TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

FINANCIAL STATEMENTS

June 30, 2013 and 2012

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

INTRODUCTORY SECTION

June 30, 2013 and 2012

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
June 30, 2013 and 2012

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TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

FINANCIAL SECTION

June 30, 2013 and 2012

Ingram Overholt & Bean, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Tellico Area Services Systems
Vonore, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Tellico Area Services Systems as of and for the years ended June 30, 2013 and 2012 and the related notes to the financial statements, which comprise the Systems' basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Tellico Area Services Systems as of June 30, 2013 and 2012 and the respective changes in 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 5 and the required supplementary information (schedule of funding progress) on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Tellico Area Services Systems' basic financial statements. The introductory section and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information on pages 27 through 32 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information on pages 27 through 32 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The AWWA Reporting Worksheet on page 33 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013, on our consideration of the Tellico Area Services Systems' 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 Tellico Area Services Systems' internal control over financial reporting and compliance.

Ingram, Overholt & Bean, P.C.
Alcoa, Tennessee
November 8, 2013

Tellico Area Services Systems
P.O. BOX 277 VONORE, TENNESSEE 37885 PHONE (423) 884-6400 OR (865) 856-3530

November 8, 2013

Our discussion and analysis of the Tellico Area Services Systems' financial performance provides an overview of the Utility's activities for the years ended June 30, 2013 and 2012. Please read it in conjunction with the Utility's financial statements, as listed in the Table of Contents.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position provide information about the Utility as a whole and present a long-term view of the Utility's finances.

THE STATEMENTS OF NET POSITION AND STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

One of the most important questions asked about the Utility's finances is "Is the Utility better off or worse off as a result of this year's activities?" The Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position report information about the Utility and about its activities that help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the Utility's assets, liabilities, net position and changes in them. You can think of the Utility's net position – the difference between assets and liabilities – as one way to measure the Utility's financial health, or financial position. Over time, increases and decreases in the Utility's net position are one indicator of whether its financial health is improving or deteriorating.

FINANCIAL HIGHLIGHTS

The operations of the Tellico Area Services Systems are primarily funded as follows:

	2013	2012	2011
Water revenues	75.62%	73.63%	60.81%
Capital contributions	6.20%	8.25%	25.01%
Sewer revenues	14.24%	11.39%	10.23%
Interest income	.57%	.82%	0.99%
Forfeited discounts	.77%	.75%	0.76%
Sprinkler system income	.95%	1.01%	0.77%
Customer service charges and miscellaneous income	1.65%	4.15%	1.43%
Total Revenues	100.00%	100.00%	100.00%

Operational costs for the Utility were $3,215,971 and $3,265,561 for the fiscal years ended June 30, 2013 and 2012 respectively.

ASSETS, LIABILITIES, AND NET POSITION

The analysis below focuses on the assets, liabilities and net position of the Utility.

	2013	2012	2011
Current Assets	$ 4,451,293	$ 4,339,779	$ 4,967,246
Non-Current Assets	26,434,809	26,831,827	26,812,576
Total Assets	30,886,102	31,171,606	31,779,822
Current Liabilities	579,092	991,893	1,001,300
Non-Current Liabilities	9,372,007	10,562,580	12,344,344
Total Liabilities	9,951,099	11,554,473	13,345,644
Net Position – Unrestricted	3,344,774	2,865,421	3,469,407
Invested in Capital Assets, net of related debt	16,840,229	16,001,712	14,214,771
Restricted for replacements	750,000	750,000	750,000
Total Net Position	$ 20,935,003	$ 19,617,133	$ 18,434,178
Total Revenues	$ 4,683,227	$ 4,400,043	$ 5,434,544
Total Expenses	3,397,157	3,612,938	3,350,149
Change in Net Position	$ 1,286,070	$ 787,105	$ 2,084,395

The assets of the Utility decreased by 0.92% during the current year. Net Position of the Utility increased by 6.34%.

FINANCIAL RATIOS

The ratio of Working Capital demonstrates the continuing ability to finance operations with cash. The change in the current ratio indicates the Utility's ability to meet short-term debt obligations. The higher the ratio, the more liquid the Utility is.

	2013	2012	2011
Working Capital (the amount by which current assets exceed current liabilities)	$ 3,872,201	$ 3,347,886	$ 3,965,946
Current Ratio (compares current assets to liabilities-as an indicator of the ability to pay current obligations)	7.69	4.38	4.96
Return Assets (illustrates to what extent there will be sufficient funds to replace assets in the future)	4.16%	3.79%	6.56%

CAPITAL ASSETS

At the fiscal year ended June 30, 2013 and 2012, the Utility had $36,386,152 invested in capital assets as outlined below (a 1.06% increase over the last year).

	2013	2012	2011
Land and land rights	$ 324,700	$ 324,700	$ 324,700
Building and improvements	1,077,363	1,077,363	1,077,363
Distribution facilities	33,361,580	33,685,957	31,439,067
Office furniture and fixtures	120,505	111,075	109,600
Tools and equipment	759,481	710,932	590,510
Construction in progress	742,523	93,042	1,646,381
Totals	$ 36,386,152	$ 36,003,069	$ 35,187,621

DEBT

The change in bonds and notes payable for the fiscal year ended June 30, 2013 and 2012 is as follows:

	Balance 6/30/12	Proceeds	Retired	Balance 6/30/13
Monroe County Bonds	$ 1,690,626	$ -	$ (536,774)	$ 1,153,852
Loudon County Bonds	337,311	-	(337,311)	-
TRDA Note	1,251,622	-	-	1,251,622
SRF Note	7,548,405	-	(360,120)	7,188,285
Total	$ 10,827,964	$ -	$ (1,234,205)	$ 9,593,759

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens with a general view of the Utility's finances and to show the Utility's accountability for the revenues it receives. If you have any questions about this report or need additional financial information, contact the Systems Manager, PO Box 227, Vonore, Tennessee, 37885.

