

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

FINANCIAL STATEMENTS

June 30, 2014 and 2013

TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee

FINANCIAL SECTION

June 30, 2014 and 2013



Joe S. Ingram, CPA (1948 – 2011)
Lonas D. Overholt, CPA
Robert L. Bean, CPA

428 Marilyn Lane
Alcoa, Tennessee 37701

Telephone
865-984-1040
Facsimile
865-982-1665

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Tellico Area Services Systems
Vonore, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Tellico Area Services Systems as of and for the years ended June 30, 2014 and 2013 and the related notes to the financial statements, which comprise the Systems' basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Tellico Area Services Systems as of June 30, 2014 and 2013 and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the required supplementary information (schedule of funding progress) on page 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The supplemental information on pages 25 through 30 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information on pages 25 through 30 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The AWWA Reporting Worksheet on page 31 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2014, on our consideration of the Tellico Area Services Systems' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Tellico Area Services Systems' internal control over financial reporting and compliance.

Ingram, Overholt & Bean, P.C.

Alcoa, Tennessee

November 11, 2014



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

November 11, 2014

Our discussion and analysis of the Tellico Area Services Systems' financial performance provides an overview of the Utility's activities for the years ended June 30, 2014 and 2013. Please read it in conjunction with the Utility's financial statements, as listed in the Table of Contents.

USING THIS ANNUAL REPORT

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

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

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

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

FINANCIAL HIGHLIGHTS

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Water revenues	79.69%	75.62%	73.63%
Capital contributions	1.28%	6.20%	8.25%
Sewer revenues	15.61%	14.24%	11.39%
Interest income	.35%	.57%	.82%
Forfeited discounts	.80%	.77%	.75%
Sprinkler system income	1.05%	.95%	1.01%
Customer service charges and miscellaneous income	1.22%	1.65%	4.15%
Total Revenues	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Operational costs for the Utility were \$3,460,053 and \$3,215,971 for the fiscal years ended June 30, 2014 and 2013 respectively.

ASSETS, LIABILITIES, AND NET POSITION

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current Assets	\$ 4,737,863	\$ 4,451,939	\$ 4,339,779
Non-Current Assets	<u>25,972,754</u>	<u>26,434,163</u>	<u>26,831,827</u>
Total Assets	<u>30,710,617</u>	<u>30,886,102</u>	<u>31,171,606</u>
Current Liabilities	448,111	579,092	991,893
Non-Current Liabilities	<u>8,649,990</u>	<u>9,372,007</u>	<u>10,562,580</u>
Total Liabilities	<u>9,098,101</u>	<u>9,951,099</u>	<u>11,554,473</u>
Net Position – Unrestricted	3,742,896	3,344,774	2,865,421
Net Investment in Capital Assets	17,119,620	16,840,229	16,001,712
Restricted for replacements	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>
Total Net Position	<u>\$ 21,612,516</u>	<u>\$ 20,935,003</u>	<u>\$ 19,617,133</u>
Total Revenues	\$ 4,269,491	\$ 4,683,227	\$ 4,400,043
Total Expenses	<u>3,591,978</u>	<u>3,397,157</u>	<u>3,612,938</u>
Change in Net Position	<u>\$ 677,513</u>	<u>\$ 1,286,070</u>	<u>\$ 787,105</u>

The assets of the Utility decreased by 0.57% during the current year. Net Position of the Utility increased by 3.13%.

FINANCIAL RATIOS

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Working Capital (the amount by which current assets exceed current liabilities)	\$ 4,289,752	\$ 3,872,847	\$ 3,347,886
Current Ratio (compares current assets to liabilities-as an indicator of the ability to pay current obligations)	10.57	7.69	4.38
Return Assets (illustrates to what extent there will be sufficient funds to replace assets in the future)	2.21%	4.16%	3.79%

CAPITAL ASSETS

At the fiscal year ended June 30, 2014 and 2013, the Utility had \$36,710,778 invested in capital assets as outlined below (a .88% increase over the last year).

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land and land rights	\$ 324,700	\$ 324,700	\$ 324,700
Building and improvements	1,077,363	1,077,363	1,077,363
Distribution facilities	34,366,784	33,361,580	33,685,957
Office furniture and fixtures	123,056	120,505	111,075
Tools and equipment	770,257	759,481	710,932
Construction in progress	<u>48,618</u>	<u>742,523</u>	<u>93,042</u>
 Totals	 <u>\$ 36,710,778</u>	 <u>\$ 36,386,152</u>	 <u>\$ 36,003,069</u>

DEBT

The change in bonds and notes payable for the fiscal year ended June 30, 2014 and 2013 is as follows:

