

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

FINANCIAL STATEMENTS,
INDEPENDENT AUDITOR'S REPORT AND
SUPPLEMENTAL INFORMATION

JUNE 30, 2013

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

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DAVID A. KIDD
Certified Public Accountant

115 N. Main ❖ P.O. Box 66
Fayetteville, TN 37334

(931) 433-0128
Fax (931) 433-0650

INDEPENDENT AUDITOR'S REPORT

To the Members of the
Lincoln County Board of Public Utilities:

I have audited the accompanying financial statements of the Lincoln County Board of Public Utilities as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the Lincoln County Board of Public Utilities' 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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lincoln County Board of Public Utilities as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Lincoln County Board of Public Utilities and do not purport to, and do not, present fairly the financial position of Lincoln County, Tennessee, as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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, economical or historical context. My opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the schedule of pension funding progress on page 17 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. I 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 response to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lincoln County Board of Public Utilities' basic financial statements. The schedules of rates in force and principal officers are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of rates in force and principal officers are the responsibility of the Lincoln County Board of Public Utilities' management and were 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 or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedules of rates in force and principal officers are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The schedule of insurance in force and the AWWA reporting worksheet have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly I do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated December 31, 2013 on my consideration of the Lincoln County Board of Public Utilities' internal control over financial reporting and my 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 my 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 Lincoln County Board of Public Utilities' internal control over financial reporting and compliance

Fayetteville, Tennessee
December 31, 2013

DAVID A. KIDD

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

STATEMENT OF NET POSITION

JUNE 30, 2013

ASSETS

CURRENT ASSETS:

Cash	\$ 2,679,509
Accounts receivable, net of allowance for doubtful accounts of \$2,200	251,796
Materials and supplies inventory	115,665
Prepaid expenses	4,291
	<u>3,051,261</u>

RESTRICTED ASSETS:

Cash	<u>290,054</u>
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WATER PLANT AND EQUIPMENT:

Water plant, buildings and equipment	37,445,911
Construction in progress	260,150
Less accumulated depreciation	(14,830,572)
	<u>22,875,489</u>

OTHER ASSETS:

Deposits	<u>750</u>
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Total assets	<u>\$ 26,217,554</u>
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(See accompanying notes to financial statements.)

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:

Accounts payable	\$ 172,273
Accrued liabilities	48,916
Advance payments from developers	25,800
Accrued interest	93,619
Accrued leave	9,433
Current maturities of long-term debt	145,175
Payable from restricted assets:	
Customer deposits	12,530
	<u>507,746</u>

LONG-TERM LIABILITIES:

Bonds and interim certificate of indebtedness	10,294,855
Less current maturities	<u>(145,175)</u>
	10,149,680
Total liabilities	<u>10,657,426</u>

NET POSITION:

Net investment in capital assets	12,580,634
Restricted for debt service	277,524
Unrestricted net position	<u>2,701,970</u>
Total net position	<u>15,560,128</u>
Total liabilities and net position	<u>\$ 26,217,554</u>

(See accompanying notes to financial statements.)

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

OPERATING REVENUES:

Water sales	\$ 4,184,528
Penalties, service charges, and other	224,885
Connection fees	71,400
Total operating revenues	<u>4,480,813</u>

OPERATING EXPENSES:

Salaries and wages	1,086,886
Employee taxes and benefits	372,726
Water purchases	340,206
Water plant repair and maintenance	255,854
Utilities	296,795
Vehicle and equipment	157,650
Connection materials	19,101
Insurance	122,843
Professional fees	47,673
Water chemicals and testing	72,572
Office supplies	46,220
Postage	33,019
Telephone	26,167
Advertising	8,106
Miscellaneous	33,435
Provision for depreciation	904,770
Total operating expenses	<u>3,824,023</u>
Operating income	<u>656,790</u>

NON-OPERATING REVENUES (EXPENSES):

Interest income	1,429
Interest expense	(418,424)
Total non-operating revenues (expenses)	<u>(416,995)</u>
Increase in net position	<u>239,795</u>

Net position, beginning of period	<u>15,320,333</u>
Net position, end of period	<u>\$ 15,560,128</u>

(See accompanying notes to financial statements.)