Respectfully submitted,

Mark Clinton
Systems Manager

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
STATEMENTS OF NET POSITION

	June 30, 2013	June 30, 2012
ASSETS		
Current Assets:		
Certificate of Deposit	$ 1,750,000	$ 1,750,000
Cash	973,191	951,943
Accounts receivable	778,110	791,649
Due from Tennessee Valley Authority	75,711	-
Inventory	124,281	96,187
Restricted:		
Certificate of Deposit – Replacement Fund	750,000	750,000
Total Current Assets	4,451,293	4,339,779
Non-Current Assets:		
Non-depreciable capital assets	324,700	324,700
Depreciable capital assets, net of accumulated depreciation	25,366,765	26,411,934
Construction in process	742,523	93,042
Utility deposits	175	175
Prepaid services	646	1,976
Total Non-Current Assets	26,434,809	26,831,827
DEFERRED OUTFLOWS OF RESOURCES	-	-
Total Assets	30,886,102	31,171,606
LIABILITIES		
Current Liabilities:		
Accounts payable	109,340	537,613
Sales tax payable	12,168	14,023
Accrued interest	24,035	-
Bonds and notes payable within one (1) year	433,549	440,257
Total Current Liabilities	579,092	991,893
Non-Current Liabilities:		
Customer meter deposits	69,120	55,446
Accrued compensated absences	142,677	119,427
Bonds and notes payable	9,160,210	10,387,707
Total Non-Current Liabilities	9,372,007	10,562,580
Total Liabilities	9,951,099	11,554,473
DEFERRED INFLOWS OF RESOURCES	-	-
NET POSITION		
Invested in capital assets, net of related debt	16,840,229	16,001,712
Restricted for replacements	750,000	750,000
Unrestricted	3,344,774	2,865,421
Total Net Position	$ 20,935,003	$ 19,617,133

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	FISCAL YEARS ENDED JUNE 30, 2013	2012
OPERATING REVENUES:		
Metered water sales	$ 3,493,348	$ 3,491,220
Water tap fees	48,010	40,945
Metered sewer sales, sewer service charges and sewer tap fees	666,919	546,386
Customers' forfeited discounts	36,216	36,062
Sprinkler systems' income	44,435	48,286
Customer service charges and miscellaneous income	70,883	119,439
Total Operating Revenues	4,359,811	4,282,338
OPERATING EXPENSES:		
Salaries and wages	1,018,049	922,388
Payroll taxes	76,304	72,882
Laboratory supplies	27,232	26,226
Chemicals	192,999	228,709
Goodwill advertising	3,725	3,975
Utilities	372,017	376,712
Telephone	25,118	25,511
Office supplies, postage, and bank charges	41,381	40,057
Maintenance and plant expenses	103,609	178,556
Repairs	17,447	70,812
Commissioner's fee	34,791	20,100
Insurance	54,488	51,845
Employee benefits – Health insurance	214,242	228,482
Billing service	10,590	5,532
Legal and audit	6,250	6,935
Uniforms	4,775	4,284
Miscellaneous	22,927	25,360
Retirement benefits	56,259	51,250
Small tools	4,742	5,243
Professional consultants	38,658	34,467
Vehicle expenses	67,227	65,672
Depreciation	810,571	808,014
Travel – management	6,497	6,723
Travel – employees	858	619
Registration fees	5,215	5,207
Total Operating Expenses	3,215,971	3,265,561
OPERATING INCOME	1,143,840	1,016,777
OTHER INCOME (EXPENSES):		
Interest earned	26,714	39,218
Interest expense	(169,220)	(304,685)
Amortization of bond issue cost	-	(12,926)
Gain on sale of fixed asset	6,019	11,716
Insurance claim refund	-	66,771
Other expense	(11,966)	(29,766)
Total Other Income (Expense)	(148,453)	(229,672)

(Continued)

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (Continued)

	FISCAL YEARS ENDED JUNE 30, 2013	2012
Income Before Contributions	995,387	787,105
Capital Contributions	290,683	395,850
Change in Net Position	1,286,070	1,182,955
Net Position, Beginning of Year, as previously reported	19,617,133	18,434,178
Prior Period Adjustment (Note 11)	31,800	-
Net Position, Beginning of Year, as restated	19,648,933	18,434,178
Net Position, End of Year	$ 20,935,003	$ 19,617,133

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
STATEMENTS OF CASH FLOWS

	FISCAL YEARS ENDED JUNE 30, 2013	2012
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:		
Cash received from customers	$ 4,373,350	$ 3,991,356
Cash payments to suppliers for goods and services	(1,938,766)	(1,239,374)
Cash payments to employees for services	(1,007,604)	(1,001,226)
Net Cash Flows Provided By Operating Activities	1,426,980	1,750,756
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(263,602)	(814,603)
Proceeds from sale of capital assets	6,019	11,716
Principal paid on bonds and notes	(1,234,205)	(1,769,666)
Interest paid on debt	(145,185)	(304,685)
Capital contributions	214,972	395,850
Net Cash Flows Provided (Used) By Capital and Related Financing Activities	(1,422,001)	(2,481,388)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:		
Interest received	26,714	39,218
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,248	(691,414)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR	951,943	1,643,357
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	$ 973,191	$ 951,943
RECONCILIATION OF OPERATING REVENUE TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 1,143,840	$ 1,016,777
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	810,571	808,014
Change in assets and liabilities:		
Accounts receivable, trade	13,539	(290,982)
Prepaid services	1,330	-
Due from TVA	(75,711)	-
Due from U.S. Economic Development Administration	-	223,524
Unamortized bond issue costs	-	12,926
Inventory	(28,094)	1,535
Customer meter deposits	13,674	(4,658)
Accounts payable	(497,599)	(13,671)
Sales tax payable	(1,855)	3,247
Compensated absences	23,250	(5,956)
Accrued interest	24,035	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,426,980	$ 1,750,756

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 – REPORTING ENTITY:

The Tellico Area Services Systems is a jointly owned and operated system of Loudon County, Tennessee, acting through the Loudon County Board of Public Utilities, a public body organized and created pursuant to TCA 5-1601 et set, and Monroe County, Tennessee, acting through Monroe County Board of Public Utilities, a public body organized and created pursuant to TCA 5-1601 et set. The agreement between Loudon County, Tennessee, and Monroe County, Tennessee, was signed on December 3, 1970.

The water plant was constructed on land owned by the Tennessee Valley Authority. A permanent easement was granted to Tellico Area Services Systems by the Tennessee Valley Authority on June 11, 1974. Said agreement was delivered to, and accepted by, Tellico Area Services Systems on August 22, 1974.

The Department of Housing and Urban Development (HUD) administered the grants and contracts awarded for the financing and construction of the complete water system of Tellico Area Services Systems.