	<u>Balance</u> <u>6/30/13</u>	<u>Proceeds</u>	<u>Retired</u>	<u>Balance</u> <u>6/30/14</u>
Monroe County Bonds	\$ 1,153,852	\$ -	\$ (373,852)	\$ 780,000
TRDA Note	1,251,622	-	(1,500)	1,250,122
SRF Note	<u>7,188,285</u>	<u>-</u>	<u>(365,448)</u>	<u>6,822,837</u>
 Total	 <u>\$ 9,593,759</u>	 <u>\$ -</u>	 <u>\$ (740,800)</u>	 <u>\$ 8,852,959</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Respectfully submitted,



Mark Clinton
Systems Manager

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
STATEMENTS OF NET POSITION

ASSETS	June 30, <u>2014</u>	June 30, <u>2013</u>
Current Assets:		
Certificate of Deposit	\$ 1,500,000	\$ 1,750,000
Cash.....	1,791,164	973,191
Accounts receivable	588,235	778,110
Due from Tennessee Valley Authority.....	-	75,711
Inventory	105,598	124,281
Restricted:		
Certificate of Deposit – Replacement Fund	750,000	750,000
Prepaid services.....	<u>2,866</u>	<u>646</u>
Total Current Assets.....	<u>4,737,863</u>	<u>4,451,939</u>
Non-Current Assets:		
Non-depreciable capital assets	324,700	324,700
Depreciable capital assets, net of accumulated depreciation.....	25,599,261	25,366,765
Construction in process	48,618	742,523
Utility deposits	<u>175</u>	<u>175</u>
Total Non-Current Assets.....	<u>25,972,754</u>	<u>26,434,163</u>
DEFERRED OUTFLOWS OF RESOURCES	-	-
Total Assets	<u>30,710,617</u>	<u>30,886,102</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	11,459	109,340
Sales tax payable	13,877	12,168
Accrued interest	-	24,035
Advances from customers	1,737	-
Bonds and notes payable within one (1) year.....	<u>421,038</u>	<u>433,549</u>
Total Current Liabilities	<u>448,111</u>	<u>579,092</u>
Non-Current Liabilities:		
Customer meter deposits	66,920	69,120
Accrued compensated absences	151,149	142,677
Bonds and notes payable	<u>8,431,921</u>	<u>9,160,210</u>
Total Non-Current Liabilities	<u>8,649,990</u>	<u>9,372,007</u>
Total Liabilities	<u>9,098,101</u>	<u>9,951,099</u>
DEFERRED INFLOWS OF RESOURCES	-	-
NET POSITION		
Net investment in capital assets	17,119,620	16,840,229
Restricted for replacements.....	750,000	750,000
Unrestricted.....	<u>3,742,896</u>	<u>3,344,774</u>
Total Net Position.....	<u>\$ 21,612,516</u>	<u>\$ 20,935,003</u>

See accompanying independent auditors' report and notes.

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

	<u>FISCAL YEARS ENDED JUNE 30,</u>	
	<u>2014</u>	<u>2013</u>
OPERATING REVENUES:		
Metered water sales	\$ 3,345,396	\$ 3,493,348
Water tap fees.....	56,905	48,010
Metered sewer sales, sewer service charges and sewer tap fees.....	666,553	666,919
Customers' forfeited discounts	34,150	36,216
Sprinkler systems' income.....	44,841	44,435
Customer service charges and miscellaneous income.....	<u>29,799</u>	<u>70,883</u>
Total Operating Revenues	<u>4,177,644</u>	<u>4,359,811</u>
OPERATING EXPENSES:		
Salaries and wages	1,022,883	1,018,049
Payroll taxes.....	74,619	76,304
Laboratory supplies.....	28,792	27,232
Chemicals.....	222,386	192,999
Goodwill advertising.....	2,045	3,725
Utilities.....	392,687	372,017
Telephone.....	25,477	25,118
Office supplies, postage, and bank charges.....	44,969	41,381
Maintenance and plant expenses	222,025	103,609
Repairs	40,801	17,447
Commissioner's fee	38,670	34,791
Insurance	58,908	54,488
Employee benefits – Health insurance	214,772	214,242
Billing service	5,656	10,590
Legal and audit.....	6,853	6,250
Uniforms	4,852	4,775
Miscellaneous.....	31,759	22,927
Retirement benefits	58,606	56,259
Small tools	3,010	4,742
Professional consultants	32,273	38,658
Vehicle expenses.....	77,309	67,227
Depreciation.....	837,083	810,571
Travel – management.....	8,586	6,497
Travel – employees	782	858
Registration fees.....	<u>4,250</u>	<u>5,215</u>
Total Operating Expenses.....	<u>3,460,053</u>	<u>3,215,971</u>
OPERATING INCOME.....	<u>717,591</u>	<u>1,143,840</u>
OTHER INCOME (EXPENSES):		
Interest earned	14,750	26,714
Interest expense.....	(117,801)	(169,220)
Gain on sale of fixed asset	22,238	6,019
Other expense.....	<u>(14,124)</u>	<u>(11,966)</u>
Total Other Income (Expense)	<u>(94,937)</u>	<u>(148,453)</u>

(Continued)

See accompanying independent auditors' report and notes.

