciation for the individual and collective contributions made in preparation of the report. Thank you very much for your professional dedication.

Recognition and appreciation are also extended to the Board of Directors for its continued guidance of the operation of the Authority in a financially responsible and progressive manner.

Respectfully submitted,



Larry Clowers
General Manager



David Carr, CPA
Accountant
WLC Certified Public Accountants, PC

ANDERSON COUNTY WATER AUTHORITY
ORGANIZATIONAL CHART
June 30, 2013

ACWA BOARD OF DIRECTORS

↓
Larry Clowers
General Manager
↔

Teresa Ridenour
Office Manager
↓
Tina Spears
Lori Noonan
Jeannie Gregory

Annelle Brown
HR Director
Payroll Officer

Vestel Mitchell
Distribution Supt. Chief
WTP Operator
↓
Harold Bray
Kirk Bray
Jerry Lindsey
Jamie Craig
Clayton Haney
Kevin Jeffers
Mike Manning
Jimmy Spears
Travis Nelson
Steve Phillips
Justin Brown

John Mitchell
Supt. Of Operations
↓
↔
Jeff Elliott
Supt. Wastewater
↓
Walter Sharp
Jon Martin
Randy Hensley
Steven Reed
Tony Parks
Wayne Smith

Gary Sharp
Fleet Manager
Operator

David Noonan
Safety Director
Meter Programmer

ANDERSON COUNTY WATER AUTHORITY
ROSTER OF AUTHORITY OFFICIALS AND OTHERS

June 30, 2013

Board of Directors

Curtis Perez, Chairman

Jack Shelton, Vice Chairman

Duane Stooksbury, Secretary

Jack D. Hill

Zenith R. Rose

Expiration of Term

September 30, 2013

September 30, 2015

September 30, 2013

September 30, 2016

September 30, 2015

Management

Larry Clowers, General Manager

Independent Auditors

Pugh & Company, P.C.
Certified Public Accountants
Knoxville, Tennessee

Accountant

David Carr, CPA
WLC Certified Public Accountants, PC
Oak Ridge, Tennessee

Bond Counsel

Bass, Berry and Sims, PLC
Attorneys at Law
Nashville, Tennessee

General Counsel

C. Coulter Gilbert, Esquire
Attorney at Law
Knoxville, Tennessee

Consulting Engineer

Robert G. Campbell, PE
Robert B. Campbell & Associates, LP
Knoxville, Tennessee



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Anderson County
Water Authority, Tennessee**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

A handwritten signature in black ink, which appears to read "Jeffrey R. Enew".

Executive Director/CEO

FINANCIAL SECTION

KNOXVILLE OFFICE:
315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660



PUGH & COMPANY, P.C.
www.pughcpas.com

OAK RIDGE OFFICE:
800 OAK RIDGE TURNPIKE – SUITE A404
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-769-1657

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Anderson County Water Authority
Clinton, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Anderson County Water Authority (the "Authority") which comprise the balance sheets as of June 30, 2013 and June 30, 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the 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 an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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 opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2013 and June 30, 2012 and the changes in its financial position and cash flows for the years 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 through 10 and the Schedule of Employer Pension Contributions and Schedule of Employer Pension Funding Progress on pages 32 and 33 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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 Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The introductory, other information and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements.

The information included in the introductory, other information and statistical sections as listed in the table of contents has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2013, on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
November 4, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of Anderson County Water Authority's (the Authority) financial condition and results of operations for the years ending June 30, 2013, 2012, and 2011. This information should be read in conjunction with the accompanying financial statements.

The Authority was created on July 16, 2007, by the Anderson County Commission and significant operations began on January 1, 2009. On July 10, 2008, the Board of Commissioners for the North Anderson County Utility District (NACUD) and Anderson County Utilities Board (ACUB), a part of Anderson County, entered into a consolidation agreement to merge their operations into the Authority with an effective date of January 1, 2009.

INDEPENDENT AUDIT

The unqualified opinion of our independent auditors, Pugh & Company, P.C., CPA's, is included in this report on pages 1 and 2.

FINANCIAL HIGHLIGHTS

Management believes the Authority's financial position is strong and results of operations continue to improve.

The Authority maintained good debt service coverage and was in compliance with all debt covenants. The following are key financial highlights:

- The Authority sold 733, 708 and 669 million gallons of water in 2013, 2012 and 2011.
- Total assets and deferred outflows of resources at June 30, 2013, 2012 and 2011 were \$25,279,598, \$24,824,892 and \$24,729,56 (as restated) and exceeded liabilities (net position), by \$16,569,391, \$15,953,328 and \$15,730,632, respectively. Of the total net position, \$2,687,448, \$2,511,511 and \$2,517,615 were unrestricted and were available to support short-term operations for 2013, 2012 and 2011. Net position increased in 2013 by \$, 2012 by \$ and 2011 by \$17,439, as restated.
- Operating revenues were \$5,029,783, \$5,009,134 and \$4,620,181 for 2013, 2012 and 2011.
- Operating expenses before depreciation were \$3,841,087, \$3,785,778 and \$3,625,626 for 2013, 2012 and 2011.
- Operating income was \$114,603, \$259,423 and \$79,177 for 2013, 2012 and 2011.
- The ratios of operating income to total operating revenues were 2.3%, 5.2% and 1.7% for 2013, 2012 and 2011.
- Debt service coverage ratio was 2.25 for 2013, 2.33 for 2012 and 2.38 for 2011.
- Cash capital contributions for 2013, 2012 and 2011 were \$197,528, \$121,799 and \$236,800, respectively. Noncash contributions recorded in 2013 were \$605,897.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF THE ANNUAL FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's budget, bond resolutions and other management information were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities.

The financial statements include a balance sheet; a statement of revenues, expenses and changes in net position; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the Authority on a full accrual basis of accounting. While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs.

The statement of cash flows presents cash receipt and cash disbursement information and changes in cash and cash equivalents resulting from operational, financing and investing activities.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The supplementary information provides information on debt service requirements and schedule of water rates and statistics.

The internal control and compliance section includes the auditor's report on the Authority's internal controls and compliance. Also included is the auditor's schedule of audit findings and recommendations.

SUMMARY OF ORGANIZATION AND BUSINESS

The Authority was created under the authority of the Tennessee General Assembly Private Act No. 40 and approved by the Anderson County Commission on July 16, 2007. The Authority began significant operations on January 1, 2009. The purpose of the Authority is to "acquire, construct, improve, extend, operate, and maintain a water system" in the unincorporated areas of Anderson County. The Authority serves approximately water customers and wastewater customers in Anderson County. The Authority's primary source of water is drawn from the Clinch River that forms Norris and Melton Hill lakes.

The Authority is governed by a Board of Directors composed of five citizens who reside in, or are current customers, of the Authority. All Board members are nominated by the Anderson County Mayor for a term of four years, subject to confirmation by the Anderson County Commission.

The Authority's main capital assets consist of approximately 625 miles of water lines, two water treatment plants, one office building, one wastewater treatment facility, and 13 water reservoir tanks.

The Authority receives no financial support from Anderson County, Tennessee and has no taxing authority. The Authority's revenues are derived from water charges based upon metered water consumption of customers. The water and wastewater rates are established by the Board of Directors.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information provides key financial data and indicators for management, monitoring, and planning. Net position may serve over time as a useful indicator of the Authority's financial position.

Condensed Balance Sheets
(In Thousands of Dollars)
June 30, 2013, 2012 and 2011

	<u>2013</u>	<u>(Restated) 2012</u>	<u>(Restated) 2011</u>
ASSETS AND DEFERRED OUTFLOWS			
Current Assets	\$ 3,138	\$ 3,137	\$ 6,000
Capital Assets:			
Producing - Net	21,736	21,205	18,164
Other Assets - Net	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets	<u>24,874</u>	<u>24,342</u>	<u>24,165</u>
Deferred Outflows of Resources			
Deferred Cost of Defeased Bonds	297	359	425
Deferred Cost of Refunded Bonds	<u>108</u>	<u>124</u>	<u>140</u>
Total Deferred Outflows of Resources	<u>406</u>	<u>483</u>	<u>564</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ <u>25,280</u>	\$ <u>24,825</u>	\$ <u>24,730</u>
 LIABILITIES			
Current Liabilities	\$ 643	\$ 581	\$ 491
Bonds Payable - Net of Current Portion	<u>8,068</u>	<u>8,290</u>	<u>8,508</u>
Total Liabilities	<u>8,710</u>	<u>8,872</u>	<u>8,999</u>
 NET POSITION			
Net Investment in Capital Assets	13,864	13,425	13,196
Restricted for:			
Debt Service	18	17	16
Capital Assets	0	0	0
Unrestricted	<u>2,687</u>	<u>2,512</u>	<u>2,518</u>
Total Net Position	<u>16,569</u>	<u>15,953</u>	<u>15,730</u>
TOTAL LIABILITIES AND NET POSITION	\$ <u>25,280</u>	\$ <u>24,825</u>	\$ <u>24,730</u>

The largest portion of the Authority's net position reflects its investment in capital assets, less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to repay long-term debt.