Governmental Accounting Standards Board (GASB) Statement No. 14 – "The Financial Reporting Entity", as amended by GASB Statement No. 39 – "Determining Whether Certain Organizations are Component Units" defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of a component unit's Board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

The financial statements of the Utility (primary government) provide an overview of the entity based on financial accountability. The primary government consists of all the organizations that make up its legal entity – all funds, departments, and offices that are not legally separate. The Utility meets the criteria defined for a primary government in GASB No. 14, as amended by GASB Statement No. 39 as follows:

a. Separate legal standing through legislation authorizing its creation

b. Fiscally independent of other state and local governments

A component unit is defined as a legally separate organization for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on the criteria applicable to GASB No. 14, as amended by GASB Statement No. 39 for component units, the Utility has no financial accountability for any component units. Therefore, the financial reporting entity is limited to those funds, departments, and offices which comprise the Utility's legally adopted jurisdictions.

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES:

(a) Accounting Method:

Tellico Area Services Systems is accounted for as an enterprise fund type using the economic resources measurement focus and the accrual basis of accounting. The accounting objective of this measurement focus is the determination of operating income, change in net position, financial position, and cash flows. All assets, liabilities (whether current or non-current), deferred outflows of resources, and deferred inflows of resources associated with their activities are reported. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business and where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

(b) Cash and Cash Equivalents:

The Utility considers all highly liquid investments with an original maturity of three (3) months or less to be "cash equivalents".

(c) Accounts Receivable:

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is uncollectible. Estimated unbilled revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based upon the month's billing following the close of the fiscal year.

(d) Inventories:

Inventories on hand are limited to chemicals, lab supplies, and line materials and are stated at cost, using the first-in, first-out inventory valuation method.

(e) Utility Plant and Depreciation:

The cost of additions to utility plant and the cost of renewals and betterments greater than $1,500 are capitalized and carried at acquisition cost. Cost includes labor, materials and services. The cost of current repairs and minor replacements is charged to operating expense currently.

Depreciation is calculated using the straight-line method based upon estimated useful lives. Depreciation rates vary from 2% to 39%.

(f) Construction Period Interest:

It is the Utility's policy to capitalize interest on debt used to finance the acquisition of fixed assets during the construction period.

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued):

(g) Compensated Absences:

The employees of Tellico Area Services Systems can accumulate one-half (1/2) day per month up to forty-five (45) days of sick leave. The employees earn one (1) week of vacation after one year of service, two (2) weeks after two years service, three (3) weeks after five years services and four (4) weeks after fifteen years service.

The Utility accrues the amounts employees are entitled to receive for future absences, in accordance with Governmental Accounting Standards Board Statement Number 16.

(h) Use of Estimates:

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

(i) Use of Resources:

When both restricted and unrestricted resources are available for use, it is the Utility's policy to use restricted resources first, then unrestricted resources, as they are needed.

(j) Classification of Revenues and Expenses:

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing goods and services of the fund's principal ongoing operations. Operating expenses include the cost of providing the goods and services, administrative expenses, and depreciation on capital assets. Non-operating revenues and expenses are items such as investment income and interest expense, which are not a result of the direct operations of the activity.

(k) Implementation of New Accounting Standards:

The Governmental Accounting Standards Board (GASB) issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This Statement establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and also requires related disclosures. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued):

(k) Implementation of New Accounting Standards (Continued):

In addition the GASB has issued Statement No. 65, "Items Previously Reported as Assets and Liabilities." This Statement specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources. Since this Statement closely correlates to Statement No. 63, the Utility has elected to early implement the provisions of this statement.

(l) Net Position:

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources on the utility-wide financial statements. Net positions are classified in the following categories:

Net investment in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position – This amount is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

NOTE 3 – CASH AND INVESTMENTS:

In order to provide a safe temporary medium for investment of idle funds, utilities are authorized by TCA 6-56-106 to invest in the following:

(1) Bonds, notes, or treasury bills of the United States;
(2) Non-convertible debt securities of certain issuers;
(3) Other obligations which are guaranteed as to principal and interest by the United States or any of its agencies;
(4) Certificates of Deposit at state and federal chartered banks and savings and loan associations;
(5) Obligations of the United States or its agencies under a repurchase agreement if approved as an authorized investment by the State Director of Local Finance;
(6) Money market funds whose portfolios consist of any of the foregoing investments if approved as an authorized investment by the State Director of Local Finance; and
(7) The Local Government Investment Pool under which local monies are transferred to and invested with the State Treasurer's cash portfolio.

Cash and investments include bank balances and investments that at the balance sheet date were either entirely insured or collateralized with securities held by the Tennessee Investment Collateral Pool.

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 3 – CASH AND INVESTMENTS (Continued):

Total cash and investments at a carrying amount of $3,473,191 and $3,451,943 at June 30, 2013 and 2012, respectively, are classified as follows:

Type	June 30, 2013	June 30, 2012
Petty cash	$ 100	$ 100
Local financial institutions -		
Checking accounts	968,041	937,802
Local financial institutions:		
Savings	5,050	14,041
Certificates of Deposit	2,500,000	2,500,000
Total	$ 3,473,191	$ 3,451,943

Custodial Credit Risk – The Utility has no formal policy regarding custodial credit risk. However, as of June 30, 2013 and 2012, total cash in financial institutions in the amount of $3,473,191 and $3,451,943, respectively, were entirely insured by the Tennessee Investment Collateral Pool.

NOTE 4 – ACCOUNTS RECEIVABLE:

Accounts receivable are comprised of the following:

	June 30, 2013	June 30, 2012
Metered water sales:		
Billed revenue	$ 394,165	$ 359,695
Unbilled revenue	383,945	431,954
Total	$ 778,110	$ 791,649

NOTE 5 – CAPITAL ASSETS:

In the basic financial statements, fixed assets are accounted for and capitalized as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of capital assets is recorded as an expense in the Statement of Revenues, Expenses, and Changes in Net Position, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Land and land rights	0%
Water lines	2%
Water treatment plant	2% to 10%
Meters	3%

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 5 – CAPITAL ASSETS (Continued):

Office building	2%
Water storage tanks	3%
Pump station	5%
Sewer lines	2%
Fencing	10%
Wastewater treatment plant	2%
Office furniture and equipment	10% to 20%
Transportation equipment	20%
Tools, shop and garage equipment	10% to 33%

Capital assets activity for the year ended June 30, 2013 was as follows:

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013
Capital Assets, non-depreciable:				
Land	$ 324,700	$ -	$ -	$ 324,700
Other Capital Assets:				
Water lines and appurtenances	12,758,715	83,857	-	12,842,572
Fire hydrants	122,888	5,376	-	128,264
Meters	1,387,850	70,301		1,458,151
Water treatment plant	5,612,911	20,527	-	5,633,438
Office building	1,037,345	-	-	1,037,345
Water storage tanks	1,075,745	-	-	1,075,745
Grading and surfacing	10,978	-	-	10,978
Office furniture and fixtures	111,075	9,430	-	120,505
Tools and equipment	338,133	653	-	338,786
Transportation equipment	372,799	47,896		420,695
Fencing	29,040	-	-	29,040
Pump station	419,499	9,437	-	428,936
Collection system	21,119	10,748	-	31,867
Sewer lines	1,574,122	-	-	1,574,122
Wastewater treatment plant	10,713,108	5,377	(530,000)	10,188,485
Total Other Capital Assets at Historical Cost	35,585,327	263,602	(530,000)	35,318,929
Less Accumulated Depreciation for:				
Water lines and appurtenances	(3,346,553)	(255,435)	-	(3,601,988)
Fire hydrants	(63,848)	(2,521)	-	(66,369)
Meters	(279,697)	(43,195)		(322,892)
Water treatment plant	(3,242,437)	(108,609)	-	(3,351,046)
Office building	(151,287)	(25,973)	-	(177,260)
Water storage tanks	(586,199)	(24,559)	-	(610,758)
Grading and surfacing	(10,978)	-	-	(10,978)
Office furniture and fixtures	(105,550)	(3,945)	-	(109,495)
Tools and equipment	(225,988)	(18,435)	-	(244,423)
Transportation equipment	(260,659)	(46,309)		(306,968)

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 5 – CAPITAL ASSETS (Continued):

Capital assets activity for the year ended June 30, 2013 was as follows (Continued):

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013
Less Accumulated Depreciation for (Continued):				
Fencing	(28,879)	(107)	-	(28,986)
Pump station	(89,688)	(26,429)	-	(116,117)
Collection system	(6,729)	(2,748)	-	(9,477)
Sewer lines	(215,130)	(31,482)	-	(246,612)
Wastewater treatment plant	(559,771)	(220,824)	31,800	(748,795)
Total Accumulated Depreciation	(9,173,393)	(810,571)	31,800	(9,952,164)
Other Capital Assets, net	26,411,934	(546,969)	(498,200)	25,366,765
Construction in Progress	93,042	708,364	(58,883)	742,523
Total Capital Assets, net	$ 26,829,676	$ 161,395	$ (557,083)	$ 26,433,988

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance July 1, 2011	Additions	Retirements	Reclassification	Balance June 30, 2012
Capital Assets, non-depreciable:					
Land	$ 324,700	$ -	$ -	$ -	$ 324,700
Other Capital Assets:					
Water lines and appurtenances	12,299,997	458,718	-	-	12,758,715
Fire hydrants	122,888	-	-	-	122,888
Meters	1,273,887	120,238	(6,275)	-	1,387,850
Water treatment plant	5,552,072	60,839	-	-	5,621,911
Office building	1,037,345	-	-	-	1,037,345
Water storage tanks	1,075,745	-	-	-	1,075,745
Grading and surfacing	10,978	-	-	-	10,978
Office furniture and fixtures	109,600	1,475	-	-	111,075
Tools and equipment	241,548	96,585	-	-	338,133
Transportation equipment	348,962	42,951	(19,114)	-	372,799
Fencing	29,040	-	-	-	29,040
Pump station	394,972	24,527	-	-	419,499
Collection system	21,119	-	-	-	21,119
Sewer lines	1,574,122	-	-	-	1,574,122
Wastewater treatment plant	9,124,265	9,270	-	1,579,573	10,713,108
Total Other Capital Assets at Historical Cost	33,216,540	814,603	(25,389)	1,579,573	35,585,327

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 5 – CAPITAL ASSETS (Continued):

Capital assets activity for the year ended June 30, 2012 was as follows (Continued):

	Balance July 1, 2011	Additions	Retirements	Reclassification	Balance June 30, 2012
Less Accumulated Depreciation for (Continued):					
Water lines and appurtenances	(3,096,979)	(249,574)	-	-	(3,346,553)
Fire hydrants	(61,390)	(2,458)	-	-	(63,848)
Meters	(245,610)	(40,223)	6,136	-	(279,697)
Water treatment plant	(3,137,791)	(104,646)	-	-	(3,242,437)
Office building	(125,314)	(25,973)	-	-	(151,287)
Water storage tanks	(561,640)	(24,559)	-	-	(586,199)
Grading and surfacing	(10,978)	-	-	-	(10,978)
Office furniture and fixtures	(102,425)	(3,125)	-	-	(105,550)
Tools and equipment	(207,310)	(18,678)	-	-	(225,988)
Transportation equipment	(228,763)	(48,527)	16,631	-	(260,659)
Fencing	(28,772)	(107)	-	-	(28,879)
Pump station	(65,965)	(23,723)	-	-	(89,688)
Collection system	(4,637)	(2,092)	-	-	(6,729)
Sewer lines	(183,648)	(31,482)	-	-	(215,130)
Wastewater treatment plant	(326,924)	(232,847)	-	-	(559,771)
Total Accumulated Depreciation	(8,388,146)	(808,014)	22,767	-	(9,173,393)
Other Capital Assets, net	24,828,394	6,589	(2,622)	1,579,573	26,411,934
Construction in Progress	1,646,381	26,234	-	(1,579,573)	93,042
Total Capital Assets, net	$ 26,799,475	$ 32,823	$ (2,622)	$ -	$ 26,829,676

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES:

A Summary of Long-Term Debt is presented below:

	June 30, 2013	June 30, 2012
Balance	$ 10,827,964	$ 12,597,630
Additions	-	-
Retirements – debt paid	(1,234,205)	(1,769,666)
Balance	$ 9,593,759	$ 10,827,964

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES (Continued):

Local Government Public Improvement Bonds, Series E-7-A, in the amount of $1,035,000 were issued through Monroe County, Tennessee. The bonds were issued in Monroe County's name and it is liable for repayment if the Utility defaults. The bonds are payable over twenty-five (25) years. The monthly payments include variable interest. The balance of the bonds as of June 30, 2013 was $830,000 (Water Plant Renovations).