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

	<u>FISCAL YEARS ENDED JUNE 30,</u>	
	<u>2014</u>	<u>2013</u>
Income Before Contributions	622,654	995,387
Capital Contributions.....	<u>54,859</u>	<u>290,683</u>
Change in Net Position.....	677,513	1,286,070
Net Position, Beginning of Year, as previously reported	20,935,003	19,617,133
Prior Period Adjustment (Note 11).....	<u>-</u>	<u>31,800</u>
Net Position, Beginning of Year, as restated.....	<u>20,935,003</u>	<u>19,648,933</u>
Net Position, End of Year.....	<u>\$ 21,612,516</u>	<u>\$ 20,935,003</u>

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 STATEMENTS OF CASH FLOWS

	<u>FISCAL YEARS ENDED JUNE 30,</u>	
	<u>2014</u>	<u>2013</u>
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:		
Cash received from customers	\$ 4,459,693	\$ 4,373,350
Cash payments to suppliers for goods and services	(1,646,138)	(1,938,766)
Cash payments to employees for services.....	<u>(1,089,030)</u>	<u>(1,007,604)</u>
Net Cash Flows Provided By		
Operating Activities	<u>1,724,525</u>	<u>1,426,980</u>
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets and change in construction in progress...	(389,798)	(263,602)
Proceeds from sale of capital assets	22,238	6,019
Principal paid on bonds and notes.....	(740,800)	(1,234,205)
Interest paid on debt.....	(117,801)	(145,185)
Capital contributions	<u>54,859</u>	<u>214,972</u>
Net Cash Flows Provided (Used) By Capital and Related Financing Activities	<u>(1,171,302)</u>	<u>(1,422,001)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:		
Interest received	14,750	26,714
Proceeds from certificate of deposit	<u>250,000</u>	<u>-</u>
Net Cash Flows Provided by Investing Activities	<u>264,750</u>	<u>26,714</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	817,973	21,248
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR.....	<u>973,191</u>	<u>951,943</u>
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	<u>\$ 1,791,164</u>	<u>\$ 973,191</u>
RECONCILIATION OF OPERATING REVENUE TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income.....	\$ 717,591	\$ 1,143,840
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	837,083	810,571
Change in assets and liabilities:		
Accounts receivable, trade	189,875	13,539
Prepaid services.....	(2,220)	1,330
Due from TVA	75,711	(75,711)
Advances from customers	1,737	-
Inventory	18,683	(28,094)
Customer meter deposits	(2,200)	13,674
Accounts payable	(97,881)	(497,599)
Sales tax payable	1,709	(1,855)
Compensated absences.....	8,472	23,250
Accrued interest	<u>(24,035)</u>	<u>24,035</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,724,525</u>	<u>\$ 1,426,980</u>

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 – REPORTING ENTITY:

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

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

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

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

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

- a. Separate legal standing through legislation authorizing its creation
- b. Fiscally independent of other state and local governments

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

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

(Continued)

TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES:(a) Accounting Method:

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

(b) Cash and Cash Equivalents:

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

(c) Accounts Receivable:

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

(d) Inventories:

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

(e) Utility Plant and Depreciation:

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

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

(f) Construction Period Interest:

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

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued):

(g) Compensated Absences:

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

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

(h) Use of Estimates:

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

(i) Use of Resources:

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

(j) Classification of Revenues and Expenses:

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

(k) Implementation of New Accounting Standards:

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

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
 June 30, 2014 and 2013

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

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

(l) Net Position:

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

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

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

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

NOTE 3 – CASH AND INVESTMENTS:

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

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

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

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
 June 30, 2014 and 2013

NOTE 3 – CASH AND INVESTMENTS (Continued):

Total cash and investments at a carrying amount of \$2,691,164 and \$3,473,191 at June 30, 2014 and 2013, respectively, are classified as follows:

<u>Type</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Petty cash.....	\$ 100	\$ 100
Local financial institutions - Checking accounts.....	1,785,265	968,041
Local financial institutions: Savings	5,799	5,050
Certificates of Deposit	<u>2,250,000</u>	<u>2,500,000</u>
Total.....	<u>\$ 4,041,164</u>	<u>\$ 3,473,191</u>

Custodial Credit Risk – The Utility has no formal policy regarding custodial credit risk. However, as of June 30, 2014 and 2013, total cash in financial institutions in the amount of \$4,041,164 and \$3,473,191, respectively, were entirely insured by the Tennessee Investment Collateral Pool.