The unrestricted net position may be used to meet the obligations to employees and creditors and provide current operating resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS (Continued)

Condensed Statements of Revenues, Expenses, and Changes in Net Position
(In Thousands of Dollars)
For the Years Ended June 30, 2013, 2012, and 2011

	2013	(Restated) 2012	(Restated) 2011
Operating Revenues			
Water - Net	\$ 3,994	\$ 3,965	\$ 3,713
Wastewater - Net	736	733	641
Connection Fees	88	123	105
Customer Forfeited Discounts	105	111	87
Tap Fees	91	69	56
Other Charges and Fees	16	8	18
Total Operating Revenues	5,030	5,009	4,620
Operating Expenses			
Water Treatment, Transmission and Distribution	2,608	2,539	2,358
Wastewater Treatment	522	533	463
Customer Billing and Accounting	10	31	101
General and Administrative	701	682	704
Depreciation	1,074	964	915
Total Operating Expenses	4,915	4,749	4,541
Operating Income (Loss)	115	260	79
Non-Operating Revenues (Expenses)			
Gain (Loss) on Disposal of Capital Assets	53	37	12
Investment Income (Loss)	5	(2)	24
Interest Expense	(360)	(193)	(335)
Total Non-Operating Revenues (Expenses) - Net	(302)	(158)	(299)
Increase (Decrease) in Net Position Before Capital Contributions	(187)	102	(219)
Capital Contributions			
Cash	198	122	236
Non-Cash	606	0	0
Total Capital Contributions	803	122	236
Change in Net Position	616	224	16
Net Position, Beginning of Year, as Previously Reported	16,078	15,997	15,852
Prior Period Adjustment (See Note 18)	(125)	(133)	(138)
Net Position, Beginning of Year, As Restated	15,953	15,730	15,713
Net Position, End of Year	\$ 16,569	\$ 15,953	\$ 15,730

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OTHER SELECTED INFORMATION

Selected Data:

	2013	2012	2011
Full-Time Equivalent Employees at Year-End	29	29	31.50
Full-Time Average Employees for the Year	29	30.25	30
Customers at Year-End:			
Water	9,227	9,126	9,132
Wastewater	986	928	1,059
Water (Millions of Gallons)			
Treated and Purchased	1,122	1,132	1,048
Sold	733	708	669
Per Average Employee:			
Operating Revenues	\$ 173,441	\$ 165,591	\$ 154,006
Operating Expenses	\$ 169,489	\$ 157,015	\$ 151,367
Realized Rate per 1,000 Gallons of Water Consumed:	\$ 6.13	\$ 6.09	\$ 5.55
Ratio of Operating Revenues to:			
Operating Expenses	1.02	1.05	1.02
Operating Expenses Excluding Depreciation	1.31	1.32	1.27
Total Assets	0.20	0.20	0.19
Net Position	0.30	0.31	0.29
Debt Related Ratios:			
Long-Term Debt to Net Position	0.49	0.52	0.50
Long-Term Debt to Total Assets	0.32	0.33	0.33
Operating Coverage	2.25	2.33	2.38

GENERAL TRENDS AND SIGNIFICANT EVENTS

Customer growth in the Authority has remained strong over the last several years, especially in the eastern area of the district primarily in the Andersonville and Bethel area near I-75.

FINANCIAL CONDITION

The Authority's financial condition remained strong at year-end with adequate current assets and a reasonable level of unrestricted net position. The current financial condition, staff capabilities, operating plans and upgrade plans to meet future water quality requirements are well balanced and under control.

Accounts receivable, at year-end 2013, 2012, and 2011 was \$677,159, \$700,945 and \$670,894. At year-end 2013, 2012, and 2011, 66%, 68% and 60% of accounts receivable were current within 30 days. The Authority's provision for bad debt expense was \$54,098, \$7,568 and \$40,216 for 2013, 2012, and 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

RESULTS OF OPERATIONS

Operating Revenues

Revenues from operations fall into three general categories: water and wastewater service and ancillary charges. Ancillary charges include connection fees, account set up and customer forfeited discounts, and charges for miscellaneous billed services. During FY 2012, the Authority lowered the minimum monthly water billings from 2,000 to 1,500 gallons.

There was no increase in water rates during 2013, 2012, and 2011.

The average realized rate from water sales was \$6.13, \$6.09 and \$5.55 per thousand gallons in 2013, 2012, and 2011.

Capital Contributions

The Authority collects water connection fees in order to ensure that current customers do not bear the burden of growth. These fees are paid by new customers and represent the cost of service connectivity of the new customer. These fees are paid at the time a new water customer is connected to the system. In addition, the Authority accepts new water lines that are donated by residential and commercial real estate developers, and various federal, state and local government entities.

Capital contributions during 2013, 2012, and 2011, consisted of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash:			
Anderson County, TN	\$ 197,528	\$ 121,799	\$ 79,300
Greenview Village Development, LLC	<u>0</u>	<u>0</u>	<u>157,500</u>
Total Cash	<u>197,528</u>	<u>121,799</u>	<u>236,800</u>
Non-Cash:			
Anderson County, TN (Federal Grants)	<u>605,897</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 803,425</u>	<u>\$ 121,799</u>	<u>\$ 236,800</u>

Operating Expenses

Operating expenses, excluding depreciation, increased (decreased) by \$55,309 in 2013, \$160,152 in 2012, and \$(125,939) in 2011. This was a result of increases and (decreases) during 2013 and 2012 in:

	<u>2013</u>	<u>2012</u>
Electricity	\$ 115,398	\$ (10,580)
Salaries and Benefits	(96,157)	183,000
Wastewater Treatment Costs	(20,027)	111,771
Meter Reading Services	(18,245)	(79,010)
Chemicals	9,324	(12,895)
Other	<u>65,016</u>	<u>(32,134)</u>
Total	<u>\$ 55,309</u>	<u>\$ 160,152</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

RESULTS OF OPERATIONS (Continued)

CAPITAL ASSETS

The Authority is improving its water treatment, distribution and storage system to reduce water line loss and provide adequate capacity for future customer growth. In addition the Authority is improving its wastewater collection and treatment systems.

During 2013, 2012, and 2011, the Authority increased its capital assets before depreciation by \$653,597, \$3,264,798 and \$448,444. This increase is due to the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Office Building and Land	\$ 0	\$ 15,000	\$ 21,398
Water Reservoirs, Line Improvements & Extensions	327,897	2,361,086	246,205
Water Treatment Plant Improvements	0	801,928	146,454
Collection Lines and Equipment	320,300	0	0
Vehicles and Equipment	5,400	80,979	23,091
Office Furniture and Equipment	<u>0</u>	<u>5,805</u>	<u>11,296</u>
Total	<u>\$ 653,597</u>	<u>\$ 3,264,798</u>	<u>\$ 448,444</u>

The Authority's capital asset activity for 2013 and 2012 is described in Notes 3 and 4 to the financial statements.

DEBT

At June 30, 2013, 2012, and 2011, the Authority had \$8,277,558, \$8,495,299 and \$8,703,192 in bonds payable.

During 2011, the Authority issued \$8,650,000 Series 2010 Revenue Term Bonds to retire \$4,550,000 of outstanding Series 2008 Revenue Term Bonds and to provide approximately \$4,000,000 in additional funding for system wide capital improvements.

During 2013, 2012, and 2011, the Authority had \$360,087, \$193,613 and \$334,791 in interest expense.

The long-term debt to total assets ratio was .31, .32 and .33 at years-end 2013, 2012, and 2011, respectively.

More detailed information about the Authority's debt is described in Notes 7 and 8 to the financial statements.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

ECONOMIC FACTORS AND FISCAL YEAR 2014

- Number of water customers is projected to increase by 2% during 2014 due to the completion of the Park Road water line extension.
- The Board of Directors has approved a rate increase of \$.70 per 1,000 gallons, or 13% for water. In addition, the Board has also approved an increase of the meter installation charge to \$900 and an increase in sewer rates to pass through the TDEC surcharge that is charged to the Authority. These increases will be effective July 1, 2013, and management has estimated that they will combine to increase FY 2014 revenues by approximately \$280,000.
- FY 2014 Budget:

Revenues	\$	5,177,000
Expenses		<u>(5,177,000)</u>
Increase in Net Assets	\$	<u><u>0</u></u>

- The budget includes increases of 4% for salaries during 2014.
- The Authority plans to complete the Park Road project by June 2014. The Authority has approximately 11,000 feet left to construct of the Park Road line, which they estimate will cost approximately \$125,000 to complete and will add approximately 100 new water customers.
- The Authority plans to start construction of a 12 mile forced wastewater main line that directly connects the Authority’s sewer customers to the Clinton Utilities Board wastewater treatment plant which will reduce monthly treatment costs by 50%. This project is to be financed by a \$3,500,000 thirty-year low-interest-rate loan with the State of Tennessee Revolving Loan Fund and is expected to save an estimated \$24,000 annually (net of debt service payments) in operating costs.

CONTACTING THE AUTHORITY

This comprehensive annual financial report (CAFR) is designed to provide our customers, creditors and regulatory agencies with a general overview of the Authority's finances. If you have any questions about this report or need additional information, you may contact the Authority:

Mr. Larry Clowers, General Manager
 Anderson County Water Authority
 P.O. Box 70
 Clinton, TN 37716
 865-457-3033

BASIC FINANCIAL STATEMENTS

ANDERSON COUNTY WATER AUTHORITY

BALANCE SHEETS

	As of June 30,	<u>2013</u>	As Restated <u>2012</u>
ASSETS AND DEFERRED OUTFLOWS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$	1,904,596	\$ 1,908,276
Cash and Cash Equivalents - Restricted		45,099	277,199
Investments, Certificates of Deposit		341,379	200,116
Accounts Receivable - Customers (Net of Allowance for Uncollectible Accounts of \$123,490 for 2013 and \$90,000 for 2012.)		677,159	700,945
Accrued Interest Receivable		411	264
Inventories and Prepaid Expenses		<u>169,151</u>	<u>50,106</u>
Total Current Assets		<u>3,137,795</u>	<u>3,136,906</u>
NON-CURRENT ASSETS			
Capital Assets - Net		21,735,378	21,204,279
Utility Deposits		<u>635</u>	<u>635</u>
Total Non-Current Assets		<u>21,736,013</u>	<u>21,204,914</u>
TOTAL ASSETS		<u>24,873,808</u>	<u>24,341,820</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Cost of Defeased Bonds		297,352	359,486
Deferred Cost of Refunded Bonds		<u>108,438</u>	<u>123,586</u>
Total Deferred Outflows of Resources		<u>405,790</u>	<u>483,072</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$	<u><u>25,279,598</u></u>	\$ <u><u>24,824,892</u></u>

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

ANDERSON COUNTY WATER AUTHORITY

BALANCE SHEETS (Continued)

	As of June 30,	<u>2013</u>	As Restated <u>2012</u>
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable	\$	175,967	\$ 128,227
Accrued Liabilities		33,661	55,675
Accrued Bond Interest Payable		26,766	27,434
Compensated Absences Payable		46,920	38,502
Customer Deposits		149,335	126,427
Bonds Payable - Current Portion		<u>210,000</u>	<u>205,000</u>
Total Current Liabilities		642,649	581,265
NON-CURRENT LIABILITIES			
Bonds Payable - Net of Current Portion		<u>8,067,558</u>	<u>8,290,299</u>
Total Liabilities		<u>8,710,207</u>	<u>8,871,564</u>
NET POSITION			
Net Investment in Capital Assets		13,863,610	13,425,235
Restricted:			
Debt Service		18,333	16,582
Unrestricted		<u>2,687,448</u>	<u>2,511,511</u>
Total Net Position		<u>16,569,391</u>	<u>15,953,328</u>
TOTAL LIABILITIES AND NET POSITION	\$	<u>25,279,598</u>	\$ <u>24,824,892</u>