Maturities and interest requirements of the bond are as follows:

Year Ending June 30,	Bond Principal	Interest	Total
2014	$ 50,000	$ 16,753	$ 66,753
2015	50,000	15,744	65,744
2016	55,000	14,735	69,735
2017	60,000	13,624	73,624
2018	60,000	12,413	72,413
Subtotal	275,000	73,269	348,269
2019	65,000	11,202	76,202
2020	70,000	9,890	79,890
2021	75,000	8,477	83,477
2022	80,000	6,964	86,964
2023	80,000	5,349	85,349
Subtotal	370,000	41,882	411,882
2024	85,000	3,734	88,734
2025	100,000	2,018	102,018
Subtotal	185,000	5,752	190,752
	$ 830,000	$ 120,903	$ 950,903

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES (Continued):

Water Revenue Bonds, Series 2005, in the amount of $360,000 were issued through Monroe County. The bonds were issued in Monroe County's name and it is liable for repayments if the Utility defaults. The bonds are payable over thirty-eight (38) years. The annual payment includes interest at 4.125%. As of June 30, 2013 the balance of the bonds was $323,852 (TASS Area Project).

Maturities and interest requirements of the bonds are as follows:

Year Ending June 30,	Bond Principal	Interest	Total
2014	$ 5,537	$ 13,255	$ 18,792
2015	5,770	13,022	18,792
2016	6,012	12,780	18,792
2017	6,265	12,527	18,792
2018	6,528	12,264	18,792
Subtotal	30,112	63,848	93,960
2019	6,803	11,989	18,792
2020	7,089	11,703	18,792
2021	7,387	11,405	18,792
2022	7,697	11,095	18,792
2023	8,021	10,771	18,792
Subtotal	36,997	56,963	93,960
2024	8,358	10,434	18,792
2025	8,710	10,082	18,792
2026	9,076	9,716	18,792
2027	9,457	9,335	18,792
2028	9,855	8,937	18,792
Subtotal	45,456	48,504	93,960
2029	10,269	8,523	18,792
2030	10,701	8,091	18,792
2031	11,151	7,641	18,792
2032	11,619	7,173	18,792
2033	12,108	6,684	18,792
Subtotal	55,848	38,112	93,960
2034	12,617	6,175	18,792
2035	13,147	5,645	18,792
2036	13,700	5,092	18,792
2037	14,276	4,516	18,792
2038	14,876	3,916	18,792
Subtotal	68,616	25,344	93,960
2039	15,502	3,290	18,792
2040	16,153	2,639	18,792
2041	16,832	1,960	18,792
2042	17,540	1,252	18,792
2043	18,277	515	18,792
Subtotal	84,304	9,656	93,960
2044	2,519	12	2,531
Total	$ 323,852	$ 242,439	$ 566,291

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES (Continued):

State of Tennessee Revolving Fund Loan Program, in the amount of $9,416,068. There are two loans, one issued through Loudon County – SRF 07-198 and one issued through Monroe County SRF 07-198A. The loans were used for the construction of a new wastewater treatment plant. The loans are payable over twenty (20) years. The monthly payment includes interest at 1.47%. As of June 30, 2013 the balance of the Loudon County loan was $3,589,017 and the balance of the Monroe County loan was $3,599,267.

Maturities and interest requirements of the Loudon County loan are as follows:

Year Ending June 30,	Bond Principal	Interest	Total
2014	195,274	51,446	246,720
2015	198,164	48,556	246,720
2016	201,096	45,624	246,720
2017	204,072	42,648	246,720
2018	207,093	39,627	246,720
Subtotal	1,005,699	227,901	1,233,600
2019	210,157	36,563	246,720
2020	213,268	33,452	246,720
2021	216,424	30,296	246,720
2022	219,627	27,093	246,720
2023	222,877	23,843	246,720
Subtotal	1,082,353	151,247	1,233,600
2024	226,176	20,544	246,720
2025	229,523	17,197	246,720
2026	232,920	13,800	246,720
2027	236,367	10,353	246,720
2028	239,865	6,855	246,720
Subtotal	1,164,851	68,749	1,233,600
2029	243,414	3,306	246,720
2030	92,700	317	93,017
Subtotal	336,114	3,623	339,737
Total	$ 3,589,017	$ 451,520	$ 4,040,537

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES (Continued):

Maturities and interest requirements of the Monroe County loan are as follows:

Year Ending June 30,	Bond Principal	Interest	Total
2014	195,122	51,598	246,720
2015	198,010	48,710	246,720
2016	200,940	45,780	246,720
2017	203,914	42,806	246,720
2018	206,932	39,788	246,720
Subtotal	1,004,918	228,682	1,233,600
2019	209,994	36,726	246,720
2020	213,102	33,618	246,720
2021	216,256	30,464	246,720
2022	219,456	27,264	246,720
2023	222,704	24,016	246,720
Subtotal	1,081,512	152,088	1,233,600
2024	226,000	20,720	246,720
2025	229,345	17,375	246,720
2026	232,739	13,981	246,720
2027	236,183	10,537	246,720
2028	239,678	7,042	246,720
Subtotal	1,163,945	69,655	1,233,600
2029	243,225	3,495	246,720
2030	105,667	402	106,069
Subtotal	348,892	3,897	352,789
Total	$ 3,599,267	$ 454,322	$ 4,053,589

Total interest incurred on the Utility's debt for the years ended June 30, 2013 and June 30, 2012, was $158,775 and $304,685, respectively.

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 7 – NOTES PAYABLE:

East Coast Tellico Parkway Sewer Line:

An agreement was entered into on August 28, 2003 between the Tellico Reservoir Development Agency (TRDA), Monroe County, Loudon County, and Tellico Area Services Systems.

TRDA agreed to be responsible for the costs of construction of a new sewer line and associated pump stations generally extending from U. S. Highway 411 near the 411 Bridge in Monroe County to the Rarity Pointe Development on Highway 321 in Loudon County, near Fort Loudoun Dam. The amount actually expended for said project was $1,574,122. This note is payable to TRDA without interest as follows:

Tellico Area Services Systems will pay TRDA on a quarterly basis $1,500 of each tap fee for each qualified tap made during said quarter until the full cost of construction is paid. The balance of this note as of June 30, 2013 is $1,251,622.