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers for sales and service charges	\$ 4,409,377
Payments to vendors for goods and services	(1,692,925)
Payments to employees for services	(1,091,676)
Received from customers for connections	71,400
Customer deposits returned	(485)
Net cash provided by operating activities	<u>1,695,691</u>

CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES:

Acquisition and construction of capital assets	(686,124)
Principal advances on bond anticipation notes	575,445
Principal paid on notes and bonds	(443,811)
Interest paid on notes and bonds	(335,424)
Received from equipment dispositions	54,068
Net cash used by capital and related financing activities	<u>(835,846)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on bank deposits	<u>1,429</u>
Net cash provided by investing activities	<u>1,429</u>
Increase in cash and restricted cash	861,274
Cash and restricted cash, beginning of period	<u>2,108,289</u>
Cash and restricted cash, end of period	<u>\$ 2,969,563</u>

(See accompanying notes to financial statements.)

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 656,790
Adjustments to reconcile operating income to net cash provided by operating activities:	
Provision for depreciation	904,770
Changes in assets and liabilities:	
Increase in accounts receivable	(36)
Decrease in inventory	23,101
Increase in prepaid expenses	(191)
Decrease in accrued liabilities	(4,519)
Increase in accounts payable	121,051
Decrease in customer deposits	(485)
Decrease in accrued leave	(4,790)
Net cash provided by operating activities	<u>\$ 1,695,691</u>

(See accompanying notes to financial statements.)

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Organization and reporting entity - The Lincoln County Board of Public Utilities (the "Board") is an enterprise fund established under Tennessee Code Annotated 5-16-101 by Lincoln County, Tennessee. The Board sells drinking water to residents of Lincoln County not served by municipal systems. The Board is operated by a five member Board of Commissioners appointed by the Lincoln County Commission. The Board of Commissioners employs a Superintendent who is responsible for day-to-day operations of the water system including hiring its other employees. The Board is responsible for generating its own revenue and servicing its debt. The Board has the authority to acquire assets in the name of Lincoln County. The Lincoln County Commission has the authority to approve or reject budgets presented by the Board and to approve bonds issued by the Board. Some bonds issued for the Board are secured by a pledge of the taxing authority of Lincoln County.

The financial information of the Board is included as an enterprise fund in the Lincoln County, Tennessee Annual Financial Report. Complete financial statements of Lincoln County, Tennessee can be obtained directly from the County's administrative offices.

Basis of accounting - The accounting policies of the Board conform to applicable generally accepted accounting principles as defined by the Governmental Accounting Standards Board (GASB). The Board is classified as a proprietary fund by GASB and is accounted for using a total economic resources measurement focus. The Board is intended to be operated in a manner whereby the costs of providing water distribution services and system expansion are recovered through user charges. The financial statements are prepared on the accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses are recognized when the related liability is incurred.

The principal operating revenues of the Board are charges to customers for water sales and related services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation of utility plant assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The most significant estimates relate to depreciation and the value of distribution lines contributed to the system.

Water plant and equipment, depreciation and maintenance - Water plant and equipment is depreciated on the group straight-line basis over its estimated useful life. Under the group depreciation method, gains and losses on asset dispositions are applied against accumulated depreciation and are not reflected as gains or losses in the statement of revenues, expenses and changes in net position.

Plant assets and buildings are depreciated over 25-50 years, while vehicles and equipment are depreciated over 6-10 years. Repairs and maintenance are expensed as incurred.

Extensions and betterments are capitalized at cost. Contributed waterlines are capitalized at estimated current cost of construction. The Board capitalizes equipment additions with a cost in excess of \$500 and plant additions in excess of \$2,000.