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

ANDERSON COUNTY WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	For the Years Ended June 30,	As Restated
	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Water - Net	\$ 3,993,754	\$ 3,965,496
Wastewater - Net	735,767	732,686
Connection Fees	87,590	123,143
Customer Forfeited Discounts	105,100	111,258
Tap Fees	91,210	68,650
Other Charges and Fees	16,362	7,901
Total Operating Revenues	<u>5,029,783</u>	<u>5,009,134</u>
OPERATING EXPENSES		
Water Treatment, Transmission, and Distribution	2,607,827	2,539,744
Wastewater Treatment	522,323	533,027
Customer Billing and Accounting	9,843	31,152
General and Administrative	701,094	681,855
Depreciation	1,074,093	963,933
Total Operating Expenses	<u>4,915,180</u>	<u>4,749,711</u>
OPERATING INCOME (LOSS)	<u>114,603</u>	<u>259,423</u>
NON-OPERATING REVENUES (EXPENSES)		
Gain (Loss) on Disposal of Capital Assets	53,126	36,915
Investment Income (Loss)	4,997	(1,828)
Interest Expense	(360,087)	(193,613)
Total Non-Operating Revenues (Expenses) - Net	<u>(301,964)</u>	<u>(158,526)</u>
INCREASE (DECREASE) IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	<u>(187,361)</u>	<u>100,897</u>
CAPITAL CONTRIBUTIONS		
Cash	197,528	121,799
Non-Cash	605,897	0
Total Capital Contributions	<u>803,425</u>	<u>121,799</u>
CHANGE IN NET POSITION	<u>616,064</u>	<u>222,696</u>
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	16,078,442	15,863,687
PRIOR PERIOD ADJUSTMENT (See Note 18)	<u>(125,115)</u>	<u>(133,055)</u>
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>15,953,327</u>	<u>15,730,632</u>
NET POSITION, END OF YEAR	<u>\$ 16,569,391</u>	<u>\$ 15,953,328</u>

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

ANDERSON COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 5,129,213	\$ 4,992,427
Payments to Employees	(1,739,079)	(1,636,798)
Payments to Suppliers	(2,240,460)	(2,081,775)
Net Cash Provided (Used) by Operating Activities	1,149,674	1,273,854
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	197,528	121,799
Acquisition and Construction of Capital Assets	(975,828)	(3,797,743)
Interest Paid on Revenue Bonds	(327,356)	(331,255)
Principal Paid on Revenue Bonds	(205,000)	(195,000)
Proceeds from Disposal of Capital Assets	61,468	36,915
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,249,188)	(4,165,284)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	4,997	19,194
Maturity (Purchase) of Investments	(141,263)	3,119,262
Net Cash Provided (Used) by Investing Activities	(136,266)	3,138,456
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(235,780)	247,026
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,185,475	1,938,449
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,949,695	\$ 2,185,475

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

ANDERSON COUNTY WATER AUTHORITY
STATEMENTS OF CASH FLOWS (Continued)

	For the Years Ended June 30,	<u>2013</u>	<u>2012</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF:			
Unrestricted Cash and Cash Equivalents	\$	1,904,596	\$ 1,908,276
Restricted Cash and Cash Equivalents		<u>45,099</u>	<u>277,199</u>
Total	\$	<u>1,949,695</u>	\$ <u>2,185,475</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$	114,603	\$ 259,423
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation		1,074,093	963,933
Provision for Uncollectible Receivables		54,099	7,569
Changes in:			
Accounts Receivable, Net of Charge Offs		(30,313)	(37,622)
Other Current Assets		(119,192)	0
Accounts Payable		47,740	65,245
Other Accrued Liabilities		(22,682)	7,676
Compensated Absences Payable		8,418	3,505
Customer Deposits		<u>22,908</u>	<u>4,125</u>
Net Cash Provided by Operating Activities	\$	<u>1,149,674</u>	\$ <u>1,273,854</u>
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES			
Amortization of Bond Premiums	\$	12,741	\$ 12,893
Amortization of Deferred Cost of Defeased Bonds		62,133	65,368
Amortization of Deferred Cost of Refunded Bonds		15,149	15,936
Contribution of Capital Assets by Anderson County		605,897	0
Capitalized Interest on Long-Term Construction Projects		31,809	206,055

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

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Anderson County Water Authority (the Authority) was created on July 16, 2007 by the Anderson County Commission under the authority of the Tennessee State Legislature Private Act No. 40 (House Bill No. 2388 and Senate Bill No. 2362) passed on May 7, 2007 and signed by the Governor on May 21, 2007.

On July 10, 2008, the Board of Commissioners for the North Anderson County Utility District (NACUD) and Anderson County Utilities Board (ACUB), a part of Anderson County, Tennessee, entered into a consolidation agreement to merge NACUD and ACUB into the Authority with an effective date of January 1, 2009. The Authority provides water and wastewater services to customers in the unincorporated areas of Anderson County, Tennessee.

The Authority's Board of Directors serves staggered four-year terms. The Anderson County Mayor nominates all five directors, which are subject to confirmation by the Anderson County Commission. Therefore, the Authority is considered a related organization of Anderson County as defined in Governmental Accounting Standards Board Statement No. 14 paragraph 68. However, Anderson County, Tennessee (the "County") does not have any fiscal or budgetary control over the Authority. In addition, the County does not approve or pledge assets to secure the debts of the Authority. The operations of the Authority are funded by water and wastewater rates established by the Authority's Board of Directors.

A summary of the major accounting policies of the Authority are presented as follows:

Basis of Accounting and Presentation - The Authority's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority 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 balance sheet. Net position (i.e., total assets and deferred outflows of resources, net of total liabilities and deferred inflows of resources, if any) are segregated into net investment in capital assets; restricted for capital asset activity and debt service; and unrestricted components.

Budgeting - The Authority adopts a flexible annual operating budget. The budget is adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The Authority's budget is not legally binding.

Management submits a proposed budget to the Authority's Board of Directors prior to the July Board meeting. A budget is adopted by resolution prior to July 1.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents, Deposits and Investments - Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, interest in State Treasurer's Investment Pool, certificates of deposit, and debt security investments with a maturity at purchase of three months or less.

Investments are reported at their fair value. Fair value is based upon quoted market prices. Realized gains and losses from the sale of investments are calculated separately from the change in the fair value using the specific identification method. Realized gains or losses in the current period include unrealized amounts from prior periods.

Restricted Assets - Restricted assets represent cash and investments maintained in accordance with bond resolutions, loan agreements, grant awards and other resolutions and formal actions of the Authority or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the system. Restricted assets are generally not available for current operating expenses.

Receivables and Revenues - Revenues are billed monthly to customers on a cyclical meter reading basis. Unbilled revenues are accrued for estimated usage from the last meter reading date to year-end.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Authority provides for estimated uncollectible receivables through a reduction of gross water revenues and a credit to an allowance based on its assessment of the current status of individual accounts and historical write-off experience. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Operating revenues consist of net water and wastewater revenues, forfeited discounts, inspection fees and various service fees. Connection (tap) fees are recorded as revenue to the extent of expenses incurred in connecting a customer to the system. Connection fees in excess of costs, if any, are recorded as cash capital contributions.

Non-operating revenue consists of investment income and gains (losses) on the sale or disposal of capital assets. Investment income is interest earned and the change in unrealized gains and losses on the fair value of marketable debt securities.

Expenses - Operating expenses consist of the cost of water treatment, storage and distribution. Other operating expenses include customer billing, collections, administrative and general and depreciation on capital assets.

Non-operating expenses consist of interest on long-term liabilities and loss on the disposal or impairment of capital assets.

Inventories - Material and supply inventories are stated at cost using the first in, first out method. Incidental supplies are not included in inventory.

Capital Assets - Property, plant and equipment in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to fair market value.

Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment are expensed as incurred.

Interest is not capitalized on project costs funded by contributed capital, such as grants, gifts and impact fees. Interest costs of tax-exempt borrowings are capitalized, net of related investment earnings on the proceeds, during the construction period. Depreciation is not recorded until the assets are actually put into use.

The Authority defines a capital asset as an asset with an initial individual cost, or a project with a cumulative cost of more than \$5,000 and an estimated useful life in excess of one year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Water and Wastewater Treatment Plants	40-50
Transmission and Distribution Lines	40-50
Meters	10-15
Vehicles	5-10
Machinery and Equipment	5-20
Buildings and Improvements	15-40
Office Furniture and Equipment	5-10

Long-Term Obligations and Costs - Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts and gains or losses on advance or current refundings or defeasances are deferred and amortized over the life of the related bonds.

Compensation Absences - Accumulated vacation eligible to be paid to employees at termination is recorded as an expense and liability as the benefits are earned. The Authority has assumed a first-in, first-out method of using accumulated compensated time and the related liability has been recorded as a liability in the financial statements.

Contributions - Contributions are recognized in the statement of revenues, expenses and changes in net position when earned. Contributions include developer contributed utility systems, capacity and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

Presentation of Certain Taxes - The Authority collects various taxes from customers and remits these amounts to applicable taxing authorities. The Authority's accounting policy is to include these taxes in revenues and cost of sales.

Deferred Outflows/Inflows of Resources - In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position - Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted for capital activity and debt service; and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and deferred outflows of resources and deferred inflows of resources and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets; debt or deferred inflow of resources attributable to unspent proceeds or other restricted cash and investments are excluded from the determination. Restricted for capital activity and debt service consists of net positions for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Net Position Flow Assumption - Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted resources are available for use, it is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

New Accounting Governmental Accounting Standards Board Pronouncements

GASB Statement No. 62 - During the fiscal year ended June 30, 2013, the Authority implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance, included in certain FASB and AICPA pronouncements issued prior to November 30, 1989, which does not conflict with or contradict GASB pronouncements.

GASB Statement No. 63 - During the fiscal year ended June 30, 2013, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting the balance sheets and statements of revenues, expenses and changes in net position.