Total Long Term debt is as follows:

	June 30, 2013	June 30, 2012
Long-term debt	$ 9,593,759	$ 10,827,964
Interest	1,269,184	2,061,196
Total Debt and Interest	$ 10,862,943	$ 12,889,160

NOTE 8 – EMPLOYEES' RETIREMENT SYSTEM:

(A) PLAN DESCRIPTION:

Employees of Tellico Area Services Systems 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 5 (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. 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 the performance of duty. Members joining the system after July 1, 1979 become vested after 5 (five) years of service and members joining prior to July 1, 1979 were vested after 4 (four) years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly.

Political subdivisions such as Tellico Area Services Systems 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 a political subdivision unless approved by the chief governing body.

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 8 – EMPLOYEES' RETIREMENT SYSTEM (Continued):

(A) PLAN DESCRIPTION (Continued):

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 Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at http://www.tn.gov/treasury/tcrs/PS/.

(B) FUNDING POLICY:

Tellico Area Services Systems requires employees to contribute 5.0 percent of earnable compensation.

Tellico Area Services Systems is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2013 was 5.91% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Tellico Area Services Systems is established and may be amended by the TCRS Board of Trustees.

(C) ANNUAL PENSION COST:

For the year ended June 30, 2013, Tellico Area Services Systems' annual pension cost of $56,259 to TCRS was equal to Tellico Area Services Systems' required and actual 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 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent 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. Tellico Area Services Systems' 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 3 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

Fiscal Year Ending	Annual Pension Cost(APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/13	$ 56,259	100.00%	$ 0.00
6/30/12	$ 51,510	100.00%	$ 0.00
6/30/11	$ 50,561	100.00%	$ 0.00

(D) FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2011, the most recent actuarial valuation date, the plan was 95.66% funded. The actuarial accrued liability for benefits was $1.26 million, and the actuarial value of assets was $1.2 million, resulting in an unfunded actuarial accrued liability (UAAL) of $0.05 million. The covered payroll (annual payroll of active employees covered by the plan) was $0.88 million, and the ratio of the UAAL to the covered payroll was 6.19%.

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 8 – EMPLOYEES' RETIREMENT SYSTEM (Continued):

(D) FUNDED STATUS AND FUNDING PROGRESS (Continued)

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 AAL's for benefits.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/01/11	$ 1,203	$ 1,257	$ 55	95.66%	$ 881	6.19%
7/01/09	$ 876	$ 940	$ 64	93.21%	$ 857	7.45%
7/01/07	$ 732	$ 804	$ 72	91.04%	$ 672	10.71%

NOTE 9 – RISK FINANCING ACTIVITIES:

It is the policy of the Utility to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker's compensation, and employee health and accident. Settled claims have not exceeded this commercial coverage in any of the past three (3) fiscal years.

NOTE 10 – COMMITED CONSTRUCTION:

As of June 30, 2013, the Utility had the following commitment with respect to unfinished construction in progress:

Project Name	Total Contract or Estimated Amount	Costs Incurred through June 30, 2013	Estimated Cost to Complete
Emily's Landing	$ 1,694,999	$ 48,618	$ 1,646,381
Greenback Water Tank	700,000	693,905	6,095
	$ 2,394,999	$ 742,523	$ 1,652,476

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 10 – COMMITED CONSTRUCTION (Continued):

As of June 30, 2012, the Utility had the following commitment with respect to unfinished construction in progress:

Project Name	Total Contract or Estimated Amount	Costs Incurred through June 30, 2012	Estimated Cost to Complete
Emily's Landing	$ 1,694,999	$ 48,618	$ 1,646,381
Cloyd's Creek	65,000	44,424	20,576
	$ 1,759,999	$ 93,042	$ 1,666,957

NOTE 11 – PRIOR PERIOD ADJUSTMENT:

In 2009, an adjusting entry was made to accounts payable for an invoice relating to the construction of the wastewater treatment plant. The payable was not reversed during 2010. Therefore, the resulting cost associated with the wastewater treatment plan was overstated by the amount of the payable. During 2010, the wastewater treatment plant was placed in service. The prior period adjustment of $31,800 is the amount of excess depreciation taken on the wastewater treatment plant from 2010 through 2012.

NOTE 12 – SUBSEQUENT EVENT:

The date to which events occurring after June 30, 2013, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is November 8, 2013, which is the date on which the financial statements were issued.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

REQUIRED SUPPLEMENTAL INFORMATION SECTION

June 30, 2013 and 2012

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2013 and 2012

Required Supplementary Information:

Schedule of Funding Progress for Tellico Area Services Systems

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/01/11	$ 1,203	$ 1,257	$ 55	95.66%	$ 881	6.19%
7/01/09	$ 876	$ 940	$ 64	93.21%	$ 857	7.45%
7/01/07	$ 732	$ 804	$ 72	91.04%	$ 672	10.71%

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

SUPPLEMENTAL INFORMATION SECTION

June 30, 2013 and 2012

TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee

SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION

June 30, 2013 and 2012

	ASSETS				ACCUMULATED DEPRECIATION			
Water Plant in Service	Balance 7-1-12	Additions	Retirements	Balance 6-30-13	Balance 7-1-12	Additions	Retirements	Balance 6-30-13
Capital Assets, non-depreciable:								
Land	$ 324,700	$ -	$ -	$ 324,700	$ -	$ -	$ -	$ -
Capital Assets, depreciable:								
Water lines and appurtenances	12,758,715	83,857	-	12,842,572	3,346,553	255,435	-	3,601,988
Fire hydrants	122,888	5,376	-	128,264	63,848	2,521	-	66,369
Meters	1,387,850	70,301		1,458,151	279,697	43,195	-	322,892
Water treatment plant, water supply intake, and waste-water facility	5,612,911	20,527	-	5,633,438	3,242,437	108,609	-	3,351,046
Office building	1,037,345	-	-	1,037,345	151,287	25,973	-	177,260
Water storage tanks – 3	1,075,745	-	-	1,075,745	586,199	24,559	-	610,758
Grading and surfacing road - Tank #3	10,978	-	-	10,978	10,978	-	-	10,978
Office furniture and fixtures	111,075	9,430	-	120,505	105,550	3,945	-	109,495
Tools and equipment	338,133	653	-	338,786	225,988	18,435	-	244,423
Transportation equipment	372,799	47,896		420,695	260,659	46,309	-	306,968
Fencing	29,040	-	-	29,040	28,879	107	-	28,986
Pump station	419,499	9,437	-	428,936	89,688	26,429	-	116,117
Collection system	21,119	10,748	-	31,867	6,729	2,748	-	9,477
Wastewater treatment plant	10,713,108	5,377	(530,000)	10,188,485	559,771	220,824	(31,800)	748,795
Sewer lines	1,574,122	-	-	1,574,122	215,130	31,482	-	246,612
Total Capital Assets, depreciable	35,585,327	263,602	(530,000)	35,318,929	9,173,393	810,571	(31,800)	9,952,164
Total Capital Assets	$ 35,910,027	$ 263,602	$ (530,000)	$ 35,643,629	$ 9,173,393	$ 810,571	$ (31,800)	$ 9,952,164