NOTE 4 – ACCOUNTS RECEIVABLE:

Accounts receivable are comprised of the following:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Metered water sales:		
Billed revenue	\$ 206,289	\$ 394,165
Unbilled revenue.....	<u>381,946</u>	<u>383,945</u>
Total	<u>\$ 588,235</u>	<u>\$ 778,110</u>

NOTE 5 – CAPITAL ASSETS:

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

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

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

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
 June 30, 2014 and 2013

NOTE 5 – CAPITAL ASSETS (Continued):

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

Capital assets activity for the year ended June 30, 2014 was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital Assets, non-depreciable:				
Land.....	\$ 324,700	\$ -	\$ -	\$ 324,700
Other Capital Assets:				
Water lines and appurtenances	12,842,572	-	-	12,842,572
Fire hydrants.....	128,264	8,136	-	136,400
Meters.....	1,458,151	39,366	-	1,497,517
Water treatment plant	5,633,438	9,373	-	5,642,811
Office building	1,037,345	-	-	1,037,345
Water storage tanks	1,075,745	932,419	-	2,008,164
Grading and surfacing	10,978	-	-	10,978
Office furniture and fixtures.....	120,505	2,550	-	123,055
Tools and equipment	338,786	250	-	339,036
Transportation equipment.....	420,695	68,087	(57,560)	431,222
Fencing	29,040	-	-	29,040
Pump station.....	428,936	4,100	-	433,036
Collection system	31,867	-	-	31,867
Sewer lines	1,574,122	-	-	1,574,122
Wastewater treatment plant	<u>10,188,485</u>	<u>11,810</u>	<u>-</u>	<u>10,200,295</u>
Total Other Capital Assets at Historical Cost.....	<u>35,318,929</u>	<u>1,076,091</u>	<u>(57,560)</u>	<u>36,337,460</u>
Less Accumulated Depreciation for:				
Water lines and appurtenances	(3,601,988)	(255,838)	-	(3,857,826)
Fire hydrants.....	(66,369)	(2,634)	-	(69,003)
Meters.....	(322,892)	(44,583)	-	(367,475)
Water treatment plant	(3,351,046)	(110,009)	-	(3,461,055)
Office building	(177,260)	(25,624)	-	(202,884)
Water storage tanks	(610,758)	(48,105)	-	(658,863)
Grading and surfacing	(10,978)	-	-	(10,978)
Office furniture and fixtures.....	(109,495)	(3,762)	-	(113,257)
Tools and equipment	(244,423)	(15,885)	-	(260,308)
Transportation equipment.....	(306,968)	(46,538)	51,048	(302,458)

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 5 – CAPITAL ASSETS (Continued):

Capital assets activity for the year ended June 30, 2014 was as follows (Continued):

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2014</u>
Less Accumulated Depreciation for:				
Fencing	(28,986)	(54)	-	(29,040)
Pump station	(116,117)	(26,726)	-	(142,843)
Collection system	(9,477)	(3,167)	-	(12,644)
Sewer lines	(246,612)	(31,483)	-	(278,095)
Wastewater treatment plant	<u>(748,795)</u>	<u>(222,675)</u>	<u>-</u>	<u>(971,470)</u>
Total Accumulated Depreciation	<u>(9,952,164)</u>	<u>(837,083)</u>	<u>51,048</u>	<u>(10,738,199)</u>
Other Capital Assets, net	<u>25,366,765</u>	<u>239,008</u>	<u>(6,512)</u>	<u>25,599,261</u>
Construction in Progress	<u>742,523</u>	<u>-</u>	<u>(693,905)</u>	<u>48,618</u>
Total Capital Assets, net.....	<u>\$ 26,433,988</u>	<u>\$ 239,008</u>	<u>\$ (700,417)</u>	<u>\$ 25,972,579</u>

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

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2013</u>
Capital Assets, non-depreciable:				
Land.....	\$ 324,700	\$ -	\$ -	\$ 324,700
Other Capital Assets:				
Water lines and appurtenances	12,758,715	83,857	-	12,842,572
Fire hydrants.....	122,888	5,376	-	128,264
Meters.....	1,387,850	70,301	-	1,458,151
Water treatment plant	5,612,911	20,527	-	5,633,438
Office building	1,037,345	-	-	1,037,345
Water storage tanks	1,075,745	-	-	1,075,745
Grading and surfacing	10,978	-	-	10,978
Office furniture and fixtures.....	111,075	9,430	-	120,505
Tools and equipment	338,133	653	-	338,786
Transportation equipment.....	372,799	47,896	-	420,695
Fencing	29,040	-	-	29,040
Pump station.....	419,499	9,437	-	428,936
Collection system	21,119	10,748	-	31,867
Sewer lines	1,574,122	-	-	1,574,122
Wastewater treatment plant	<u>10,713,108</u>	<u>5,377</u>	<u>(530,000)</u>	<u>10,188,485</u>
Total Other Capital Assets at Historical Cost.....	<u>35,585,327</u>	<u>263,602</u>	<u>(530,000)</u>	<u>35,318,929</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2014 and 2013

NOTE 5 – CAPITAL ASSETS (Continued):

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

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

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

A Summary of Long-Term Debt is presented below:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Balance	\$ 8,852,959	\$ 10,827,964
Additions	-	-
Retirements – debt paid	<u>(421,038)</u>	<u>(1,234,205)</u>
Balance	<u>\$ 8,431,921</u>	<u>\$ 9,593,759</u>

Local Government Public Improvement Bonds, Series E-7-A, in the amount of \$1,035,000 were issued through Monroe County, Tennessee. The bonds were issued in Monroe County’s name and it is liable for repayment if the Utility defaults. The bonds are payable over twenty-five (25) years. The monthly payments include variable interest. The balance of the bonds as of June 30, 2014 was \$780,000 (Water Plant Renovations).