GASB Statement No. 65 - During the fiscal year ended June 30, 2013, the Authority implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Restatement and Reclassification of Comparative Financial Statements - The 2012 balance sheet and statement of revenues, expenses and changes in net position have been restated to record prior period adjustments related to implementing new GASB statements as described above and in Note 18. In addition, certain items in the 2012 financial statements may have been reclassified to conform to the 2013 financial statements.

Evaluation of Subsequent Events - Management has evaluated subsequent events through November 4, 2013, which is the date the financial statements were available to be issued (see Note 17).

NOTE 2 - DEPOSITS AND INVESTMENTS

Tennessee Code Annotated (TCA) Section 7-82-108 and bond covenants restrict the types of depositories and investment securities available to the Authority. State statutes and bond indentures limit depositories to state or national banks, or credit unions located in the United States. The types of deposits and investments permitted are certificates of deposit, repurchase agreements in governmental obligations, money market accounts, state local government investment pool (SLGIP), obligations of states, municipalities, U.S. Government and federal agency debt securities.

At June 30, 2013 and 2012, the Authority had the following bank deposits and investments:

	2013	2012
Deposits:		
Demand Deposits	\$ 1,949,695	\$ 2,185,475
Certificates of Deposit	341,379	200,116
Total	<u>\$ 2,291,074</u>	<u>\$ 2,385,591</u>

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

A summary of the bank deposits and investments on the balance sheets at June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash and Cash Equivalents	\$ 1,904,596	\$ 1,908,276
Cash and Cash Equivalents - Restricted	45,099	277,199
Investments	<u>341,379</u>	<u>200,116</u>
Total	<u>\$ 2,291,074</u>	<u>\$ 2,385,591</u>

Restricted Cash Equivalents and Investments - The restricted cash and cash equivalents and investments are for construction projects and also for required reserves by various covenants of the revenue bonds and are to be used solely for the repayment of debt and capital improvements.

Custodial Credit Risk - Deposits - The Authority's deposits, with a carrying amount of \$2,291,074 and \$2,385,591 at June 30, 2013 and 2012, respectively, were covered by FDIC insurance, pledged investment collateral held in safekeeping by a custodial bank, or by the bank collateral pool administered by the Treasurer of the State of Tennessee. The bank may use one of three different pledged security levels (90, 100 or 105%) depending on the specific bank holding the deposit. Participating banks determine the aggregate balance of their public fund accounts for the Authority. 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 individual 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 and classified as Category 1, under GASB Statement No. 40, for purposes of custodial credit risk disclosure.

Investment Income (Loss) - Investment income (loss) for 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Interest Income	\$ 4,997	\$ 21,022
Realized Gains (Losses), Net	<u>0</u>	<u>(22,850)</u>
Total	<u>\$ 4,997</u>	<u>\$ (1,828)</u>

Investment Policies

Custodial Credit Risk: The Authority's investment policy requires that investment securities be registered in the name of Anderson County Water Authority. All safekeeping receipts for investment instruments are held in accounts in the Authority's name and all securities are registered in the Authority's name.

Credit Risk: The Authority's investment policy and state law limits investments in non-federal obligations to issuers that are rated in the two highest rating categories by a nationally recognized rating agency of such obligations.

Interest Rate Risk: The Authority's Investment Policy limits its holdings to obligations having a final maturity on the date of investment of not to exceed forty-eight (48) months. Investments are made based upon prevailing market conditions with the intent to hold the instrument until maturity. If the performance of the portfolio can be improved upon by the sale of an investment prior to maturity, the policy allows for the implementation of this strategy. The Authority uses the specific identification method to manage interest rate risk.

Concentration of Credit Risk: The Authority's Investment Policy has no limit to its exposure to various investment debt securities as a whole or individually.

The Authority's Investment Policy does not require diversification among authorized investment broker-dealers. Presently, the Authority has selected Raymond James, Inc. as its authorized broker-dealer.

NOTE 3 - CAPITAL ASSETS

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2013 was as follows:

	Balance 7/1/12	Additions and Transfers	Deletions, Retirements and Transfers	Balance 06/30/13
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 390,134	\$ 0	\$ 0	\$ 390,134
Construction in Progress	739,002	960,309	(908,319)	790,992
Total Capital Assets Not Being Depreciated	1,129,136	960,309	(908,319)	1,181,126
Capital Assets Being Depreciated:				
Water System:				
Mains, Lines and Reservoirs	11,573,222	327,897	783,958	12,685,077
Treatment Facilities	19,659,697	0	39,056	19,698,753
Wastewater System:				
Collection Lines and Equipment	4,048,572	320,300	0	4,368,872
Treatment Facilities	300,591	0	0	300,591
Other:				
Building and Improvements	537,025	0	(91,765)	445,260
Machinery and Equipment	307,050	0	0	307,050
Vehicles	682,384	5,400	58,676	746,460
Office Furniture and Equipment	184,317	0	6,811	191,128
Total Capital Assets Being Depreciated	37,292,858	653,597	796,736	38,743,191
Less Accumulated Depreciation:				
Water System:				
Mains, Lines and Reservoirs	4,414,358	344,631	0	4,758,989
Treatment Facilities	10,451,448	511,936	(83,423)	10,879,961
Wastewater System:				
Collection Lines and Equipment	1,327,025	105,400	0	1,432,425
Treatment Facilities	141,902	6,687	0	148,589
Other:				
Building and Improvements	28,119	12,890	0	41,009
Machinery and Equipment	250,696	17,838	0	268,534
Vehicles	468,626	59,540	(19,818)	508,348
Office Furniture and Equipment	135,541	15,543	0	151,084
Total Accumulated Depreciation	17,217,715	1,074,465	(103,241)	18,188,939
Total Capital Assets Being Depreciated - Net	20,075,143	(420,868)	899,977	20,554,252
Total Capital Assets	\$ 21,204,279	\$ 539,441	\$ (8,342)	\$ 21,735,378

Depreciation expense was \$1,074,093 for 2013.

NOTE 3 - CAPITAL ASSETS (Continued)

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2012, was as follows:

	Balance 07/01/11	Additions and Transfers	Deletions, Retirements and Transfers	Balance 06/30/12
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 375,134	\$ 15,000	\$ 0	\$ 390,134
Construction in Progress	<u>1,439,986</u>	<u>739,002</u>	<u>(1,439,986)</u>	<u>739,002</u>
Total Capital Assets Not Being Depreciated	<u>1,815,120</u>	<u>754,002</u>	<u>(1,439,986)</u>	<u>1,129,136</u>
Capital Assets Being Depreciated:				
Water System:				
Mains, Lines and Reservoirs	7,970,536	2,361,086	1,241,600	11,573,222
Treatment Facilities	18,659,383	801,928	198,386	19,659,697
Wastewater System:				
Collection Lines and Equipment	4,048,572	0	0	4,048,572
Treatment Facilities	300,591	0	0	300,591
Other:				
Buildings and Improvements	537,025	0	0	537,025
Machinery and Equipment	302,996	4,054	0	307,050
Vehicles	605,459	76,925	0	682,384
Office Furniture and Equipment	<u>178,512</u>	<u>5,805</u>	<u>0</u>	<u>184,317</u>
Total Capital Assets Being Depreciated	<u>32,603,074</u>	<u>3,249,798</u>	<u>1,439,986</u>	<u>37,292,858</u>
Less Accumulated Depreciation:				
Water System:				
Mains, Lines and Reservoirs	4,160,560	253,798	0	4,414,358
Treatment Facilities	9,962,091	489,357	0	10,451,448
Wastewater System:				
Collection Lines and Equipment	1,225,914	101,111	0	1,327,025
Treatment Facilities	135,215	6,687	0	141,902
Other:				
Buildings and Improvements	14,322	13,797	0	28,119
Machinery and Equipment	225,344	25,352	0	250,696
Vehicles	410,736	57,890	0	468,626
Office Furniture and Equipment	<u>119,598</u>	<u>15,943</u>	<u>0</u>	<u>135,541</u>
Total Accumulated Depreciation	<u>16,253,780</u>	<u>963,935</u>	<u>0</u>	<u>17,217,715</u>
Total Capital Assets Being Depreciated - Net	<u>16,349,294</u>	<u>2,285,863</u>	<u>1,439,986</u>	<u>20,075,143</u>
Total Capital Assets	<u>\$ 18,164,414</u>	<u>\$ 3,039,865</u>	<u>\$ 0</u>	<u>\$ 21,204,279</u>

Depreciation expense was \$963,933 for 2012.

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress at June 30 consisted of:

Projects	2013		2012	
	Actual To Date	Remaining Contractual Commitments	Actual To Date	Remaining Contractual Commitments
Mt. Olive Water Line	\$ 0	\$ 0	\$ 48,642	\$ 0
Park Road Water Line	762,390	0	474,516	0
Sewer Mapping	0	0	77,133	0
Laurel Road Pump Station	0	0	106,763	0
Braden Flats	9,747	0	0	0
Various Projects	18,855	0	31,948	0
Total Construction in Progress	\$ 790,992	\$ 0	\$ 739,002	\$ 0

NOTE 5 - GAIN (LOSS) ON DISPOSAL OF CAPITAL ASSETS

The Authority's gain (loss) on disposal of capital assets for 2013 and 2012 was as follows:

	2013	2012
Sales Proceeds	\$ 61,468	\$ 36,915
Less: Net Book Value of Capital Asset	(8,342)	0
Net Gain (Loss)	\$ 53,126	\$ 36,915

The sales in 2012 were old customer water meters that were part of the system wide water meter replacement program. The majority of the sales proceeds in 2013 were from the sale of the old NACUD office building.