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF BONDS PAYABLE
June 30, 2013 and 2012

	COUNTY OF MONROE LOCAL GOVERNMENT PUBLIC IMPROVEMENT BONDS, SERIES E-7-A			COUNTY OF MONROE WATER REVENUE AND TAX BONDS, SERIES 2005		
Year Ended June 30,	Principal	Interest	Total	Principal	Interest	Total
2014	$ 50,000	$ 16,753	$ 66,753	$ 5,537	$ 13,255	$ 18,792
2015	50,000	15,744	65,744	5,770	13,022	18,792
2016	55,000	14,735	69,735	6,012	12,780	18,792
2017	60,000	13,624	73,624	6,265	12,527	18,792
2018	60,000	12,413	72,413	6,528	12,264	18,792
Subtotal	275,000	73,269	348,269	30,112	63,848	93,960
2019	65,000	11,202	76,202	6,803	11,989	18,792
2020	70,000	9,890	79,890	7,089	11,703	18,792
2021	75,000	8,477	83,477	7,387	11,405	18,792
2022	80,000	6,964	86,964	7,697	11,095	18,792
2023	80,000	5,349	85,349	8,021	10,771	18,792
Subtotal	370,000	41,882	411,882	36,997	56,963	93,960
2024	85,000	3,734	88,734	8,358	10,434	18,792
2025	100,000	2,018	102,018	8,710	10,082	18,792
2026	-	-	-	9,076	9,716	18,792
2027	-	-	-	9,457	9,335	18,792
2028	-	-	-	9,855	8,937	18,792
Subtotal	185,000	5,752	190,752	45,456	48,504	93,960
2029	-	-	-	10,269	8,523	18,792
2030	-	-	-	10,701	8,091	18,792
2031	-	-	-	11,151	7,641	18,792
2032	-	-	-	11,619	7,173	18,792
2033	-	-	-	12,108	6,684	18,792
Subtotal	-	-	-	55,848	38,112	93,960
2034	-	-	-	12,617	6,175	18,792
2035	-	-	-	13,147	5,645	18,792
2036	-	-	-	13,700	5,092	18,792
2037	-	-	-	14,276	4,516	18,792
2038	-	-	-	14,876	3,916	18,792
Subtotal	-	-	-	68,616	25,344	93,960
2039	-	-	-	15,502	3,290	18,792
2040	-	-	-	16,153	2,639	18,792
2041	-	-	-	16,832	1,960	18,792
2042	-	-	-	17,540	1,252	18,792
2043	-	-	-	18,277	515	18,792
Subtotal	-	-	-	84,304	9,656	93,960
2044	-	-	-	2,519	12	2,531
Total	$ 830,000	$ 120,903	$ 950,903	$ 323,852	$ 242,439	$ 566,291

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF BONDS PAYABLE (Continued)
June 30, 2013 and 2012

	STATE OF TENNESSEE REVOLVING LOAN LOUDON COUNTY ISSUE			STATE OF TENNESSEE REVOLVING LOAN MONROE COUNTY ISSUE		
Year Ended June 30,	Principal	Interest	Total	Principal	Interest	Total
2014	$ 195,274	$ 51,446	$ 246,720	$ 195,122	$ 51,598	$ 246,720
2015	198,164	48,556	246,720	198,010	48,710	246,720
2016	201,096	45,624	246,720	200,940	45,780	246,720
2017	204,072	42,648	246,720	203,914	42,806	246,720
2018	207,093	39,627	246,720	206,932	39,788	246,720
Subtotal	1,005,699	227,901	1,233,600	1,004,918	228,682	1,233,600
2019	210,157	36,563	246,720	209,994	36,726	246,720
2020	213,268	33,452	246,720	213,102	33,618	246,720
2021	216,424	30,296	246,720	216,256	30,464	246,720
2022	219,627	27,093	246,720	219,456	27,264	246,720
2023	222,877	23,843	246,720	222,704	24,016	246,720
Subtotal	1,082,353	151,247	1,233,600	1,081,512	152,088	1,233,600
2024	226,176	20,544	246,720	226,000	20,720	246,720
2025	229,523	17,197	246,720	229,345	17,375	246,720
2026	232,920	13,800	246,720	232,739	13,981	246,720
2027	236,367	10,353	246,720	236,183	10,537	246,720
2028	239,865	6,855	246,720	239,618	7,042	246,720
Subtotal	1,164,851	68,749	1,233,600	1,163,945	69,655	1,233,600
2029	243,414	3,306	246,720	243,225	3,495	246,720
2030	92,700	317	93,017	105,667	402	106,069
Subtotal	336,114	3,623	339,737	348,892	3,897	352,789
Total	$3,589,017	$ 451,520	$4,040,537	$ 3,599,267	$ 454,322	$ 4,053,589

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF BONDS PAYABLE (Continued)
June 30, 2013 and 2012

	TOTALS		
Year Ended June 30,	Total Principal	Total Interest	Total
2014	$ 445,933	$ 133,052	$ 578,985
2015	451,944	126,032	577,976
2016	463,048	118,919	581,967
2017	474,251	111,605	585,856
2018	480,553	104,092	584,645
Subtotal	2,315,729	593,700	2,909,429
2019	491,954	96,480	588,434
2020	503,459	88,663	592,122
2021	515,067	80,642	595,709
2022	526,780	72,416	599,196
2023	533,602	63,979	597,581
Subtotal	2,570,862	402,180	2,973,042
2024	545,534	55,432	600,966
2025	567,578	46,672	614,250
2026	474,735	37,497	512,232
2027	482,007	30,225	512,232
2028	489,398	22,834	512,232
Subtotal	2,559,252	192,660	2,751,912
2029	496,908	15,324	512,232
2030	209,068	8,810	217,878
2031	11,151	7,641	18,792
2032	11,619	7,173	18,792
2033	12,108	6,684	18,792
Subtotal	740,854	45,632	786,486
2034	12,617	6,175	18,792
2035	13,147	5,645	18,792
2036	13,700	5,092	18,792
2037	14,276	4,516	18,792
2038	14,876	3,916	18,792
Subtotal	68,616	25,344	93,960
2039	15,502	3,290	18,792
2040	16,153	2,639	18,792
2041	16,832	1,960	18,792
2042	17,540	1,252	18,792
2043	18,277	515	18,792
Subtotal	84,304	9,656	93,960
2044	2,519	12	2,531
Total	8,342,136	1,269,184	9,611,320
TRDA Note	1,251,622	-	1,251,622
	$ 9,593,758	$ 1,269,184	$ 10,862,942