Maturities and interest requirements of the bond are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Bond</u> <u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 50,000	\$ 15,744	\$ 65,744
2016	55,000	14,735	69,735
2017	60,000	13,624	73,624
2018	60,000	12,413	72,413
2019	<u>65,000</u>	<u>11,202</u>	<u>76,202</u>
Subtotal	<u>290,000</u>	<u>67,718</u>	<u>357,718</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

Year Ending June 30,	Bond Principal	Interest	Total
2020	70,000	9,890	79,890
2021	75,000	8,477	83,477
2022	80,000	6,964	86,964
2023	80,000	5,349	85,349
2024	<u>85,000</u>	<u>3,734</u>	<u>88,734</u>
Subtotal	<u>390,000</u>	<u>34,414</u>	<u>424,414</u>
2025	<u>100,000</u>	<u>2,018</u>	<u>102,018</u>
	<u>\$ 780,000</u>	<u>\$ 104,150</u>	<u>\$ 884,150</u>

State of Tennessee Revolving Fund Loan Program, in the amount of \$9,416,068. There are two loans, one issued through Loudon County – SRF 07-198 and one issued through Monroe County SRF 07-198A. The loans were used for the construction of a new wastewater treatment plant. The loans are payable over twenty (20) years. The monthly payment includes interest at 1.47%. As of June 30, 2014 the balance of the Loudon County loan was \$3,406,293 and the balance of the Monroe County loan was \$3,416,544.

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

Year Ending June 30,	Bond Principal	Interest	Total
2015	\$ 185,594	\$ 48,826	\$ 234,420
2016	188,341	46,079	234,420
2017	191,128	43,292	234,420
2018	193,957	40,463	234,420
2019	<u>196,827</u>	<u>37,593</u>	<u>234,420</u>
Subtotal	<u>955,847</u>	<u>216,253</u>	<u>1,172,100</u>
2020	199,741	34,679	234,420
2021	202,697	31,723	234,420
2022	205,697	28,723	234,420
2023	208,741	25,679	234,420
2024	<u>211,830</u>	<u>22,590</u>	<u>234,420</u>
Subtotal	<u>1,028,706</u>	<u>143,394</u>	<u>1,172,100</u>
2025	214,965	19,455	234,420
2026	218,146	16,274	234,420
2027	221,375	13,045	234,420
2028	224,651	9,769	234,420
2029	<u>227,976</u>	<u>6,444</u>	<u>234,420</u>
Subtotal	<u>1,107,113</u>	<u>64,987</u>	<u>1,172,100</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

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

Year Ending June 30,	Bond Principal	Interest	Total
2030	231,350	3,070	234,420
2031	<u>83,277</u>	<u>272</u>	<u>83,549</u>
Subtotal	<u>314,627</u>	<u>3,342</u>	<u>317,969</u>
Total	<u>\$ 3,406,293</u>	<u>\$ 427,976</u>	<u>\$ 3,834,269</u>

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

Year Ending June 30,	Bond Principal	Interest	Total
2015	\$ 185,443	\$ 48,977	\$ 234,420
2016	188,187	46,233	234,420
2017	190,972	43,448	234,420
2018	193,799	40,621	234,420
2019	<u>196,667</u>	<u>37,753</u>	<u>234,420</u>
Subtotal	<u>955,068</u>	<u>217,032</u>	<u>1,172,100</u>
2020	199,577	34,843	234,420
2021	202,531	31,889	234,420
2022	205,529	28,891	234,420
2023	208,570	25,850	234,420
2024	<u>211,657</u>	<u>22,763</u>	<u>234,420</u>
Subtotal	<u>1,027,864</u>	<u>144,236</u>	<u>1,172,600</u>
2025	214,789	19,631	234,420
2026	217,968	16,452	234,420
2027	221,194	13,226	234,420
2028	224,467	9,953	234,420
2029	<u>227,789</u>	<u>6,631</u>	<u>234,420</u>
Subtotal	<u>1,106,207</u>	<u>65,893</u>	<u>1,172,100</u>
2030	231,160	3,260	234,420
2031	<u>96,245</u>	<u>350</u>	<u>96,595</u>
Subtotal	<u>327,405</u>	<u>3,610</u>	<u>331,015</u>
Total	<u>\$ 3,416,544</u>	<u>\$ 430,771</u>	<u>\$ 3,847,315</u>

Total interest incurred on the Utility's debt for the years ended June 30, 2014 and June 30, 2013, was \$117,801 and \$169,220, respectively.

