

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

Lynchburg, Tennessee

June 30, 2013

WINNETT
Associates, PLLC

Certified Public Accountants and Consultants

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OFFICIALS
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2013

UTILITY BOARD

Penny Smith - Chairman

Marty Copeland – Vice Chairman

Wayne Brandon

Coleman March

Oscar McGee

OTHER OFFICIALS

Rick Garland - Manager

Sandra Bedford - Office Manager

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Metropolitan Lynchburg-Moore County Water and Sewer Department which comprise the statement of net position as of June 30, 2013 and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Metropolitan Lynchburg-Moore County Water and Sewer Department as of June 30, 2013, and the results of its operations and its cash flows 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 Metropolitan Lynchburg - Moore County Water and Sewer Department and do not purport to, and do not, present fairly the financial position of Metropolitan Lynchburg - Moore County, Tennessee, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of expenditures of federal awards and state financial assistance and the other information included in the introductory section and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of expenditures of federal awards and state financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The introductory section and the other schedules have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion 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 September 26, 2013, on our consideration of Metropolitan Lynchburg-Moore County Water and Sewer Department's internal control over

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

Winnett Associates, PLLC

September 26 , 2013

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

June 30, 2013

<u>ASSETS</u>		
UTILITY PLANT:		
Utility plant in service - Notes B(2) and C	\$ 16,006,127	
Less accumulated depreciation and amortization	(4,521,045)	
	11,485,082	
Construction in progress	726,803	\$ 12,211,885
CURRENT ASSETS:		
Cash - Note D	612,260	
Accounts receivable, net of allowance for uncollectible accounts of \$539 - Notes B(3) and J	89,842	
Other receivables	25,102	
Unbilled water and sewer charges	87,733	
Inventories - Note B(4)	46,046	
Prepaid insurance	28,432	
	TOTAL CURRENT ASSETS	889,415
OTHER ASSETS:		
Utility deposits	510	
Restricted cash - Note D	50,184	50,694
	TOTAL ASSETS	\$ 13,151,994
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 149,538	
Accounts payable	67,287	
Retainage payable	28,629	
Accrued wages, payroll taxes, and withholdings	17,148	
Accrued interest	7,794	
Accrued vacation pay	15,652	
Line of credit - Note G	69,937	
Deferred fees	10,991	
Customer deposits - Note J	25,061	
	TOTAL CURRENT LIABILITIES	\$ 392,037
LONG-TERM DEBT:		
Revenue bonds - Note E	4,081,221	
Less: Deferred loan costs-Note B(5)	(39,826)	
Current portion	(62,817)	
	NET REVENUE BONDS	3,978,578
Notes payable - Note F	1,392,511	
Less current portion	(86,721)	
	NET NOTES PAYABLE	1,305,790
	NET LONG-TERM DEBT	5,284,368
	TOTAL LIABILITIES	5,676,405
NET POSITION:		
Net investment in capital assets	6,591,023	
Restricted for debt retirement	50,184	
Unrestricted	834,382	
	TOTAL NET POSITION	7,475,589
	TOTAL LIABILITIES AND NET POSITION	\$ 13,151,994

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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

For the year ended June 30, 2013

OPERATING REVENUES: - Note E

Water sales	\$ 1,556,169	
Sewer service charges	280,027	
Penalties	20,648	
Service fees	8,515	
Sanitation revenue	7,200	
Tap connection fees	19,295	
Pre-treatment income	9,952	
Surcharges	60,054	
Miscellaneous	3,804	
Uncollectible accounts	<u>(2,777)</u>	
	TOTAL OPERATING REVENUES	\$ 1,962,887

OPERATING EXPENSES:

General and administrative	279,460	
Water operating expenses	874,928	
Sewer operating expenses	187,935	
Utility maintenance	<u>179,330</u>	
	TOTAL OPERATING EXPENSES	<u>1,521,653</u>
	OPERATING INCOME	441,234

NONOPERATING REVENUES (EXPENSES):