Materials and supplies inventory - Inventory consists of repair and maintenance supplies and extension materials and is stated at the lower of average cost or replacement value.

Contributions in aid of construction - Connection fees charged to customers (including developers) in excess of the actual cost of installation of new services are reflected as non-operating revenues in the period of new service installation. Amounts contributed related to new line construction are reflected as capital contributions in the period of construction completion.

Revenues - Revenues from water sales are recognized based on meter reading dates. No asset is recorded for water delivered between the last meter reading in the period and the end of the period. Revenues from connection fees and developer charges are recognized when service is activated.

Construction period interest - Interest on costs incurred during the period of plant construction, net of interest earned on temporary investment of financing proceeds, is capitalized until such plant is substantially complete and placed into service. No interest was capitalized in the year ended June 30, 2013.

Allowance for doubtful accounts - The Board charges doubtful accounts arising from water sales receivable to bad debts when it is probable that the account will be uncollectible. Bad debts offset against water sales revenues in 2013 were \$25,021.

Budgets - State law requires the Board to adopt a budget for submission to the Lincoln County Board of Commissioners prior to the start of each fiscal year. The Board adopts its budget considering all cash receipts and disbursements.

Compensated employee absences - Employees accrue twelve days sick leave each year with no accumulation limit. Sick leave does not vest, and no liability for unused sick leave is recorded in the financial statements. Employees accrue vacation leave of from one to three weeks annually based on years of service. In the event of termination, an employee is reimbursed for any unused accumulated leave. Vacation leave is used or lost if not taken by each employee's employment anniversary date. The amount of accrued leave was \$9,433 at June 30, 2013, all of which was considered a current liability.

Cash flows - For purposes of the statement of cash flows, the Board considers all checking, savings and investment accounts with original maturities of three months or less to be cash or cash equivalents.

Net position - Net position is classified as follows:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds and notes attributable to the acquisition or improvement of those assets.
- Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, or laws or regulations of other governments.
- Unrestricted net position – This component of net position consists of assets that do not meet the definition of “restricted” or “net investment in capital assets.”

(2) **LONG-TERM DEBT:**

Bonds and notes are payable from revenues of the Board and are also secured by Lincoln County property taxes for the Series 2002, 2004, 2007, 2008 and 2010 issues. All debt may be prepaid. Parity bonds may be issued if net revenues of the Board are at least 120% of scheduled bond payments. The Board's net revenues exceeded this requirement in the year ended June 30, 2013. The Board had the following bonds and notes outstanding at June 30:

	<u>2013</u>	<u>2012</u>
Interim Certificate of Indebtedness Series 2010, issued June 18, 2012, with interest at 2.75% and principal due February 17, 2015	\$ 3,194,445	\$2,619,000
Water Revenue and Tax Bonds, Series 2007, issued April 23, 2008, due monthly to USDA in annual principal and interest amounts of \$90,360 through 2046 at 4.125%	1,622,103	1,645,033
Water Revenue and Tax Capital Outlay Note, Series 2008, issued May 14, 2008, due in annual principal installments of \$30,000 to \$45,000 through 2020 with interest at 3.98%	-	305,000
Water Revenue and Tax Bonds, Series 2004, issued September 22, 2005, due monthly to USDA in annual principal and interest amounts of \$73,308 through 2043 at 4.25%	1,244,203	1,264,167
Waterworks Revenue and Tax Bonds, Series 2002, issued March 27, 2003, due monthly to USDA in annual principal and interest amounts of \$21,384 through 2041 at 4.75%	328,026	333,681
Waterworks Revenue Bond, Series 2000, issued October 18, 2001, due monthly to USDA in annual principal and interest amounts of \$60,888 through 2039 at 4.375%	947,734	966,704
Waterworks Revenue Bond, Series 1998, issued January 13, 2000, due monthly to USDA in annual principal and interest amounts of \$42,756 through 2038 at 4.75%	616,372	629,509
Waterworks Revenue Bond, Series 1996, issued August 22, 1997, due monthly to USDA in annual principal and interest amounts of \$173,880 through 2035 at 4.875%	<u>2,341,972</u>	<u>2,400,127</u>
Total	10,294,855	10,163,221
Less current portion of long-term debt	<u>(145,175)</u>	<u>(173,694)</u>
Long-term portion, net	<u>\$10,149,680</u>	<u>\$9,989,527</u>