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 7 – NOTES PAYABLE:

East Coast Tellico Parkway Sewer Line:

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

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

Tellico Area Services Systems will pay TRDA on a quarterly basis \$1,500 of each tap fee for each qualified tap made during said quarter until the full cost of construction is paid. The balance of this note as of June 30, 2014 is \$1,250,122.

Total Long Term debt is as follows:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Long-term debt	\$ 8,852,959	\$ 9,593,759
Interest	<u>962,897</u>	<u>1,269,184</u>
Total Debt and Interest.....	<u>\$ 9,815,856</u>	<u>\$ 10,862,943</u>

NOTE 8 – EMPLOYEES’ RETIREMENT SYSTEM:

(A) PLAN DESCRIPTION:

Employees of Tellico Area Services Systems are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member’s high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 (five) years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after 5 (five) years of service and members joining prior to July 1, 1979 were vested after 4 (four) years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly.

Political subdivisions such as Tellico Area Services Systems participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
 June 30, 2014 and 2013

NOTE 8 – EMPLOYEES’ RETIREMENT SYSTEM (Continued):

(A) PLAN DESCRIPTION (Continued):

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 15th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

(B) FUNDING POLICY:

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

Tellico Area Services Systems is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2014 was 5.91% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Tellico Area Services Systems is established and may be amended by the TCRS Board of Trustees.

(C) ANNUAL PENSION COST:

For the year ended June 30, 2014, Tellico Area Services Systems’ annual pension cost of \$58,606 to TCRS was equal to Tellico Area Services Systems’ required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Tellico Area Services Systems’ unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 3 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Fiscal Year Ending	Trend Information		
	Annual Pension Cost(APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/14	\$ 58,606	100.00%	\$ 0.00
6/30/13	\$ 56,259	100.00%	\$ 0.00
6/30/12	\$ 51,510	100.00%	\$ 0.00

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 8 – EMPLOYEES’ RETIREMENT SYSTEM (Continued):

(D) FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2013, the most recent actuarial valuation date, the plan was 98.63% funded. The actuarial accrued liability for benefits was \$1.43 million, and the actuarial value of assets was \$1.41 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.02 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.95 million, and the ratio of the UAAL to the covered payroll was 2.04%.

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

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b)-(a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>((b-a)/c)</u>
7/01/13	\$ 1,408	\$ 1,427	\$ 19	98.63%	\$ 955	2.04%
7/01/11	\$ 1,203	\$ 1,257	\$ 55	95.66%	\$ 881	6.19%
7/01/09	\$ 876	\$ 940	\$ 64	93.21%	\$ 857	7.45%

NOTE 9 – RISK FINANCING ACTIVITIES:

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

NOTE 10 – COMMITTED CONSTRUCTION:

As of June 30, 2014, the Utility had the following commitment with respect to unfinished construction in progress:

<u>Project Name</u>	<u>Total Contract or Estimated Amount</u>	<u>Costs Incurred through June 30, 2014</u>	<u>Estimated Cost to Complete</u>
Emily’s Landing	<u>\$ 1,694,999</u>	<u>\$ 48,618</u>	<u>\$ 1,646,381</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 10 – COMMITTED CONSTRUCTION (Continued):

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

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

NOTE 11 – PRIOR YEAR ADJUSTMENT:

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

NOTE 11 – SUBSEQUENT EVENT:

The date to which events occurring after June 30, 2014, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is November 11, 2014, which is the date on which the financial statements were issued.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014 and 2013

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 REQUIRED SUPPLEMENTARY INFORMATION
 June 30, 2014 and 2013

Required Supplementary Information:

Schedule of Funding Progress for Tellico Area Services Systems Retirement (TCRS):

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/01/13	\$ 1,408	\$ 1,427	\$ 19	98.63%	\$ 955	2.04%
0/01/11	\$ 1,203	\$ 1,257	\$ 55	95.60%	\$ 881	6.19%
7/01/09	\$ 876	\$ 940	\$ 64	93.21%	\$ 857	7.45%