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF INSURANCE IN FORCE AND BONDS ON PRINCIPAL OFFICIALS
June 30, 2013 and 2012

Type	Company	Policy No.	Period From	Period To	Coverage	
Workmen's Compensation	Tennessee Risk Management Trust	TNRMT	07-01-12	07-01-13	Statutory - $1,000,000	
Crime	Tennessee Risk Management Trust	TNRMT	07-01-12	07-01-13	Employee /Officers/Trustees Dishonesty Coverage - $150,000	
Comprehensive General Liability Insurance	Tennessee Risk Management Trust	TNRMT	07-01-12	07-01-13	Comprehensive General Liability Insurance Bodily Injury and Property Damage Combined:	
					Coverage:	
					General total limit	$2,000,000
					Products limit	$2,000,000
					Personal injury	$1,000,000
					Each occurrence	$1,000,000
					Fire damage	$ 100,000
					Medical expense	$ 5,000
					Property	$5,000,000
Property	Tennessee Risk Management Trust	TNRMT	07-01-12	07-01-13	$1,000,000 per Occurrence; $100,000 per Building	
Business Auto Policy	Tennessee Risk Management Trust	TNRMT	07-01-12	07-01-13	Liability - $1,000,000 Maximum - Each Occurrence; Uninsured Motorists - $1,000,000 Each Accident	

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF WATER AND SEWER RATES IN FORCE,
AND NUMBER OF CUSTOMERS
June 30, 2013 and 2012

Retail Water Rates as of June 30:

2,000 gallons (Minimum) – $15.92 (3/4 inch meter)
All over 2,000 gallons – $3.88/thousand

Wholesale Water Rates as of June 30, 2013:

First 500,000 gallons – $2.63/thousand
Next 1,000,000 gallons – $2.46/thousand
Next 1,500,000 gallons – $2.13/thousand
All over 3,000,000 gallons – $1.77/thousand

As of 6-30-13:

Number of Water Customers:

Retail	3,964
Wholesale	5

Retail Sewer Rates as of June 30, 2013:

2,000 gallons (minimum) - $21.00
All over 2,000 gallons - 6.11/thousand

Wholesale Sewer Rates as of June 30, 2013:

$4.37/thousand gallons

As of 6-30-13:

Number of Sewer Customers:

Retail	214
Wholesale	2

AWWA WLCC Free Water Audit Software: Reporting Worksheet

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WAS v4.2

Back to Instructions

? Click to access definition

Water Audit Report for: Tellico Area Services System
Reporting Year: 2013 | 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 input data by grading each component (1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

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

WATER SUPPLIED << Enter grading in column 'E'

Volume from own sources:	?	10	1,357.523	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	?	8	0.140	over-registered MG/Yr
Water imported:	?	8	3.379	MG/Yr
Water exported:	?	9	703.852	MG/Yr
WATER SUPPLIED:			656.911	MG/Yr

AUTHORIZED CONSUMPTION

Click here: ? for help using option buttons below

					Pcnt:	Value:
Billed metered:	?	10	433.913	MG/Yr		
Billed unmetered:	?	10	0.000	MG/Yr		
Unbilled metered:	?	10	0.000	MG/Yr		
Unbilled unmetered:	?		8.211	MG/Yr	1.25%	

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION:	?	442.124	MG/Yr

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

WATER LOSSES (Water Supplied - Authorized Consumption) 214.786 MG/Yr

Apparent Losses

					Pcnt:	Value:
Unauthorized consumption:	?		1.642	MG/Yr	0.25%	

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

Customer metering inaccuracies:	?	10	4.383	MG/Yr	1.00%	
Systematic data handling errors:	?	10	1.000	MG/Yr		
Apparent Losses:	?		7.025			

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:	?	207.761	MG/Yr
WATER LOSSES:		214.786	MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER:	?	222.998	MG/Yr

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	?	8	233.0	miles
Number of active AND inactive service connections:	?	10	4,524	
Connection density:			19	conn./mile main
Average length of customer service line:	?	8	0.0	ft (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	?	10	100.0	psi

COST DATA

Total annual cost of operating water system:	?	10	$2,545,616	$/Year
Customer retail unit cost (applied to Apparent Losses):	?	9	$3.88	$/1000 gallons (US)
Variable production cost (applied to Real Losses):	?	10	$317.35	$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	33.9%
Non-revenue water as percent by cost of operating system:	3.8%
Annual cost of Apparent Losses:	$27,258
Annual cost of Real Losses:	$65,933

Operational Efficiency Indicators

Apparent Losses per service connection per day:	4.25	gallons/connection/day
Real Losses per service connection per day*:	N/A	gallons/connection/day
Real Losses per length of main per day*:	2,442.95	gallons/mile/day
Real Losses per service connection per day per psi pressure:		gallons/connection/day/psi
? Unavoidable Annual Real Losses (UARL):	70.78	million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	207.76	million gallons/year
? Infrastructure Leakage Index (ILI) [CARL/UARL]:	2.94	

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

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 92 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: Unauthorized consumption
2: Master meter error adjustment
3: Water imported

For more information, click here to see the Grading Matrix worksheet

Ingram Overholt & Bean, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' 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 Commissioners
Tellico Area Services Systems
Vonore, 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 the Tellico Area Services Systems, as of and for the year ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Tellico Area Services Systems' basic financial statements and have issued our report thereon dated November 8, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Tellico Area Services Systems' 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 Tellico Area Services Systems' internal control. Accordingly, we do not express an opinion on the effectiveness of the Tellico Area Services Systems' 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. 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.

Compliance and Other Matters

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

Purpose of this Report

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

Ingram, Overholt & Bean, P.C.
Alcoa, Tennessee
November 8, 2013