Changes in principal balances during the year ended June 30, 2013 are summarized as follows:

Beginning balance	\$10,163,221
Advances on Interim Certificate of Indebtedness	575,445
Payoff of Water Revenue and Tax Capital Outlay Note	(305,000)
Principal paid on bonds	<u>(138,811)</u>
	<u>\$10,294,855</u>

On February 17, 2011 the Board issued a bank bond anticipation note to provide funding for the Phase V construction project. On June 18, 2012 the bank bond anticipation note was paid off with the proceeds of a USDA interim certificate of indebtedness. The interim certificate of indebtedness has a total principal amount of \$4,702,000, accrues interest at 2.75%, and is payable from the proceeds of the Water Revenue and Tax Bond, Series 2010. The bond has a maximum principal amount of \$4,827,000, a maximum interest rate of 2.75%, and is payable over 38 years. At the maximum principal advance and interest rate, the monthly payment required for the bond will be \$17,088.

Principal and interest payments on bonds and notes outstanding at June 30, 2013, excluding the interim certificate of indebtedness are summarized as follows:

FISCAL			
<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2014	\$ 145,175	\$ 317,401	\$ 462,576
2015	151,961	310,615	462,576
2016	158,368	304,208	462,576
2017	166,472	296,104	462,576
2018	174,260	288,316	462,576
2019-2023	1,000,812	1,312,068	2,312,880
2024-2028	1,257,850	1,055,030	2,312,880
2029-2033	1,582,448	730,432	2,312,880
2034-2038	1,403,212	361,393	1,764,605
2039-2043	813,141	132,412	945,553
2044-2046	<u>246,711</u>	<u>14,463</u>	<u>261,174</u>
	<u>\$7,100,410</u>	<u>\$5,122,442</u>	<u>\$12,222,852</u>

(3) CAPITAL ASSETS:

Major classes of utility plant are as follows:

	BALANCE JUNE 30, 2012	ADDITIONS	DISPOSALS	TRANSFERS	BALANCE JUNE 30, 2013
Non-depreciable:					
Land	\$ 527,695	\$ -	\$ -	\$ -	\$ 527,695
Construction in progress	<u>3,074,977</u>	<u>287,089</u>	<u>(11,500)</u>	<u>(3,090,416)</u>	<u>260,150</u>
	<u>3,602,672</u>	<u>287,089</u>	<u>(11,500)</u>	<u>(3,090,416)</u>	<u>787,845</u>
Depreciable:					
Distribution lines and tanks	26,706,235	-	-	3,090,416	29,796,651
Wells and treatment plant	4,590,887	-	-	-	4,590,887
Buildings and equipment	<u>2,681,820</u>	<u>106,024</u>	<u>(257,166)</u>	<u>-</u>	<u>2,530,678</u>
	<u>33,978,942</u>	<u>106,024</u>	<u>(257,166)</u>	<u>3,090,416</u>	<u>36,918,216</u>
Total	<u>\$37,581,614</u>	<u>\$393,113</u>	<u>\$(268,666)</u>	<u>\$ -</u>	<u>\$37,706,061</u>

Accumulated depreciation of major classes of utility plant is as follows:

Distribution and tanks	\$10,741,010	\$689,970	\$ (11,500)	\$ -	\$11,419,480
Wells and treatment plant	1,323,240	107,200	-	-	1,430,440
Buildings and equipment	<u>2,076,150</u>	<u>107,600</u>	<u>(203,098)</u>	<u>-</u>	<u>1,980,652</u>
	<u>\$14,140,400</u>	<u>\$904,770</u>	<u>\$(214,598)</u>	<u>\$ -</u>	<u>\$14,830,572</u>

The addition to accumulated depreciation consists of depreciation expense.