Interest income	3,244	
Interest expense	(203,644)	
Loss on retirement of fixed assets	<u>(46,150)</u>	
	TOTAL NONOPERATING REVENUES (EXPENSES), NET	<u>(246,550)</u>
	INCOME (LOSS) BEFORE CONTRIBUTIONS, GRANTS, AND TRANSFERS	194,684

Tap fees in excess of cost		8,057
Contributions from developers		32,471
Grants		122,598
Transfers to Metropolitan Government		<u>(23,284)</u>
	CHANGE IN NET POSITION	334,526
	TOTAL NET POSITION - BEGINNING	<u>7,141,063</u>
	TOTAL NET POSITION- ENDING	<u><u>\$ 7,475,589</u></u>

Provision for depreciation and amortization for the year totalled \$452,753

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

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

For the year ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers, including other funds	\$ 2,020,965	
Payments to suppliers	(626,883)	
Payments to or on behalf of employees	(514,347)	
NET CASH PROVIDED BY OPERATING ACTIVITIES		\$ 879,735

CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:

Transfers to Metropolitan Government		(23,284)
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	(682,317)	
Loan proceeds	492,685	
Draws on line of credit	580,585	
Borrowings repaid	(898,252)	
Contributions, grants, and transfers in aid of construction	149,775	
Interest paid	(205,225)	
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		(562,749)

CASH FLOWS FROM INVESTING ACTIVITIES:

Certificate of deposit	(21)	
Interest income	3,244	
NET CASH PROVIDED BY INVESTING ACTIVITIES		3,223
INCREASE IN CASH AND CASH EQUIVALENTS		296,925
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		258,609
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>\$ 555,534</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH

PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 441,234	
Depreciation and amortization	452,753	
Changes in operating assets and liabilities:		
Accounts receivable	12,499	
Other assets	(22,945)	
Accrued revenue	7,136	
Inventories	10,722	
Accounts payable	(10,591)	
Accrued wages and payroll taxes	3,114	
Accrued vacation pay	65	
Customer deposits and deferred fees	(14,252)	
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 879,735</u>	

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

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

June 30, 2013

NOTE A - GENERAL

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Department conform to generally accepted accounting principles as applicable to enterprise funds. The following is a summary of significant policies:

(1) Accounting Method

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

(2) Utility Plant and Depreciation

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

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

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

(3) Allowance for Uncollectible Accounts

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

(4) Inventories

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

(5) Amortization of Deferred Loan Costs

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

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

June 30, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(6) Compensated Absences

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

(7) Cash Equivalents

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

(8) Use of Estimates

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

(9) Capitalized Interest

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

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

- (11) As a general rule, when both restricted and unrestricted resources are available for use, it is the Department's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

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

June 30, 2013

NOTE C - UTILITY PLANT ADDITIONS AND RETIREMENTS

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions &</u> <u>Reclassifications</u>	<u>Retirements &</u> <u>Reclassifications</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets not being depreciated or amortized:				
Land and land rights	\$ 92,459			\$ 92,459
Construction in progress	<u>88,900</u>	<u>\$ 637,903</u>		<u>726,803</u>
Total capital assets not being depreciated or amortized	<u>181,359</u>	<u>637,903</u>	<u>\$ -</u>	<u>819,262</u>
Other capital assets:				
General	338,563			338,563
Water	13,399,998	97,338		13,497,336
Sewer	1,794,296		163,941	1,630,355
Maintenance	142,615	3,700		146,315
Acquisition adjustment	<u>301,099</u>			<u>301,099</u>
	15,976,571	101,038	163,941	15,913,668
Less accumulated depreciation/amortization for:				
General	133,186	18,232		151,418
Water	2,749,517	358,602		3,108,119
Sewer	1,152,431	47,264	117,791	1,081,904
Maintenance	82,562	12,243		94,805
Acquisition adjustment	69,744	15,055		84,799
Total accumulated depreciation/amortization	<u>4,187,440</u>	<u>451,396</u>	<u>117,791</u>	<u>4,521,045</u>
Other capital assets, net	<u>11,789,131</u>	<u>(350,358)</u>	<u>46,150</u>	<u>11,392,623</u>
Capital assets, net	<u>\$ 11,970,490</u>	<u>\$ 287,545</u>	<u>\$ 46,150</u>	<u>\$ 12,211,885</u>