NOTE 6 - ACCRUED LIABILITIES

Accrued liabilities at year-end 2013 and 2012 consisted of the following:

	2013	2012
Sales Taxes Payable	\$ 33,661	\$ 35,023
Accrued Salaries and Payroll Taxes	0	20,652
Total	\$ 33,661	\$ 55,675

NOTE 7 - LONG-TERM DEBT

Long-term debt at June 30, 2013 and 2012, consisted of the following

Revenue Bonds

	<u>2013</u>	<u>2012</u>
Revenue Term Bonds Series 2010 of \$8,650,000 with an interest rate of between 2% to 5%. Semi-annual payments on June 1 and December 1 through June 1, 2036. Principal payments are annually deposited with the bond trustee on June 1, ranging from \$165,000 to \$555,000. Interest is paid semi-annually ranging from \$167,167 to \$13,875.	\$ 8,085,000	\$ 8,290,000
Add: Unamortized Bond Premium	<u>192,558</u>	<u>205,299</u>
Total	<u>\$ 8,277,558</u>	<u>\$ 8,495,299</u>
Current Portion	\$ 210,000	\$ 205,000
Long-Term	<u>8,067,558</u>	<u>8,290,299</u>
Total	<u>\$ 8,277,558</u>	<u>\$ 8,495,299</u>

The Authority has pledged revenues as collateral for the Revenue Term Bonds Series 2010. The bond holders have placed a statutory lien upon the Authority as permitted by TCA, Section 7-28-101, and will remain in effect until the bond issue is paid in full. There is a bond covenant, which requires a minimum debt service coverage ratio of 1.2, the ratio for 2013 and 2012 was 2.25 and 2.33.

Activity

The following is a summary of changes in long-term debt for 2013 and 2012:

<u>2013</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Revenue Bonds	\$ 8,290,000	\$ 0	\$ (205,000)	\$ 8,085,000	\$ 210,000
Add: Bond Premium	<u>205,299</u>	<u>0</u>	<u>(12,741)</u>	<u>192,558</u>	<u>0</u>
Total	<u>\$ 8,495,299</u>	<u>\$ 0</u>	<u>\$ (217,741)</u>	<u>\$ 8,277,558</u>	<u>\$ 210,000</u>
<u>2012</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Revenue Bonds	\$ 8,485,000	\$ 0	\$ (195,000)	\$ 8,290,000	\$ 205,000
Add: Bond Premium	<u>218,192</u>	<u>0</u>	<u>(12,893)</u>	<u>205,299</u>	<u>0</u>
Total	<u>\$ 8,703,192</u>	<u>\$ 0</u>	<u>\$ (207,893)</u>	<u>\$ 8,495,299</u>	<u>\$ 205,000</u>

NOTE 7 - LONG-TERM DEBT (Continued)

Debt Service

The Annual debt service requirements of the bonds payable as of June 30, 2013, are as follows:

Years Ending June 30,	Principal	Interest	Total
2014	\$ 210,000	\$ 321,188	\$ 531,188
2015	220,000	316,988	536,988
2016	235,000	312,588	547,588
2017	245,000	307,888	552,888
2018	255,000	302,375	557,375
2019-2023	1,405,000	1,393,100	2,798,100
2024-2028	1,755,000	1,094,550	2,849,550
2029-2033	2,180,000	707,000	2,887,000
2034-2036	1,580,000	160,750	1,740,750
Total	<u>\$ 8,085,000</u>	<u>\$ 4,916,427</u>	<u>\$ 13,001,427</u>

Interest Expense

Interest expense for 2013 and 2012 consisted of the following:

	2013	2012
Interest Paid	\$ 325,287	\$ 329,188
Less: Capitalization of Construction Period Interest	(31,809)	(206,055)
Amortization of Bond Premium	(12,741)	(12,893)
Amortization of Deferred Cost of Defeasance	62,133	65,368
Amortization of Deferred Refunding Loss	15,148	15,936
Debt Servicing Fees	2,069	2,069
Total	<u>\$ 360,087</u>	<u>\$ 193,613</u>

The amortization of the deferred cost of defeasance is related to an advance refunding of debt as described in Note 8. The amortization of refunding costs is due to a current refunding of debt that occurred during FY 2011.

Restricted Cash Equivalents - Debt Service

The Revenue Term Bonds – Series 2010, require the Authority to make mandatory semi-annual sinking fund payments to the bond trustee, Regions Bank, who is responsible for paying the bondholder when the term bond matures on June 1, 2036.

The Authority is required by various bond covenants to maintain the following restricted cash and cash equivalents at June 30, 2013 and 2012:

	2013	2012
Bond Principal and Interest Payment Account	<u>\$ 45,099</u>	<u>\$ 44,016</u>

NOTE 8 - DEFEASANCE OF DEBT

Advanced Refunding

The following advanced refunded debt was considered extinguished at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Water Revenue and Refunding Bonds - Series 2004 of \$4,395,000 (assumed NACUD debt) with a final (original) maturity on January 1, 2019, and a call date on January 1, 2014. Regions Bank is the paying agent.	\$ <u>1,920,000</u>	\$ <u>2,225,000</u>

On December 31, 2008, the Authority placed \$3,355,507 of funds with the escrow agent (Regions Bank) which was used to purchase State and Local Government Securities (SLGS) for the purpose of generating resources for future debt service payments of \$3,540,450. Future payments consist of annual bond principal maturities of between \$275,000 to \$305,000 on January 1, 2010 through January 1, 2013, and a final principal redemption of \$1,920,000, which requires a call premium of 1%, on the call date of January 1, 2014. As a result, the advanced refunded bonds are considered to be defeased and the liability has been removed from the Authority's balance sheet. The escrowed investment securities exceeded the net carrying amount of the old debt by \$595,687. This amount is being amortized over the original life of the old NACUD Series 2004 debt issue through January 1, 2019, using the stated interest required method.

Due to the additional eight years until maturity in 2026, the refunding increased total aggregate debt service payment by \$736,263. In addition, the Authority incurred an economic loss, the difference between the present values of the old and new debt service payments of \$145,899.

NOTE 9 - COMPENSATED ABSENCES

Changes in compensated absences for the years ended June 30, 2013 and 2012, consisted of:

	<u>2013</u>	<u>2012</u>
Beginning Balance	\$ 38,502	\$ 34,997
Earned	79,531	81,740
Used	<u>(71,113)</u>	<u>(78,235)</u>
Ending Balance	<u>\$ 46,920</u>	<u>\$ 38,502</u>

NOTE 10 - NET POSITION

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources, if any. The net position at June 30, 2013 and 2012 were as follows:

	<u>2013</u>	<u>(Restated) 2012</u>
Invested in Capital Assets, Net of Related Debt:		
Net Property, Plant and Equipment in Service	\$ 21,735,378	\$ 21,204,279
Less: Revenue Bonds Payable - Net of Unamortized		
Cost of Defeasance & Refunding Loss	(7,871,768)	(8,012,227)
Add: Debt Proceeds to be Used for Capital Assets	<u>0</u>	<u>233,183</u>
	<u>13,863,610</u>	<u>13,425,235</u>
Restricted for Debt Service:		
Restricted Cash and Cash Equivalents	45,099	44,016
Less: Accrued Interest Payable - Revenue Bonds	<u>(26,766)</u>	<u>(27,434)</u>
	<u>18,333</u>	<u>16,582</u>
Restricted for Capital Asset Activity:		
Restricted Cash and Cash Equivalents	0	233,183
Restricted Investments	0	0
Less: Debt Proceeds to be Used for Capital Assets	0	(233,183)
Accounts Receivable - Capital Contribution	<u>0</u>	<u>0</u>
	<u>0</u>	<u>0</u>
Unrestricted	<u>2,687,448</u>	<u>2,511,511</u>
Total	<u>\$ 16,569,391</u>	<u>\$ 15,953,328</u>

NOTE 11 - CAPITAL CONTRIBUTIONS

Cash

During 2013 and 2012, the Authority received contributed capital cash of \$91,926 and \$121,799, respectively, from Anderson County, TN (the "County") to extend water service to Park Road which is part of construction in progress at year-end 2013 and 2012.

Also during 2013, the Authority received contributed capital in the form of cash payments from Anderson County, TN related to federal grants for the construction of water lines for New River Road Phase II (funded by the Office of Surface Mining and the County) and the Claxton Business District wastewater line project (funded by the Appalachian Regional Commission and the County). The contributed capital cash received by the Authority for the New River Road Phase II project was \$62,402 and the Claxton Business District wastewater line project was \$43,200.

NOTE 11 - CAPITAL CONTRIBUTIONS (Continued)

Noncash

The non-cash contributions from the County funded by the federal grants described above were valued at \$285,597 for the New River Road Phase II water line, and \$320,300 for the Claxton Business District wastewater line, based on actual costs incurred.

Capital contributions are summarized as follows:

	<u>2013</u>	<u>2012</u>
Cash:		
Anderson County, TN	\$ <u>197,528</u>	\$ <u>121,799</u>
Non-Cash:		
Anderson County, TN	<u>605,897</u>	<u>0</u>
Total	<u>\$ 803,425</u>	<u>\$ 121,799</u>

NOTE 12 - NET OPERATING REVENUES

Net operating revenues during 2013 and 2012 consisted of the following:

	<u>Water</u>	<u>Wastewater</u>	<u>Other Charges</u>	<u>Total</u>
<u>2013</u>				
Gross Revenues	\$ 4,039,437	\$ 744,183	\$ 300,262	\$ 5,083,882
Less: Provision for Bad Debt Expense	<u>(45,683)</u>	<u>(8,416)</u>	<u>0</u>	<u>(54,099)</u>
Operating Revenues - Net	<u>\$ 3,993,754</u>	<u>\$ 735,767</u>	<u>\$ 300,262</u>	<u>\$ 5,029,783</u>
<u>2012</u>				
Gross Revenues	\$ 3,971,885	\$ 733,866	\$ 310,952	\$ 5,016,703
Less: Provision for Bad Debt Expense	<u>(6,389)</u>	<u>(1,180)</u>	<u>0</u>	<u>(7,569)</u>
Operating Revenues - Net	<u>\$ 3,965,496</u>	<u>\$ 732,686</u>	<u>\$ 310,952</u>	<u>\$ 5,009,134</u>

NOTE 13 - WHOLESALE WATER SALES

The Authority sells treated water on a month-to-month basis to the Caryville – Jacksboro Utility District (CJUD) and Lake City, Tennessee for \$1.20 per 1,000 gallons. During 2013 and 2012, the revenues earned under these billings were \$241,310 and \$192,012.

NOTE 14 - RETIREMENT PLANS

A. Defined Benefit Plan

On January 1, 2009, the Authority established a defined benefit plan through the Tennessee Consolidated Retirement System, (TCRS). All new full-time employees hired after February 28, 2009 are required to participate.

Plan Description

Employees of the Authority are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits, as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55.