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

SUPPLEMENTAL INFORMATION SECTION

June 30, 2014 and 2013

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION
June 30, 2014 and 2013

	Balance 7-1-13	ASSETS			ACCUMULATED DEPRECIATION			
		Additions	Retirements	Balance 6-30-14	Balance 7-1-13	Additions	Retirements	Balance 6-30-14
<u>Water Plant in Service</u>								
Capital Assets, non-depreciable:								
Land	\$ 324,700	\$ -	\$ -	\$ 324,700	\$ -	\$ -	\$ -	\$ -
Capital Assets, depreciable:								
Water lines and appurtenances	12,842,572	-	-	12,842,572	3,601,988	255,838	-	3,857,826
Fire hydrants	128,264	8,136	-	136,400	66,369	2,634	-	69,003
Meters	1,458,151	39,366	-	1,497,517	322,892	44,583	-	367,475
Water treatment plant, water supply intake, and waste-water facility	5,633,438	9,373	-	5,642,811	3,351,046	110,009	-	3,461,055
Office building	1,037,345	-	-	1,037,345	177,260	25,624	-	202,884
Water storage tanks – 3	1,075,745	932,419	-	2,008,164	610,758	48,105	-	658,863
Grading and surfacing road - Tank #3	10,978	-	-	10,978	10,978	-	-	10,978
Office furniture and fixtures....	120,505	2,550	-	123,055	109,495	3,762	-	113,257
Tools and equipment	338,786	250	-	339,036	244,423	15,885	-	260,308
Transportation equipment	420,695	68,087	(57,560)	431,222	306,968	46,538	(51,048)	302,458
Fencing.....	29,040	-	-	29,040	28,986	54	-	29,040
Pump station.....	428,936	4,100	-	433,036	116,117	26,726	-	142,843
Collection system.....	31,867	-	-	31,867	9,477	3,167	-	12,644
Wastewater treatment plant.....	10,188,485	11,810	-	10,200,295	748,795	222,675	-	971,470
Sewer lines	<u>1,574,122</u>	<u>-</u>	<u>-</u>	<u>1,574,122</u>	<u>246,612</u>	<u>31,483</u>	<u>-</u>	<u>278,095</u>
Total Capital Assets, depreciable	<u>35,318,929</u>	<u>1,076,091</u>	<u>(57,560)</u>	<u>36,337,460</u>	<u>9,952,164</u>	<u>837,083</u>	<u>(51,048)</u>	<u>10,738,199</u>
Total Capital Assets	<u>\$ 35,643,629</u>	<u>\$ 1,076,091</u>	<u>\$ (57,560)</u>	<u>\$ 36,662,160</u>	<u>\$ 9,952,164</u>	<u>\$ 837,083</u>	<u>\$ (51,048)</u>	<u>\$ 10,738,199</u>

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
SCHEDULE OF BONDS PAYABLE
 June 30, 2014 and 2013

COUNTY OF MONROE LOCAL
 GOVERNMENT PUBLIC IMPROVEMENT
BONDS, SERIES E-7-A

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 50,000	\$ 15,744	\$ 65,744
2016	55,000	14,735	69,735
2017	60,000	13,624	73,624
2018	60,000	12,413	72,413
2019	<u>65,000</u>	<u>11,202</u>	<u>76,202</u>
Subtotal	<u>290,000</u>	<u>67,718</u>	<u>357,718</u>
2020	70,000	9,890	79,890
2021	75,000	8,477	83,477
2022	80,000	6,964	86,964
2023	80,000	5,349	85,349
2024	<u>85,000</u>	<u>3,734</u>	<u>88,734</u>
Subtotal	<u>390,000</u>	<u>34,414</u>	<u>424,414</u>
2025	<u>100,000</u>	<u>2,018</u>	<u>102,018</u>
Total	<u>\$ 780,000</u>	<u>\$ 104,150</u>	<u>\$ 884,150</u>

See accompanying independent auditors' report and notes.

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 SCHEDULE OF BONDS PAYABLE (Continued)
 June 30, 2014 and 2013

Year Ended June 30,	STATE OF TENNESSEE REVOLVING LOAN LOUDON COUNTY ISSUE			STATE OF TENNESSEE REVOLVING LOAN MONROE COUNTY ISSUE		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 185,594	\$ 48,826	\$ 234,420	\$ 185,443	\$ 48,977	\$ 234,420
2016	188,341	46,079	234,420	188,187	46,233	234,420
2017	191,128	43,292	234,420	190,972	43,448	234,420
2018	193,957	40,463	234,420	193,799	40,621	234,420
2019	<u>196,827</u>	<u>37,593</u>	<u>234,420</u>	<u>196,667</u>	<u>37,753</u>	<u>234,420</u>
Subtotal	<u>955,847</u>	<u>216,253</u>	<u>1,172,100</u>	<u>955,068</u>	<u>217,032</u>	<u>1,172,100</u>
2020	199,741	34,679	234,420	199,577	34,843	234,420
2021	202,697	31,723	234,420	202,531	31,889	234,420
2022	205,697	28,723	234,420	205,529	28,891	234,420
2023	208,741	25,679	234,420	208,570	25,850	234,420
2024	<u>211,830</u>	<u>22,590</u>	<u>234,420</u>	<u>211,657</u>	<u>22,763</u>	<u>234,420</u>
Subtotal	<u>1,028,706</u>	<u>143,394</u>	<u>1,172,100</u>	<u>1,027,864</u>	<u>144,236</u>	<u>1,172,100</u>
2025	214,965	19,455	234,420	214,789	19,631	234,420
2026	218,146	16,274	234,420	217,968	16,452	234,420
2027	221,375	13,045	234,420	221,194	13,226	234,420
2028	224,651	9,769	234,420	224,467	9,953	234,420
2029	<u>227,976</u>	<u>6,444</u>	<u>234,420</u>	<u>227,789</u>	<u>6,631</u>	<u>234,420</u>
Subtotal	<u>1,107,113</u>	<u>64,987</u>	<u>1,172,100</u>	<u>1,106,207</u>	<u>65,893</u>	<u>1,172,100</u>
2030	231,350	3,070	234,420	231,160	3,260	234,420
2031	<u>83,277</u>	<u>272</u>	<u>83,549</u>	<u>96,245</u>	<u>350</u>	<u>96,595</u>
Subtotal	<u>314,627</u>	<u>3,342</u>	<u>317,969</u>	<u>327,405</u>	<u>3,610</u>	<u>331,015</u>
Total	<u>\$ 3,406,293</u>	<u>\$ 427,976</u>	<u>\$ 3,834,269</u>	<u>\$ 3,416,544</u>	<u>\$ 430,771</u>	<u>\$ 3,847,315</u>