NOTE D - CASH AND RESTRICTED FUNDS

The following is a summary of cash and restricted funds at June 30, 2013:

	<u>Cash Equivalents</u>	<u>Certificates of</u> <u>Deposit</u>	<u>Total</u>
Cash for general use:	\$ 555,534	\$ 56,726	\$ 612,260
Restricted funds:			
Bond reserve fund		<u>50,184</u>	<u>50,184</u>
	<u>\$ 555,534</u>	<u>\$ 106,910</u>	<u>\$ 662,444</u>

The Bond Reserve fund is restricted for future bond and interest payments. The Department has also designated \$411,710 to be used to fund capital asset replacements.

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

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

June 30, 2013

NOTE D - CASH AND RESTRICTED FUNDS (Continued)

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

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

NOTE E - REVENUE BONDS

A summary of revenue bond transactions for the year ended June 30, 2013, includes the following:

Balance - beginning of year	\$ 4,210,559
Bond payments	<u>(129,338)</u>
	4,081,221
Less current maturities	<u>(62,817)</u>
Revenue bonds, less current maturities - end of year	<u>\$ 4,018,404</u>

Details of water and sewer revenue bonds are as follows:

Series 1997 Water Revenue and Tax Bonds, 4.875%, payable \$1,459 per month including principal and interest with final maturity in 2036	\$237,135
Series 2000 Water Revenue and Tax Bonds, 4.75% payable \$1,711 per month including principal and interest with final maturity in 2038	299,016
Series 2001 Water Revenue and Tax Bonds, 4.75% payable \$1,012 per month including principal and interest with final maturity in 2040	183,241

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

June 30, 2013

NOTE E - REVENUE BONDS (Continued)

Series 2006 Water Revenue and Tax Bonds, 4.25% payable \$4,652 per month including principal and interest with final maturity in 2045	967,392
Series 2008 Water Revenue and Tax Bonds, 4.12% payable \$8,700 per month including principal and interest with final maturity in 2046	1,860,392
Series 2008 Water Revenue and Tax Bonds, 4.625% payable \$2,606 per month including principal and interest with final maturity in 2047	534,045
	<u>\$4,081,221</u>

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

The annual requirements to amortize principal and interest for all revenue bonds as of June 30, 2013, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 62,817	\$ 178,779
2015	68,791	172,805
2016	71,848	169,749
2017	75,041	166,555
2018	78,378	163,218
2019-2023	447,376	760,604
2024-2028	556,193	651,787
2029-2033	688,510	519,470
2034-2038	804,094	351,284
2039-2043	795,334	181,260
2044-2047	432,839	28,301
	<u>\$4,081,221</u>	<u>\$3,343,812</u>

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

(a) Revenue Fund

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

(b) Operation and Maintenance Fund

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

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

June 30, 2013

NOTE E - REVENUE BONDS (Continued)

(c) Bond Funds

The next monies available are to be used to establish bond funds to be used to pay the principal and interest on the bonds as such payments are due. As part of the Bond Funds, Debt Service Reserve Accounts are also to be funded in the amount of \$17,508 for the 1997 series, \$20,532 for the 2000 series, and \$12,144 for the 2001 series. All reserve accounts were funded as required at June 30, 2013.

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

	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Revenue	\$ 307,881	\$ 610,350
Operation and Maintenance	1,899	1,910
Bond	55,728	50,184

Principal and interest payments for these revenue bonds as a percentage of pledged revenue totaled 16% for the year.

NOTE F - NOTES PAYABLE

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

	<u>Principal</u>	<u>Interest</u>
2014	\$ 43,036	\$ 16,412
2015	44,323	15,125
2016	45,648	13,800
2017	47,013	12,435
2018	48,419	11,029
2019-2023	264,696	32,544
2024-2025	83,166	1,854
Total	<u>\$576,301</u>	<u>\$103,199</u>

Principal and interest payments as a percentage of pledged revenue totaled 3% for the year for this loan.