NOTE 14 - RETIREMENT PLANS (Continued)

Plan Description (Continued)

Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in performance of duty. Members joining the system on or after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute, Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions, such as the Authority, participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to the Authority unless approved by the Board of Directors.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the following address:

Tennessee Treasury Department
 Consolidated Retirement System
 10th Floor, Andrew Jackson State Office Building
 Nashville, TN 37243-0230
 (615) 741-7063
www.tn.gov/treasury/tcrs/ps

Funding Policy

The Authority requires employees to contribute 5.0% of earnable compensation.

The Authority is required to contribute at an actuarially determined rate; the rate for the fiscal years ending June 30, 2013 and 2012 was 5.77% and 7.43% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Authority is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the years ending June 30, 2013 and 2012, the Authority's annual pension cost of \$54,126 and \$75,333 to TCRS was equal to the Authority's required and actual employer contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected 3.0% annual rate of inflation, (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten year period. The Authority's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 18 years. An actuarial valuation was performed as of July 1, 2011, which established employer contribution rates effective July 1, 2012.

Trend Information

Fiscal Year Ending June 30,	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
2013	\$ 54,126	100.00%	\$ 0
2012	75,333	100.00%	0
2011	67,830	100.00%	0

NOTE 14 - RETIREMENT PLANS (Continued)

Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 54% funded. The actuarial accrued liability for benefits was \$690,000 and the actuarial value of assets was \$371,000 resulting in an unfunded actuarial accrued liability (UAAL) of \$319,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$913,000 and the ratio of the UAAL to the covered payroll was 35%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2011	\$ 371,000	\$ 690,000	\$ 319,000	54%	\$ 913,000	35%

Since the Authority started participation in the TCRS defined benefit plan on January 1, 2009, the first actuarial valuation was completed as of July 1, 2011.

B. Defined Contribution Plan

The Authority has a non-contributory defined contribution retirement plan called the Anderson County Water Authority Profit Sharing Plan (the Plan) that covers certain full-time employees previously employed by NACUD. The plan is administered by Compupay, Inc. of Franklin, Tennessee. The Authority has the authority to amend the plan's provisions and contribution requirements. Employees must be at least 18 years old and complete six months of continuous service. During 2013 and 2012, the Authority's contribution rate was 8%. The plan invests its assets in various mutual funds through ING Life Insurance Company. Contributions from the Authority on behalf of the employees vest at 20% per year after one year of service and are fully vested after five years. Forfeitures are used to reduce the Authority's future contributions. The Plan is frozen to new participants. During 2013 and 2012, the Authority contributed \$14,233 and \$19,414 to the plan on behalf of its employees.

During FY 2012 the Board of Directors approved a resolution to terminate the defined contribution plan effective June 30, 2013. Employees participating in this plan will be required to enroll in the TCRS defined benefit plan described in section A above.

NOTE 15 - RISK MANAGEMENT

The Authority 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 Authority's loss exposure for general liability and worker's compensation is limited by state law.

During FY 2013 and 2012, the Authority obtained general liability, vehicle, errors and omissions, worker's compensation, and other property and casualty insurance coverage through commercial insurance.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The per occurrence deductible for each insurance policy of the Authority is as follows: comprehensive general liability \$0, public officials liability \$2,500, electronic data processing \$0, property \$1,000, and umbrella policy \$0.

NOTE 16 - ECONOMIC CONCENTRATION

The Authority's area covers the unincorporated areas of Anderson County located in East Tennessee. At June 30, 2013 and 2012, the Authority served 9,227 and 9,126 water customers located in a rural area 25 miles from Knoxville, Tennessee. The Authority's ten largest customers accounted for 12% and 9% of water sales during 2013 and 2012.

NOTE 17 - SUBSEQUENT EVENTS

Effective July 1, 2013 the Authority increased water rates by 13% and wastewater rates by 8%.

In October 2012, the Authority submitted plans for approval of a \$3.5 million low-interest-rate loan from the State of Tennessee Revolving Loan Fund. Terms of the loan include a 20% principal forgiveness over a 30 year period. The loan will be used for the construction of a 12 mile forced wastewater main line to connect certain sewer customers directly with the Clinton Utilities Board wastewater treatment plant. The loan is expected to be approved by the State in November 2013.

NOTE 18 - PRIOR PERIOD ADJUSTMENT & RECLASSIFICATION - ADOPTION OF A NEW ACCOUNTING STANDARD

Prior Period Adjustment

During 2013 the Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* which reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The new standard also requires debt issuance costs to be recorded as an expense in the period incurred. Therefore, unamortized debt issuance costs have been recorded as a prior period adjustment and as a decrease in the Authority's unrestricted net position amounting to \$125,115 and \$133,055 as of July 1, 2012 and 2011. There was no effect on the statement of cash flows for the year ended June 30, 2012.

Reclassification

GASB Statement No. 65 requires that deferred refunding losses resulting from prior refunding losses and cost of defeasance of debt should be reported as a deferred outflow of resources. As of June 30, 2013 and 2012, \$405,790 and \$483,072 of deferred refunding losses and cost of defeasance of debt were reclassified on the balance sheets from long-term debt to deferred outflows of resources and had no effect upon the Authority's net position.

REQUIRED SUPPLEMENTARY INFORMATION

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS

Last Five Fiscal Years

<u>Fiscal Year</u>	<u>Annual Required Contribution (ARC)</u>	<u>Contributions Made</u>	<u>Percentage of Contributions/ ARC</u>
2009	\$ 26,593	\$ 26,593	100%
2010	65,937	65,937	100%
2011	67,830	67,830	100%
2012	75,333	75,333	100%
2013	54,126	54,126	100%

Note: The Authority started participation in the TCRS defined benefit plan on January 1, 2009.

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF EMPLOYER PENSION FUNDING PROGRESS

Last Two Valuation Dates

Actuarial Valuation Date	<u>7/1/2011</u>
Actuarial Value of Assets	\$ 371,000
Actuarial Accrued Liability	<u>(690,000)</u>
Total Unfunded Actuarial Accrued Liability	\$ <u>(319,000)</u>
Funded Ratio (Actuarial Value of Assets as a Percentage of the Actuarial Accrued Liability)	54%
Annual Covered Payroll	\$ 913,000
Ratio of the Unfunded Actuarial Liability to Annual Covered Payroll	35%

Note: Since the Authority started participation in the TCRS defined benefit plan on January 1, 2009, the first actuarial valuation was completed as of July 1, 2011. TCRS performs an actual valuation every two years.

OTHER INFORMATION

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2013

Years Ending June 30,	Revenue Term Bonds		Total
	Series 2010		
	Principal	Interest	
2014	\$ 210,000	\$ 321,188	\$ 531,188
2015	220,000	316,988	536,988
2016	235,000	312,588	547,588
2017	245,000	307,888	552,888
2018	255,000	302,375	557,375
2019	260,000	296,000	556,000
2020	270,000	288,850	558,850
2021	280,000	280,750	560,750
2022	290,000	269,550	559,550
2023	305,000	257,950	562,950
2024	320,000	245,750	565,750
2025	335,000	232,950	567,950
2026	350,000	219,550	569,550
2027	370,000	205,550	575,550
2028	380,000	190,750	570,750
2029	400,000	175,550	575,550
2030	410,000	159,550	569,550
2031	435,000	143,150	578,150
2032	455,000	125,750	580,750
2033	480,000	103,000	583,000
2034	500,000	79,000	579,000
2035	525,000	54,000	579,000
2036	555,000	27,750	582,750
TOTAL	\$ <u>8,085,000</u>	\$ <u>4,916,427</u>	\$ <u>13,001,427</u>

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF RATES AND STATISTICS

June 30, 2013 and 2012

1. Monthly Water Rates

All Customers:

- 1st 1,500 gallons - \$18.00 minimum bill.
- All over 1,500 gallons - \$5.50 per 1,000 gallons.

2. Monthly Wastewater Rates

Sewer Residential:

- 1st 1,500 gallons of water used - \$19.48 minimum bill.
- All over 1,500 gallons of water used - \$8.62 per 1,000 gallons.

Sewer Commercial:

- 1st 1,500 gallons of water used - \$18.50 minimum bill.
- All over 1,500 gallons of water used - \$9.88 per 1,000 gallons.

Sewer/Lake City Residential Outside-City:

- 1st 1,500 gallons of water used - \$21.50 minimum bill.
- All over 1,500 gallons of water used - \$8.00 per 1,000 gallons.

Sewer/Lake City Commercial:

- 1st 1,500 gallons of water used - \$21.50 minimum bill.
- All over 1,500 gallons of water used - \$10.00 per 1,000 gallons.

3. Service Charges:

Residential Connection Fee	\$	40
Customer Deposits - Residential Renters		100
Commercial Connection Fee		100
Wastewater Connection Fee		50
Reconnection Fee for Nonpayment		50
Returned Check Fee		25

4. New Service Installation:

Water Tap Fees for:

¾"	\$	600
1"		800
1 ½"		2,000
2"		2,500
Above 2"		1,000
		Plus actual costs

5. There were 9,227 and 9,126 water and 986 and 928 wastewater customers at June 30, 2013 and 2012.

AWWA WLCC Free Water Audit Software: Reporting Worksheet

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WAS v4.2

[Back to Instructions](#)

Water Audit Report for: **Anderson County Water Authority**
 Reporting Year: **2012** / 7/2012 - 6/2013

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the

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

WATER SUPPLIED

<< Enter grading in column 'E'

Volume from own sources:	<input type="text" value="9"/>	<input type="text" value="1,049.179"/>	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	<input type="text" value="7"/>	<input type="text" value="5.246"/>	under-registered MG/Yr
Water imported:	<input type="text" value="5"/>	<input type="text" value="67.568"/>	MG/Yr
Water exported:	<input type="text" value="9"/>	<input type="text" value="209.648"/>	MG/Yr
WATER SUPPLIED:		<input type="text" value="912.345"/>	MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	<input type="text" value="7"/>	<input type="text" value="496.613"/>	MG/Yr
Billed unmetered:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
Unbilled metered:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
Unbilled unmetered:	<input type="text" value="10"/>	<input type="text" value="27.265"/>	MG/Yr

Click here:

Pent: Value:

Use buttons to select percentage of water supplied **OR** value

AUTHORIZED CONSUMPTION: MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption) MG/Yr