(4) RESTRICTED ASSETS:

Cash is held in sinking fund reserve funds which are to be accumulated up to the maximum annual debt service and used for bond payments in the event funds are not otherwise available. These funds are mandated by bond covenants for bonds not secured by property taxes of Lincoln County. The Board pays scheduled bond payments from unrestricted funds leaving bond reserve funds intact. Restricted assets also include amounts held for payment of customer deposits. Balances in the restricted funds at June 30, 2013 were:

Sinking fund reserve fund - 1996 Bond	\$ 173,880
Sinking fund reserve fund - 1998 Bond	42,756
Sinking fund reserve fund - 2000 Bond	60,888
Customer deposits	<u>12,530</u>
	<u>\$ 290,054</u>

(5) DEPOSITS AND INVESTMENTS:

State law and bond covenants in general restrict the Board's investments to either United States Treasury or Agency obligations or to certificates of deposit insured or collateralized by direct United States Treasury obligations. The laws of the State of Tennessee require deposits to either be insured by the FDIC, held by banks that participate in the Tennessee Collateral Pool, or collateralized by securities pledged at 105% of the value of uninsured deposits. The Board does not have policies regarding deposits, investments, and related risks. In 2013 the Board's interest earned was from liquid fund accounts which were carried at cost.

Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. As of June 30, 2013, \$514,280 of the Board's bank balance of \$2,999,160 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 19,280
Uninsured and collateral held by pledging bank's agent in the Board's name	<u>495,000</u>
	<u>\$ 514,280</u>

(6) PENSION PLAN:

PLAN DESCRIPTION:

Employees of the Lincoln County Board of Public Utilities 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. 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 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 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 the Board 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.

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 www.tn.gov/treasury/tcrs/PS/.

FUNDING POLICY:

The Board requires employees to contribute 5.0 percent of earnable compensation. The Board is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013 was 8.55% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Board is established and may be amended by the TCRS Board of Trustees.

ANNUAL PENSION COST:

For the year ending June 30, 2013, the Board's annual pension cost of \$92,034 to TCRS was equal to the Board's 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 on 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 increase of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of total investments over a ten-year period. The Board'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 5 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

TREND INFORMATION:

<u>FISCAL YEAR</u> <u>ENDING</u>	<u>ANNUAL</u> <u>PENSION</u> <u>COST (APC)</u>	<u>PERCENTAGE OF APC</u> <u>CONTRIBUTED</u>	<u>NET PENSION</u> <u>OBLIGATION</u>
June 30, 2013	\$ 92,034	100%	\$0.00
June 30, 2012	98,955	100%	0.00
June 30, 2011	109,340	100%	0.00

Funding Status and Funding Progress:

As of July 1, 2011, the most recent actuarial valuation date, the plan was 86.90% funded. The actuarial accrued liability for benefits was \$2.12 million, and the actuarial value of assets was \$1.84 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.28 million. The covered payroll (annual payroll of active employees covered by the plan) was \$1.23 million, and the ratio of the UAAL to the covered payroll was 22.50%.

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

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Plan Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u> <u>-Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b) - (a)</u>	<u>Funded</u> <u>Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a)/c)</u>
July 1, 2011	\$1,841	\$2,119	\$278	86.90%	\$ 1,234	22.50%

(7) WATER SOURCES:

The Board's primary sources of water are the Taft and Flintville well fields with additional sources being the Elora well field and the City of Fayetteville. The City of Fayetteville is the sole supplier of water to 9% of the Board's customers and is a supplemental and primary backup source of water for the remaining customers.