The Department has borrowed \$620,133 on a second loan to finance sewer system improvements. As the project is still in process, the repayment schedule has not been finalized, but the obligation will be non-interest bearing.

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

June 30, 2013

NOTE F - NOTES PAYABLE (Continued)

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

2014	\$ 18,103	\$ 14,206	\$ 11,376
2015	18,103	14,206	11,375
2016	18,103	14,206	11,376
2017	6,035	14,206	11,375
2018		10,656	11,376
2019			<u>11,375</u>
Total	<u>\$ 60,344</u>	<u>\$ 67,480</u>	<u>\$ 68,253</u>

The obligations are non-interest bearing.

Notes payable activity for the year ended June 30, 2013, is as follows:

<u>Balance</u>			<u>Balance</u>
<u>June 30, 2012</u>	<u>Draws</u>	<u>Repayments</u>	<u>June 30, 2013</u>
\$1,158,092	\$492,686	\$258,267	\$1,392,511

The Department incurred \$204,667 in interest costs during the current year, of which \$1,022 was capitalized.

NOTE G - LINE OF CREDIT

The Department obtained a line of credit with Clayton Bank in the amount of \$300,000, to provide funding to pay construction project costs pending receipt of State funding. The line has an interest rate of 2.34%, and the outstanding balance as of June 30, 2013, was \$69,937. Draws during the year totaled \$580,585 with repayments of \$510,648.

NOTE H - RISK MANAGEMENT

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

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

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

June 30, 2013

NOTE I - INCOME TAXES

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

NOTE J - SIGNIFICANT CONCENTRATIONS

The Department operates principally to distribute water to residents of Moore County, Tennessee. The Department grants credit to its customers, which at June 30, 2013, totaled \$90,381. Deposits from these customers, totaling \$25,061 at June 30, 2013, are held as security for these accounts receivable.

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

NOTE K - ENVIRONMENTAL CONTINGENCY

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

NOTE L - FUNDING APPROVAL

The Department has been approved for funding in the amount of \$1,615,000 from the State Revolving Loan Fund for sewer system improvements. As of June 30, 2013, the Department has used \$775,166 of this funding.

Subsequent to June 30, 2013, the Department was awarded loan/grant funding from United States Department of Agriculture-Rural Development in the amount of \$2,200,000. The loan portion of the award is \$1,436,000, with an interest rate of 2.75% and a term of 38 years. The remaining amount of \$764,000 will be a grant.

NOTE M - TRANSFERS

In prior years the Metropolitan government provided funding to the Department to complete a water service expansion project. Surcharges to customers benefiting from the expansion have been collected by the Department and transferred to the Metropolitan government. The amount transferred for the year totaled \$23,284.

NOTE N - COMMITMENTS

The Utility Board awarded a contract for Collection System Rehabilitation in the amount of \$1,047,441 to Cleary Construction Co. As of June 30, 2013, costs totaling \$572,585 had been incurred under this contract.