Apparent Losses

Unauthorized consumption: MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies:	<input type="text" value="10"/>	<input type="text" value="5.016"/>	MG/Yr
Systematic data handling errors:	<input type="text" value="10"/>	<input type="text" value="15.799"/>	MG/Yr

Apparent Losses:

Pent: Value:

Pent: Value:

Choose this option to enter a percentage of billed metered consumption. This is NOT a default value

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: MG/Yr

WATER LOSSES: MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: MG/Yr

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	<input type="text" value="6"/>	<input type="text" value="625.0"/>	miles
Number of active AND inactive service connections:	<input type="text" value="9"/>	<input type="text" value="9,227"/>	
Connection density:		<input type="text" value="15"/>	conn./mile main
Average length of customer service line:	<input type="text" value="10"/>	<input type="text" value="0.0"/>	ft (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	<input type="text" value="7"/>	<input type="text" value="125.0"/>	psi

COST DATA

Total annual cost of operating water system:	<input type="text" value="10"/>	<input type="text" value="\$5,277,685"/>	\$/Year
Customer retail unit cost (applied to Apparent Losses):	<input type="text" value="10"/>	<input type="text" value="\$5.50"/>	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	<input type="text" value="10"/>	<input type="text" value="\$659.00"/>	\$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	<input type="text" value="45.6%"/>
Non-revenue water as percent by cost of operating system:	<input type="text" value="7.3%"/>
Annual cost of Apparent Losses:	<input type="text" value="\$127,029"/>
Annual cost of Real Losses:	<input type="text" value="\$240,779"/>

Operational Efficiency Indicators

Apparent Losses per service connection per day:	<input type="text" value="6.86"/>	gallons/connection/day
Real Losses per service connection per day*:	<input type="text" value="N/A"/>	gallons/connection/day
Real Losses per length of main per day*:	<input type="text" value="1,601.62"/>	gallons/mile/day
Real Losses per service connection per day per psi pressure:	<input type="text"/>	gallons/connection/day/psi
<input type="text" value="7"/> Unavoidable Annual Real Losses (UARL):	<input type="text" value="217.42"/>	million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	<input type="text" value="365.37"/>	million gallons/year
<input type="text" value="7"/> Infrastructure Leakage Index (ILI) [CARL/UARL]:	<input type="text" value="1.68"/>	

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

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 84 out of 100 *****

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

PRIORITY AREAS FOR ATTENTION:

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

- 1: Water imported
- 2: Master meter error adjustment
- 3: Billed metered

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

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF UNACCOUNTED FOR WATER
For the Year Ended June 30, 2012

(All amounts in gallons)

Water Treated and Purchased:

Water Pumped (Potable)	1,065,511,000	
Water Purchased	<u>66,415,880</u>	
		1,131,926,880

Accounted for Water:

Water Sold	707,840,700	
Metered for Consumption (in house usage)	0	
Fire Department(s) Usage	149,200	
Flushing	40,789,324	
Tank Cleaning/Filling	0	
Street Cleaning	0	
Bulk Sales	0	
Water Bill Adjustments	<u>0</u>	

Total Accounted for Water	<u>748,779,224</u>
Unaccounted for Water	383,147,656
Percent Unaccounted for Water	33.85%

Other (explain)

See Below

Explain Other:

None

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

STATISTICAL SECTION

This part of the Authority's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority's overall financial health.

Contents

Pages

Financial Trends

These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time. 38-39

Revenue Capacity

These schedules contain information to help the reader assess the Authority's operating revenues and customer statistics. 40-44

Debt Capacity

These schedules present information to help the reader assess the affordability of the Authority's current levels of outstanding debt and the Authority's ability to issue additional debt in the future. 45-46

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place. 47-48

Operating Information

These schedules contain service data to help the reader understand how the information in the Authority's financial report relates to the water services provided by the Authority. 49-50

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

ANDERSON COUNTY WATER AUTHORITY

NET POSITION BY COMPONENT

Last Six Fiscal Years

Fiscal Year	Net Investment in Capital Assets	Restricted		Unrestricted	Total
		Debt Service	Capital Activity		
2008	\$ 0	\$ 0	\$ 0	\$ 14,823	\$ 14,823
2009	12,765,165	17,862	627,330	2,630,990	16,041,347
2010	13,134,668	25,260	45,000	2,508,266	15,713,194
2011	13,196,514	16,503	0	2,517,615	15,730,632
2012	13,425,235	16,582	0	2,511,511	15,953,328
2013	13,863,610	18,333	0	2,687,448	16,569,391

Notes: (A) Fiscal year 2008 was the first year the Authority was organized.
 (B) Fiscal year 2009 was the first year the Authority began operations (effective January 1, 2009).

ANDERSON COUNTY WATER AUTHORITY

CHANGES IN NET POSITION

Last Six Fiscal Years

	2013	2012	2011	2010	2009	2008
Operating Revenues						
Water - Net	\$ 3,993,754	\$ 3,965,496	\$ 3,713,110	\$ 3,894,825	\$ 1,873,956	\$ 0
Wastewater - Net	735,767	732,686	641,015	578,260	339,171	0
Connection Fees	87,590	123,143	105,190	50,810	11,201	0
Customer Forfeited Discounts	105,100	111,258	87,518	32,743	41,300	0
Tap Fees	91,210	68,650	55,620	40,550	15,500	0
Other Charges and Fees	16,362	7,901	17,728	7,384	43,201	0
Total Operating Revenues	5,029,783	5,009,134	4,620,181	4,604,572	2,324,329	0
Operating Expenses						
Water Treatment, Transmission and Distribution	2,607,827	2,539,744	2,357,799	2,402,701	1,402,607	0
Wastewater Treatment	522,323	533,027	462,561	449,829	246,428	0
Customer Billing and Accounting	9,843	31,152	100,940	189,670	119,442	0
General and Administrative	701,094	681,855	704,326	711,506	377,710	5,200
Depreciation	1,074,093	963,933	915,378	901,475	436,347	0
Total Operating Expenses	4,915,180	4,749,711	4,541,004	4,655,181	2,582,534	5,200
Operating Income (Loss)	114,603	259,423	79,177	(50,609)	(258,205)	(5,200)
Non-Operating Revenues (Expenses)						
Gain (Loss) on Disposal of Capital Assets	53,126	36,915	12,000	(15,721)	10,281	0
Investment Income	4,997	(1,828)	24,253	14,669	20,484	23
Debt Issuance Costs	0	0	0	(138,411)	0	0
Interest (Expense)	(360,087)	(193,613)	(334,791)	(283,081)	(148,657)	0
Non-Operating Revenues (Expenses) - Net	(301,964)	(158,526)	(298,538)	(422,544)	(117,892)	23
Increase (Decrease) in Net Position Before Capital Contributions	(187,361)	100,897	(219,361)	(473,153)	(376,097)	(5,177)
Capital Contributions						
Cash	197,528	121,799	236,800	145,000	2,988,916	20,000
Non-Cash	605,897	0	0	0	13,413,705	0
Total Capital Contributions	803,425	121,799	236,800	145,000	16,402,621	20,000
Change in Net Position	\$ 616,064	\$ 222,696	\$ 17,439	\$ (328,153)	\$ 16,026,524	\$ 14,823

Notes: (A) Fiscal year 2008 was the first year the Authority was organized.
(B) Fiscal year 2009 was the first year the Authority began operations (effective January 1, 2009).

**ANDERSON COUNTY WATER AUTHORITY
CUSTOMER STATISTICS, RATES, AND TAP SALES**

Last Five Fiscal Years

<u>Fiscal Year</u>	<u>Water Customers</u>	<u>Former ACUB Territory</u>		<u>Former NACUD Territory</u>		<u>Annual Tap Sales</u>
		<u>Minimum Bill (A)</u>	<u>Rate Per 1,000 Gallons</u>	<u>Minimum Bill (A)</u>	<u>Rate Per 1,000 Gallons</u>	
2009	8,990	\$ 15.20	\$ 4.90	\$ 21.14	\$ 5.42	19
2010	9,136	15.20	4.90	21.14	5.42	78
2011 (D)	9,132	18.00	5.50	18.00	5.50	93
2012 (E)	9,126	18.00	5.50	18.00	5.50	107
2013	9,227	18.00	5.50	18.00	5.50	134

- Notes:
- (A) Minimum bill is based upon the first 2,000 and 1,500 gallons of water purchased.
 - (B) Rates are the same for any size meter.
 - (C) Fiscal year 2009 was the first year the Authority began operations (effective January 1, 2009).
 - (D) During fiscal year 2011, the Authority changed the rate per 1,000 gallons to \$5.50 and the monthly minimum residential billing to \$18.00 for ratepayers in the former ACUB and NACUD territories.
 - (E) During fiscal year 2012, the Authority reduced the monthly minimum billing to 1,500 gallons.

ANDERSON COUNTY WATER AUTHORITY
WATER TREATED, SOLD, AND CONSUMED
Last Five Fiscal Years

Fiscal Year	Gallons of Water (In Thousands)			Percent Lost
	Water Treated and Purchased	Water Sold and Consumed	Water Unbilled	
2009	495,339	335,174	160,165	32.3%
2010	1,015,372	684,203	331,169	32.6%
2011	1,047,568	688,207	359,361	34.3%
2012	1,131,927	748,779	383,148	33.8%
2013	1,116,747	749,325	367,421	32.9%

Note: Fiscal year 2009 was the first year the Authority began operations (effective January 1, 2009).

ANDERSON COUNTY WATER AUTHORITY

ANNUAL TAPS SOLD

Last Five Fiscal Years

<u>Fiscal Year</u>	<u>Water Meter Taps Sold</u>	<u>Sewer Taps Sold</u>	<u>Total Taps</u>
2009	19	0	19
2010	69	9	78
2011	66	27	93
2012	95	12	107
2013	124	10	134

Note: Fiscal year 2009 was the first year the Authority began operations (effective January 1, 2009).

ANDERSON COUNTY WATER AUTHORITY

NUMBER OF CUSTOMERS BY TYPE

Last Five Fiscal Years

<u>Fiscal Year</u>	<u>Water</u>	<u>Wastewater</u>
2009	8,990	1,089
2010	9,136	1,063
2011	9,132	1,059
2012	9,126	928
2013	9,227	986

Note: Fiscal year 2009 was the first year the Authority began operations (effective January 1, 2009).