(8) RISK MANAGEMENT AND LIABILITY:

The Board is exposed to various risks of loss related to torts, loss of assets, errors and omissions, and employee injuries. During 2013, the Board participated in a public entity risk pool for coverage of general liability, property, and workers' compensation losses. The Board participated in the Local Government Fund, a public entity risk pool established by an association of Tennessee local governments. The Board pays an annual premium to the pool for the insurance coverage. The pool is created to be self-sustaining through member premiums.

The Board is self-insured for employee health claims between \$250 and \$5,000 (\$4,000 prior to April 1, 2013) per year per covered individual. Employees are responsible for the first \$250 of covered claims, with commercial insurance responsible for amounts over \$5,000. The plan liability at year-end is determined based on subsequent payments. The change in the liability for medical benefits for the years ended June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 713	\$ 5,835
Payments made	(23,940)	(28,670)
Incurred claims	<u>24,026</u>	<u>23,548</u>
Balance, end of year	<u>\$ 799</u>	<u>\$ 713</u>

The Board continues to carry commercial insurance for other risks of loss, including employee bonds and employee health and accident losses above the \$5,000 level. Settled claims from these losses have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) RELATED PARTY TRANSACTIONS:

The Board provides water to Lincoln County related entities at the same billing rate as other customers. In the year ended June 30, 2013 these sales totaled \$28,505 and accounts receivable at June 30, 2013 related to these sales were \$854.

(10) CONTINGENCY:

During the year ended June 30, 2013, the Tennessee Comptroller issued a report that concluded the Board's former Superintendent paid employees amounts in excess of what had been approved by the Board of Commissioners. The Board has filed claims to recover those payments as well as related pension contributions; however, the outcome of this matter cannot presently be determined. Any recoveries will be recorded at the time of receipt.

(11) CURRENT AND PLANNED PROJECTS:

The Board is requesting permits from the State of Tennessee that would allow for the construction of a water treatment plant on the Elk River. The plant would enhance the water available from the Board's current wells that are the primary source of water to 91% of the Board's customers. At June 30, 2013 the Board had purchased land for \$202,000, and had recorded construction in progress cost of \$163,551 related to roadway, other site development costs, and engineering and permitting costs. The estimated cost of the treatment plant and related distribution lines is \$18,000,000. No significant costs are anticipated to be incurred in the near-term and actual plant construction is not expected to begin within the next four years.

At June 30, 2013, the Board had incurred costs of \$3,187,015 on the Phase V project, which includes \$3,090,416 of mains that are complete and in service in addition to \$96,599 of construction in progress. The project will consist of the replacement of approximately 22 miles of waterline in Park City and the surrounding area. Construction began in July 2011 and is expected to be completed in the June 30, 2015 year. The project cost of \$6,638,000 will be funded by a Rural Utility Service bond of \$4,827,000 and grant of \$1,811,000. Both the bond and grant require compliance with requirements of the American Recovery and Reinvestment Act of 2009. Monthly debt service on the bond is anticipated to be approximately \$17,088. The Board approved a monthly \$1.50 per customer rate increase in September 2010 to assist with debt service. The Board will also be required to make monthly additions of \$29,000 to an asset management reserve to fund short-lived equipment and system costs that are currently paid for from current operations.

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PENSION FUNDING PROGRESS

JUNE 30, 2013

For the year ended June 30, 2013 the Lincoln County Board of Public Utilities' employees participated in the Political Subdivision Pension Plan administered by the Tennessee Consolidated Retirement System. Funding progress of the pension plan is summarized as follows:

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
July 1, 2011	\$1,841	\$2,119	\$278	86.90%	\$1,234	22.50%
July 1, 2009	1,205	1,205	-	100.00%	1,133	0.00%
July 1, 2007	823	823	-	100.00%	899	0.00%