SUPPLEMENTARY INFORMATION

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

Year ended June 30, 2013

	Budget	Actual	Favorable (Unfavorable)
REVENUES			
Water sales	\$ 1,387,500	\$ 1,556,169	\$ 168,669
Sewer service charges	276,255	280,027	3,772
Surcharges	60,310	60,054	(256)
Penalties	20,900	20,648	(252)
Pre-treatment income	10,000	9,952	(48)
Miscellaneous	4,000	3,804	(196)
Service fees	7,500	8,515	1,015
Sanitation revenue	7,200	7,200	-
Tap connection fees	26,000	19,295	(6,705)
Uncollectible accounts	(3,000)	(2,777)	223
TOTAL REVENUES	<u>1,796,665</u>	<u>1,962,887</u>	<u>166,222</u>
OPERATING EXPENSES			
General and administrative	285,348	279,460	5,888
Water operating expenses	883,937	874,928	9,009
Sewer operating expenses	188,810	187,935	875
Utility maintenance expenses	195,831	179,330	16,501
TOTAL OPERATING EXPENSES	<u>1,553,926</u>	<u>1,521,653</u>	<u>32,273</u>
Operating income	242,739	441,234	198,495
NONOPERATING INCOME (EXPENSE)			
Interest income	3,000	3,244	244
Interest expense	(206,239)	(203,644)	2,595
Loss on retirement of fixed assets	-	(46,150)	(46,150)
Total nonoperating income (expense), net	<u>(203,239)</u>	<u>(246,550)</u>	<u>(43,311)</u>
NET INCOME (LOSS) BEFORE			
CONTRIBUTIONS, GRANTS, AND TRANSFERS	39,500	194,683	155,183
Tap fees in excess of cost	-	8,057	8,057
Grants	-	122,598	122,598
Contributions from developers	-	32,471	32,471
Transfers to Metropolitan Government	(23,500)	(23,284)	216
	<u>\$ 16,000</u>	<u>\$ 334,526</u>	<u>\$ 318,526</u>

See independent auditor's report.

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

Year Ended June 30, 2013

	Budget	Actual	Favorable (Unfavorable)
GENERAL AND ADMINISTRATIVE:			
Salaries and wages	\$ 143,939	\$ 142,342	\$ 1,597
Payroll taxes and employee benefits	39,050	38,549	501
Telephone	6,800	6,260	540
Utilities	4,300	3,736	564
Depreciation and amortization	34,644	34,644	-
Insurance	900	853	47
Postage	12,000	10,511	1,489
Advertising	200	150	50
Office equipment service contract	5,800	5,584	216
Legal and professional fees	7,265	6,967	298
Maintenance and repair	2,200	2,008	192
Fuel	8,500	7,168	1,332
Supplies	9,500	10,282	(782)
General services	2,650	2,532	118
Vehicle maintenance and repair	3,000	3,872	(872)
Dues and subscriptions	3,000	2,527	473
Credit card expense	1,600	1,475	125
GENERAL AND ADMINISTRATIVE	<u>285,348</u>	<u>279,460</u>	<u>5,888</u>
WATER:			
Plant operations:			
Salaries and wages	111,465	113,989	(2,524)
Payroll taxes and employee benefits	18,995	20,100	(1,105)
Telephone	2,000	1,991	9
Electricity	109,140	105,678	3,462
Treated water	52,000	49,125	2,875
Education	500	120	380
Chemicals	120,000	125,355	(5,355)
Depreciation	358,497	358,601	(104)
Maintenance and repair	12,000	10,932	1,068
Raw water	1,000	891	109
Postage	250	153	97
Advertising	850	894	(44)
Insurance	15,300	13,134	2,166
Lab expense	3,000	3,101	(101)
State fees	3,600	3,546	54
Engineering fee	700	693	7
Miscellaneous supplies	3,300	3,055	245
Subscriptions and dues	80	80	-
	<u>812,677</u>	<u>811,438</u>	<u>1,239</u>
Distribution:			
Electricity	30,000	26,783	3,217
Meters and parts	5,000	3,566	1,434
Maintenance and repair	15,000	12,397	2,603
Tap connection and construction expense	20,000	19,295	705
Engineering fee	260	260	-
Miscellaneous supplies	-	167	(167)
Lab fees	1,000	1,022	(22)
	<u>71,260</u>	<u>63,490</u>	<u>7,770</u>
WATER OPERATING EXPENSES	<u>883,937</u>	<u>874,928</u>	<u>9,009</u>

See independent auditors' report.

SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL (Continued)

METROPOLITAN LYNCHBURG - MOORE COUNTY

WATER AND SEWER DEPARTMENT

Year Ended June 30, 2013

	Budget	Actual	Favorable (Unfavorable)
SEWER:			
Plant Operations:			
Salaries and wages	35,091	36,014	(923)
Payroll taxes and employee benefits	18,285	16,999	1,286
Telephone	1,600	1,772	(172)
Electricity	30,200	30,279	(79)
Education	-	30	(30)
Maintenance and repair	2,500	2,869	(369)
Vehicle maintenance and repair	1,700	1,637	63
Insurance	3,500	3,013	487
Postage	75	23	52
Miscellaneous supplies	3,000	3,131	(131)
Fuel	600	755	(155)
State fees	3,600	3,520	80
Pre-treatment expense	8,500	8,864	(364)
Engineering fee	3,280	3,280	-
Depreciation	48,579	47,264	1,315
Chemicals	11,800	13,104	(1,304)
	<u>172,310</u>	<u>172,554</u>	<u>(244)</u>
Collection:			
Electricity	15,500	14,714	786
Maintenance and repair	1,000	667	333
	<u>16,500</u>	<u>15,381</u>	<u>1,119</u>
SEWER OPERATING EXPENSES	<u>188,810</u>	<u>187,935</u>	<u>875</u>
UTILITY MAINTENANCE			
Salaries and wages	106,600	104,448	2,152
Payroll taxes and employee benefits	46,011	45,085	926
Electricity	1,000	625	375
Insurance	2,100	1,814	286
Maintenance and repair	700	904	(204)
Office supplies	-	523	(523)
Vehicle maintenance and repair	12,000	13,565	(1,565)
Depreciation	12,220	12,243	(23)
Fuel	8,000	9,314	(1,314)
Miscellaneous supplies	5,000	4,109	891
Utility maintenance tools	2,200	2,113	87
Allocable expenses	-	(15,413)	15,413
	<u>195,831</u>	<u>179,330</u>	<u>16,501</u>
UTILITY MAINTENANCE EXPENSES	<u>195,831</u>	<u>179,330</u>	<u>16,501</u>
TOTAL OPERATING EXPENSES	<u>\$ 1,553,926</u>	<u>\$ 1,521,653</u>	<u>\$ 32,273</u>

See independent auditors' report.

SCHEDULE OF REVENUE BOND PRINCIPAL AND INTEREST REQUIREMENTS

METROPOLITAN LYNCHBURG - MOORE COUNTY

WATER AND SEWER DEPARTMENT

June 30, 2013

Year Ending June 30,	<u>Series 1997</u>		<u>Series 2000</u>		<u>Series 2001</u>	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 5,791	\$ 11,717	\$ 6,146	\$ 14,386	\$ 3,354	\$ 8,790
2015	6,395	11,113	6,785	13,747	3,687	8,457
2016	6,714	10,794	7,115	13,418	3,866	8,278
2017	7,048	10,460	7,460	13,072	4,054	8,090
2018	7,400	10,108	7,822	12,710	4,251	7,893
2019	7,768	9,740	8,202	12,330	4,457	7,687
2020	8,156	9,352	8,600	11,932	4,674	7,470
2021	8,562	8,946	9,017	11,515	4,901	7,243
2022	8,989	8,519	9,455	11,077	5,138	7,006
2023	9,437	8,071	9,914	10,618	5,388	6,756
2024	9,908	7,600	10,395	10,137	5,649	6,495
2025	10,402	7,106	10,900	9,632	5,924	6,220
2026	10,920	6,588	11,429	9,103	6,211	5,933
2027	11,465	6,043	11,984	8,548	6,513	5,631
2028	12,036	5,472	12,566	7,966	6,829	5,315
2029	12,636	4,872	13,176	7,356	7,161	4,983
2030	13,266	4,242	13,816	6,716	7,508	4,636
2031	13,928	3,580	14,486	6,046	7,873	4,271
2032	14,622	2,886	15,189	5,342	8,255	3,889
2033	15,351	2,157	15,927	4,605	8,656	3,488
2034	16,116	1,392	16,700	3,832	9,076	3,068
2035	16,920	588	17,511	3,021	9,517	2,627
2036	3,305	11	18,361	2,171	9,979	2,165
2037			19,252	1,280	10,463	1,681
2038			16,808	331	10,971	1,173
2039					11,504	540
2040					7,382	108
2041						
2042						
2043						
2044						
2045						
2046						
2047						
	\$ 237,135	\$ 151,357	\$ 299,016	\$ 210,891	\$ 183,241	\$ 139,893

See independent auditors' report.