ANDERSON COUNTY WATER AUTHORITY
TEN LARGEST CUSTOMERS
Current Fiscal Year and Four Fiscal Years Ago

Customer	Type of Business	2013		2009 (B)	
		(A) Total Annual Sales	Percentage of Total Sales	(A) Total Annual Sales	Percentage of Total Sales
City of Lake City	Municipality	\$ 170,495	4.27%	\$ 49,634	2.65%
Clinton Utility Board	Municipality	80,026	2.00%	15,186	0.81%
Stardust Marina	Recreation	45,997	1.15%	16,268	0.87%
Waterside Marina	Recreation	63,111	1.58%	16,043	0.86%
Mariner Health	Health Care	32,862	0.82%	26,488	1.41%
Mountain Lake Marina	Recreation	22,146	0.55%	38,517	2.06%
TVA	Electrical Power Distributor	22,127	0.55%	26,684	1.42%
City of Caryville	Municipality	11,676	0.29%	5,851	0.31%
Oliver Springs	Municipality	10,638	0.27%	0	0.00%
Meadowview Senior Living	Health Care	10,438	0.26%	0	0.00%
Rocky Top Marina	Recreation	6,620	0.17%	11,843	0.63%
Norris Dam State Park	Recreation	3,150	0.08%	1,696	0.09%
Total		\$ 479,286	12.00%	\$ 208,210	11.11%

Note: (A) Sales includes net water revenues only.
(B) FY 2009 is for the initial six month period ending June 30, 2009.

ANDERSON COUNTY WATER AUTHORITY

OUTSTANDING DEBT PER CUSTOMER

Last Five Fiscal Years

<u>Fiscal Year</u>	<u>Revenue Bonds</u>	<u>Number of Customers (A)</u>	<u>Amount of Outstanding Debt Per Customer</u>
2009	\$ 4,750,000	8,990	\$ 528
2010	4,550,000	9,136	498
2011	8,485,000	9,132	929
2012	8,290,000	9,126	908
2013	8,085,000	9,227	876

- Notes: (A) Water customers at year end.
(B) Fiscal year 2009 was the first year the Authority began operations (effective January 1, 2009).
(C) No debt to personal income ratio is shown because personal income for the Authority's service area, which excludes the Cities of Oak Ridge, Clinton, and Norris, TN, is not available.

ANDERSON COUNTY WATER AUTHORITY

PLEGDED REVENUE COVERAGE

Last Five Fiscal Years

(A) Fiscal Year	(B) Gross Revenues	(C) Operating Expenses	Net Revenues Available for Debt Service	Debt Service Requirements			(E) Coverage Ratio
				Principal	(D) Interest Paid	Total	
2009	\$ 2,344,813	\$ 2,146,187	\$ 198,626	\$ 150,000	\$ 95,729	\$ 245,729	0.80
2010	4,619,241	3,753,706	865,535	200,000	199,975	399,975	2.16
2011	4,644,434	3,625,626	1,018,808	165,000	262,947	427,947	2.38
2012	5,007,306	3,785,778	1,221,528	195,000	329,188	524,188	2.33
2013	5,034,780	3,841,087	1,193,693	205,000	325,287	530,287	2.25

- Notes: (A) FY 2009 is for a six month period beginning January 1, 2009, the effective date of significant operations.
 (B) Includes operating revenues and investment income received.
 (C) Does not include depreciation expense.
 (D) Includes interest paid net of capitalization construction period interest.
 (E) The Bond Series 2010, covenants requires a coverage ratio of 1.20.

ANDERSON COUNTY WATER AUTHORITY
DEMOGRAPHIC AND ECONOMIC INDICATORS (E)

Last Five Fiscal Years

Fiscal Year	Population	Personal Income In Thousands (A)	Per Capita Personal Income (A)	Median Age (A)	School Attendance (B)	Unemployment Rates (C)	
						County	State
2009	74,738	\$ 2,258,433	\$ 30,218	41.4	8,541	10.80%	11.10%
2010	74,849	2,154,154	28,780	39.2	8,117	9.40%	10.00%
2011	75,129	2,580,901	34,358	39.9	8,186	9.40%	9.80%
2012	75,129	2,543,192	33,851	39.5	8,141	8.60%	8.70%
2013	75,411	1,828,113	N/A	40.5	8,081	8.60%	8.80%

- Notes: (A) U.S. Department of Commerce Bureau of Economic Analysis for the previous calendar year.
(B) Anderson County Schools
(C) Tennessee Department of Labor and Workforce Development for June.
(D) The Authority was created in Fiscal Year 2008 on July 16, 2007.
(E) Demographic and economic information is for Anderson County, Tennessee. Specific information for the Authority is not available.
(F) N/A data not yet available.

ANDERSON COUNTY WATER AUTHORITY

PRINCIPAL EMPLOYERS

Current Fiscal Year and Four Fiscal Years Ago

Customer	2013			2009		
	Employees	Rank	Percentage of County Workforce	Employees	Rank	Percentage of County Workforce
BWXT - Y12	5,000	1	12.98%	4,500	1	12.56%
UT Battelle (Oak Ridge National Laboratory)	4,500	2	11.69%	4,200	2	11.73%
Anderson County Government	1,716	3	4.46%	1,542	3	4.30%
Covenant Health Systems (Methodist Medical Center)	1,350	4	3.51%	1,306	4	3.65%
Bechtel Jacobs Co., LLC	1,337	5	3.47%	1,337	5	3.73%
SAIC	1,000	6	2.60%	902	8	2.52%
Oak Ridge Associated Universities (ORAU)	1,000	7	2.60%	600	10	1.68%
Energy Solutions	620	8	1.61%	0	0	0.00%
Sitel	600	9	1.56%	0	0	0.00%
City of Oak Ridge	450	10	1.17%	1,053	6	2.94%
Wackenhut	0	0	0.00%	902	7	2.52%
Eagle Bend Manufacturing	0	0	0.00%	624	9	1.74%
Duratek Resource Recovery	0	0	0.00%	510	11	1.43%
Carlisle Tire and Wheel Co. (B)	0	0	0.00%	400	12	1.12%
Total	17,573		45.65%	17,876		49.92%

Notes: (A) Source(s): Tennessee Department of Economic and Community Development and Tennessee Department of Labor and Workforce Development.

(B) Carlisle Tire and Wheel Co. was previously named Dico Tire.

ANDERSON COUNTY WATER AUTHORITY

EMPLOYEES BY FUNCTION

Last Five Fiscal Years

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
WATER AND WASTEWATER					
Water and Wastewater Systems	<u>22</u>	<u>22</u>	<u>24</u>	<u>21</u>	<u>20</u>
ADMINISTRATION					
Billing and Customer Service	2	2	2	2	4.5
Finance & Accounting	2	2	2.5	2.5	2
Administrative	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>2</u>
	<u>7</u>	<u>7</u>	<u>7.5</u>	<u>7.5</u>	<u>8.5</u>
TOTAL EMPLOYEES	<u><u>29</u></u>	<u><u>29</u></u>	<u><u>31.5</u></u>	<u><u>28.5</u></u>	<u><u>28.5</u></u>

Note: Fiscal year 2009 was the first year the Authority began significant operations on January 1, 2009.

ANDERSON COUNTY WATER AUTHORITY

OPERATING AND CAPITAL INDICATORS

Last Five Fiscal Years

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Area in Square Miles:	220	220	220	220	220
Water System:					
Miles of Water Mains	625	612	426	422	420
Number of:					
Water Service Connections	9,227	9,126	9,132	9,136	8,990
Wastewater Service Connections	986	928	1,059	1,063	1,089
Office Building	1	1	1	1	0
Water Treatment Plants	2	2	2	2	2
Wastewater Treatment Plants	1	1	1	1	1
Reservoirs	13	13	16	16	16
Water Pumping Stations	23	24	24	24	24
Wastewater Pumping Stations	19	19	19	19	19
Fire Hydrants	340	330	327	325	325
Daily Average Water Treatment in Gallons (MGD)	2.87	2.90	2.69	2.61	2.58
Daily Average Water Purchases in Gallons (MGD)	0.18	0.18	0.18	0.17	0.12
Daily Average Water Sales and Consumption in Gallons (MGD)	2.09	1.87	1.86	1.87	1.84
Water Reservoir Storage Capacity (Millions of Gallons)	6.00	6.00	4.38	4.38	4.38

Notes: (A) MGD = Million of gallons per day

(B) Fiscal year 2009 was the first year that the Authority began significant operations on January 1, 2009.

COMPLIANCE SECTION

KNOXVILLE OFFICE:
315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660



PUGH & COMPANY, P.C.
www.pughcpas.com

OAK RIDGE OFFICE:
800 OAK RIDGE TURNPIKE – SUITE A404
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-769-1657

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*

Board of Directors
Anderson County Water Authority
Clinton, Tennessee

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 Anderson County Water Authority (the "Authority") which comprise the balance sheets as of June 30, 2013 and June 30, 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements, and have issued our report thereon dated November 4, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control described in the accompanying schedule of findings and responses that we consider to be a significant deficiency as item number 2013-1.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's Response to Finding

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audits 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 result of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
November 4, 2013

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2013

2013-1 Accounts Payable and Purchasing

Criteria or Specific Requirement - The Authority's written purchasing policy requires the General Manager, or his designee, to approve purchase orders (POs) for items greater than \$500 and supporting documentation should be maintained for all purchases and cash disbursements.

Condition - During FY 2013 it was noted during our audit that the Authority made 3 purchases greater than \$500 without properly approved POs. We also noted that in 4 other transactions there were no POs issued. In addition, we noted that for 2 other transactions proper documentation could not be located by the Authority's staff.

Cause and Effect - The Authority's staff are not following the written purchasing policy. Therefore, POs are not being prepared and approved, and proper supporting documentation is not being maintained on a consistent basis. The errors and omissions we noted were for 9 transactions totaling approximately \$22,000.

Recommendation - We recommend that the general manager and other personnel be more diligent in supervising the accounting and administrative staff related to the accounts payable and purchasing process.

Management's Response - We concur and will supervise the accounting and administrative staff more closely. Also some duties in the accounts payable and purchasing cycles will be reassigned to more experienced personnel.