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES
SCHEDULE OF INSURANCE IN FORCE - UNAUDITED

JUNE 30, 2013

		<u>COVERAGE</u>	<u>EXPIRATION</u>
Coverage obtained through Lincoln County:			
Local Government Property and Casualty Fund	Buildings and tanks Contents Equipment and vehicles General and vehicle liability Errors and omissions Employee blanket bond	\$20,522,000 \$ 1,405,894 \$ 1,286,342 \$ 1,000,000 \$ 1,000,000 \$ 150,000	07-01-13
Local Government Workers' Compensation Fund	Workers' compensation	Statutory	07-01-13
Other coverage:			
State Automobile Mutual Insurance	Employee dishonesty bond- Superintendent and Chairman	\$ 475,000	10-07-13

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

RATES IN FORCE AND NUMBER OF CUSTOMERS

JUNE 30, 2013

<u>METER TYPE</u>	<u>CUSTOMERS</u>	<u>GALLONS</u>	<u>RATES IN FORCE</u> <u>RATE/1,000</u>
Residential and Commercial	8,709	First 1,000	\$ 23.99
		Next 4,000	4.14
		Over 5,000	4.17
Multi-user (Total of 435 units. Rates are based on usage for each unit.)	127	First 1,000	\$ 20.44
		Next 4,000	4.02
		Over 5,000	4.05
Total	<u>8,836</u>		

OTHER CHARGES

Tap Fee – individual lot – ¾ inch tap	\$ 1,300
individual lot – 1 inch tap	1,550
per subdivision lot	1,200
Service initiation – individual lot	100
subdivision lot	200

AWWA WUCS Free Water Audit Software: Reporting Worksheet

[Back to Instructions](#)

Water Audit Report for: **LINCOLN COUNTY BOARD OF PUBLIC UTILITIES**
 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:	4	745.905	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	3	37.295	under-registered MG/Yr
Water imported:	10	77.160	MG/Yr
Water exported:	n/a	0.000	MG/Yr
WATER SUPPLIED:		860.360	MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	9	488.436	MG/Yr
Billed unmetered:	n/a	0.000	MG/Yr
Unbilled metered:	10	0.161	MG/Yr
Unbilled unmetered:	10	10.755	MG/Yr
AUTHORIZED CONSUMPTION:		499.352	MG/Yr

Click here for help using option buttons below

Pcnt: 1.25% Value:

Use buttons to select percentage of water supplied OR value

WATER LOSSES (Water Supplied - Authorized Consumption)

361.009 MG/Yr

Apparent Losses

Unauthorized consumption:	5	2.151	MG/Yr
Customer metering inaccuracies:	6	25.716	MG/Yr
Systematic data handling errors:	9	1.000	MG/Yr
Apparent Losses:		28.867	

Pcnt: 0.25% Value:

5.00% 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:		332.142	MG/Yr
WATER LOSSES:		361.009	MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 371.924 MG/Yr

SYSTEM DATA

Length of mains:	7	734.0	miles
Number of active AND inactive service connections:	9	8,790	conn./mile main
Connection density:		12	ft. (pipe length between curbstop and customer meter or property boundary)
Average length of customer service line:	6	20.0	ft.
Average operating pressure:	2	75.0	psi

COST DATA

Total annual cost of operating water system:	8	\$4,381,258	\$/Year
Customer retail unit cost (applied to Apparent Losses):	8	\$8.62	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	10	\$1,300.00	\$/million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	43.2%
Non-revenue water as percent by cost of operating system:	15.9%
Annual cost of Apparent Losses:	\$248,830
Annual cost of Real Losses:	\$431,785

Operational Efficiency Indicators

Apparent Losses per service connection per day:	9.00	gallons/connection/day
Real Losses per service connection per day*:	N/A	gallons/connection/day
Real Losses per length of main per day*:	1,239.75	gallons/mile/day
Real Losses per service connection per day per psi pressure:		gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):	151.63	million gallons/year
From Above, Real Losses - Current Annual Real Losses (CARL):	332.14	million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]:	2.19	

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

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 68 out of 100 *****

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

PRIORITY AREAS FOR ATTENTION:

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

- 1: Volume from own sources
- 2: Master meter error adjustment
- 3: Customer metering inaccuracies