<u>Series 2006</u>		<u>Series 2008</u>		<u>Totals</u>	
Principal	Interest	Principal	Interest	Principal	Interest
\$ 14,267	\$ 41,557	\$ 33,259	\$ 102,329	\$ 62,817	\$ 178,779
15,530	40,294	36,394	99,194	68,791	172,805
16,203	39,621	37,950	97,638	71,848	169,749
16,905	38,919	39,574	96,014	75,041	166,555
17,638	38,186	41,267	94,321	78,378	163,218
18,402	37,422	43,032	92,556	81,861	159,735
19,200	36,624	44,873	90,715	85,503	156,093
20,032	35,792	46,793	88,795	89,305	152,291
20,900	34,924	48,796	86,792	93,278	148,318
21,806	34,018	50,884	84,704	97,429	144,167
22,751	33,073	53,062	82,526	101,765	139,831
23,737	32,087	55,332	80,256	106,295	135,301
24,766	31,058	57,701	77,887	111,027	130,569
25,839	29,985	60,170	75,418	115,971	125,625
26,959	28,865	62,745	72,843	121,135	120,461
28,127	27,697	65,432	70,156	126,532	115,064
29,346	26,478	68,133	67,455	132,069	109,527
30,618	25,206	71,154	64,434	138,059	103,537
31,945	23,879	71,200	64,388	141,211	100,384
33,329	22,495	77,376	58,212	150,639	90,957
34,774	21,050	80,689	54,899	157,355	84,241
36,281	19,543	84,144	51,444	164,373	77,223
37,853	17,971	87,747	47,841	157,245	70,159
39,493	16,331	91,505	44,083	160,713	63,375
41,205	14,619	95,424	40,164	164,408	56,287
42,991	12,833	99,511	36,077	154,006	49,450
44,854	10,970	103,772	31,816	156,008	42,894
46,797	9,027	108,217	27,371	155,014	36,398
48,826	6,998	112,852	22,736	161,678	29,734
50,942	4,882	117,686	17,902	168,628	22,784
53,149	2,675	122,727	12,861	175,876	15,536
31,927	848	127,985	7,603	159,912	8,451
		65,963	2,960	65,963	2,960
		31,088	1,354	31,088	1,354
\$ 967,392	\$ 795,927	\$ 2,394,437	\$ 2,045,744	\$ 4,081,221	\$ 3,343,812

[?](#) Click to access definition

Water Audit Report for: **Metropolitan Lynchburg-Moore County Water and Sewer Department**
 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:	?	7	200.532	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	?	7	8.000	under-registered MG/Yr
Water imported:	?	7	18.687	MG/Yr
Water exported:	?		0.000	MG/Yr
WATER SUPPLIED:			227.219	MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	?	8	155.903	MG/Yr	Click here: ? for help using option buttons below Pcnt: <input type="radio"/> Value: <input type="text"/> Use buttons to select percentage of water supplied OR value
Billed unmetered:	?	n/a	0.000	MG/Yr	
Unbilled metered:	?	9	10.333	MG/Yr	
Unbilled unmetered:	?		2.840	MG/Yr	
Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed					
AUTHORIZED CONSUMPTION:	?		169.076	MG/Yr	

WATER LOSSES (Water Supplied - Authorized Consumption)

58.143 MG/Yr

Apparent Losses

Unauthorized consumption:	?		0.568	MG/Yr	Pcnt: <input checked="" type="radio"/> Value: <input type="text"/> 0.25%
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed					
Customer metering inaccuracies:	?	7	3.393	MG/Yr	Pcnt: <input checked="" type="radio"/> Value: <input type="text"/> 2.00%
Systematic data handling errors:	?	8	1.247	MG/Yr	
Apparent Losses:	?		5.208		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:	?		52.935	MG/Yr
WATER LOSSES:			58.143	MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: [?](#) **71.316** MG/Yr