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

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

SCHEDULE OF PRINCIPAL OFFICERS

JUNE 30, 2013

LINCOLN COUNTY:

Peggy Bevels	County Executive	8-31-14
Phyllis Counts	County Clerk	8-31-14
Mary Jane Porter	County Trustee	8-31-14

BOARD:

Larry Craig	Board Chairman	6-30-13
Hugh Moffett	Board Vice-Chairman	6-30-13
Ron Stanly	Board Secretary/Treasurer	6-30-14
Paul Butcher	Board Member	6-30-15
Wade Williams	Board Member	6-30-15
Ronnie Braden	Superintendent	

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

<u>Federal Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Type/Amount</u>	<u>Federal Expenditures</u>
U. S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities-ARRA	10.781	Phase V Loan/\$4,827,000	<u>\$356,766</u>

Note: Federal expenditures include \$273,766 capitalized as part of the cost of the waterline project and \$83,000 accrued interest recorded as an expense.

DAVID A. KIDD
Certified Public Accountant

115 N. Main ❖ P.O. Box 66
Fayetteville, TN 37334

(931) 433-0128
Fax (931) 433-0650

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

To the Members of the
Lincoln County Board of Public Utilities:

I have audited, 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, the financial statements of the Lincoln County Board of Public Utilities as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Lincoln County Board of Public Utilities' basic financial statements and have issued my report thereon dated January 2, 2014.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Lincoln County Board of Public Utilities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lincoln County Board of Public Utilities' internal control. Accordingly, I do not express an opinion on the effectiveness of the Lincoln County Board of Public Utilities' internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, I identified certain deficiencies in internal control that I consider to be material weaknesses.

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. I consider the deficiencies described in the accompanying schedule of findings and responses as items 2011-1 and 2012-1 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lincoln County Board of Public Utilities' financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2013-1. I noted certain other matters that I reported to management of the Board in a separate letter dated January 2, 2014.

Lincoln County Board of Public Utilities' Responses to Findings

Lincoln County Board of Public Utilities' responses to the findings identified in my audit are described in the accompanying schedule of findings and responses. The Lincoln County Board of Public Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

Fayetteville, Tennessee
January 2, 2014

DAVID A. KIDD

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2013

FINDINGS-FINANCIAL STATEMENTS AUDIT

FINDING 2011-1: Financial statement preparation: The Lincoln County Board of Public Utilities is required to prepare complete financial statements. However, the Board does not employ anyone with training in preparing financial statements and related notes for external reporting in accordance with accounting principles generally accepted in the United States of America. This requires the auditor to draft the financial statements. The Board should determine if it would be feasible to train or hire someone to prepare the financial statements.

Management response: It is the Board's position that the cost of training personnel on financial reporting or the addition of trained personnel would outweigh the benefit.

FINDING 2012-1: Check signing authority: Effective internal control procedures require the separation of recordkeeping duties from the control of funds. During the year ended June 30, 2012 the office manager was given check signing authority and this authority continued during the year ended June 30, 2013. The office manager also is primarily responsible for accounting functions (including bank reconciliations) which is incompatible with check signing authority. Check signing authority should be assigned to someone who does not have a central role in the recordkeeping process.

Management response: Procedures have been changed to require two signatures on all checks. Authorized signers are now the Superintendent, the office manager, and the Board Chairman.

FINDING 2013-1: Purchasing procedures: During the year ended June 30, 2013 the Tennessee Comptroller noted several findings related to the period of January 1, 2008 through December 31, 2011. Corrective action for all but one of these findings was taken prior to July 1, 2012; however, findings noted that the law governing the Board requires that the Board's purchases be made through the Lincoln County Finance Department. Purchases continue to be made by the Board's employees who are independent of the Lincoln County Finance Department. Procedures should be changed to comply with the law related to purchasing.

Management response: The availability of personnel to accommodate this requirement has delayed any change in procedures. This issue will be addressed in the current fiscal year.