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	?	7	231.0	miles
Number of active AND inactive service connections:	?	9	2,325	
Connection density:			10	conn./mile main
Average length of customer service line:	?	8	20.0	ft (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	?	8	80.0	psi

COST DATA

Total annual cost of operating water system:	?	10	\$1,635,861	\$/Year
Customer retail unit cost (applied to Apparent Losses):	?	5	\$9.98	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	?	4	\$1,406.00	\$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	31.4%
Non-revenue water as percent by cost of operating system:	8.9%
Annual cost of Apparent Losses:	\$51,972
Annual cost of Real Losses:	\$74,427

Operational Efficiency Indicators

Apparent Losses per service connection per day:	6.14	gallons/connection/day
Real Losses per service connection per day*:	N/A	gallons/connection/day
Real Losses per length of main per day*:	627.83	gallons/mile/day
Real Losses per service connection per day per psi pressure:		gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):	48.60	million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	52.94	million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]:	1.09	

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

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 71 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: Variable production cost (applied to Real Losses)
- 3: Customer retail unit cost (applied to Apparent Losses)

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

SCHEDULE OF RATES AND NUMBER OF CUSTOMERS
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2013

WATER RATES

First 2,000 gallons	\$ 23.13
All over 2,000 gallons	\$ 8.15 per 1000 gallons

SEWER RATES

First 2,000 gallons	\$ 15.99
All over 2,000 gallons	\$ 7.99 per 1000 gallons

Number of customers at June 30, 2013:

Water	2,329
Sewer	310

See independent auditors' report.

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

June 30, 2013

Property	\$10,292,587
General Liability:	
Per occurrence for loss not limited by the tort liability act	1,000,000
Workman's Compensation	Statutory
Employers' Liability	1,000,000
Commercial Crime:	
Employee fidelity, depositors' forgery, and money orders and counterfeit papers	150,000
Business Auto:	
Liability - per occurrence for loss limited by the tort liability act	1,000,000
Physical damage	ACV
Public Official Liability (Errors or Omissions)	1,000,000
Boiler and Machinery	5,000,000

See independent auditors' report.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
METROPOLITAN LYNCHBURG-MOORE COUNTY WATER AND SEWER DEPARTMENT
Year ended June 30, 2013**

Grantor Agency	CFDA Number	Contract Number	Beginning Accrued	Cash Receipts	Expenditures	Ending Accrued
<u>FEDERAL AWARDS</u>						
Environmental Protection Agency	66.458	CS47000110-0	\$ (237)	\$ 254,848	\$ 254,611	\$ -
TOTAL FEDERAL AWARDS			<u>(237)</u>	<u>254,848</u>	<u>254,611</u>	<u>-</u>
<u>STATE FINANCIAL ASSISTANCE</u>						
29 TN Dept. of Environment and Conservation	N/A	CS47000110-0	(336)	361,009	360,673	-
TOTAL STATE FINANCIAL ASSISTANCE			<u>(336)</u>	<u>361,009</u>	<u>360,673</u>	<u>-</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ (573)</u>	<u>\$ 615,857</u>	<u>\$ 615,284</u>	<u>\$ -</u>

Note 1: The schedule is presented using the accrual basis of accounting.

Loans outstanding:

At June 30, 2013, there was an outstanding balance of \$576,301 on a loan obtained in a previous year through the State Revolving Loan Fund. Payments during the current fiscal year totaled \$41,700.

The balance of the loan for the current project is \$620,133.

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

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

We 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 Metropolitan Lynchburg - Moore County Water and Sewer Department (the Department) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's financial statements, and have issued our report thereon dated September 26, 2013.

Internal Control Over Financial Reporting

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

Our consideration of the 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 significant deficiencies or material weaknesses, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

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

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

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

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

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

Compliance and Other Matters

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

Department's Response to Finding

Metropolitan Lynchburg - Moore County Water and Sewer Department's response to the finding identified in our audit is described above. Metropolitan Lynchburg - Moore County Water and Sewer Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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.

Winnett Associates, PLLC

September 26 , 2013