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 SCHEDULE OF BONDS PAYABLE (Continued)
 June 30, 2014 and 2013

TOTALS			
Year Ended June 30,	Total <u>Principal</u>	Total <u>Interest</u>	<u>Total</u>
2015	\$ 421,037	\$ 113,547	\$ 534,584
2016	431,528	107,047	538,575
2017	442,100	100,364	542,464
2018	447,756	93,497	541,253
2019	<u>458,494</u>	<u>86,548</u>	<u>545,042</u>
Subtotal	<u>2,200,915</u>	<u>501,003</u>	<u>2,701,918</u>
2020	469,318	79,412	548,730
2021	480,228	72,089	552,317
2022	491,226	64,578	555,804
2023	497,311	56,878	554,189
2024	<u>508,487</u>	<u>49,087</u>	<u>557,574</u>
Subtotal	<u>2,446,570</u>	<u>322,044</u>	<u>2,768,614</u>
2025	529,754	41,104	570,858
2026	436,114	32,726	468,840
2027	442,569	26,271	468,840
2028	449,118	19,722	468,840
2029	<u>455,765</u>	<u>13,075</u>	<u>468,840</u>
Subtotal	<u>2,313,320</u>	<u>132,898</u>	<u>2,446,218</u>
2030	462,510	6,330	468,840
2031	<u>179,522</u>	<u>622</u>	<u>180,144</u>
Subtotal	<u>642,032</u>	<u>6,952</u>	<u>648,984</u>
Total	7,602,837	962,897	8,565,734
TRDA Note	<u>1,250,122</u>	-	<u>1,250,122</u>
	<u>\$ 8,852,959</u>	<u>\$ 962,897</u>	<u>\$ 9,815,856</u>

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 SCHEDULE OF INSURANCE IN FORCE AND BONDS ON PRINCIPAL OFFICIALS
 June 30, 2014 and 2013

<u>Type</u>	<u>Company</u>	<u>Policy No.</u>	<u>Period</u>		<u>Coverage</u>
			<u>From</u>	<u>To</u>	
Workmen's Compensation	Tennessee Risk Management Trust	TNRMT	07-01-13	07-01-14	Statutory - \$1,000,000
Crime	Tennessee Risk Management Trust	TNRMT	07-01-13	07-01-14	Employee /Officers/Trustees Dishonesty Coverage - \$150,000
Comprehensive General Liability Insurance	Tennessee Risk Management Trust	TNRMT	07-01-13	07-01-14	Comprehensive General Liability Insurance Bodily Injury and Property Damage Combined: Coverage: General total limit \$2,000,000 Products limit \$2,000,000 Personal injury \$1,000,000 Each occurrence \$1,000,000 Fire damage \$ 100,000 Medical expense \$ 5,000 Property \$5,000,000
Property	Tennessee Risk Management Trust	TNRMT	07-01-13	07-01-14	\$1,000,000 per Occurrence; \$100,000 per Building
Business Auto Policy	Tennessee Risk Management Trust	TNRMT	07-01-13	07-01-14	Liability - \$1,000,000 Maximum - Each Occurrence; Uninsured Motorists - \$1,000,000 Each Accident

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF WATER AND SEWER RATES IN FORCE,
AND NUMBER OF CUSTOMERS
June 30, 2014 and 2013

Retail Water Rates as of June 30:

2,000 gallons (Minimum) – \$16.42 (3/4 inch meter)
All over 2,000 gallons – \$3.96/thousand

Wholesale Water Rates as of June 30, 2013:

First 500,000 gallons – \$2.68/thousand
Next 1,000,000 gallons – \$2.51/thousand
Next 1,500,000 gallons – \$2.17/thousand
All over 3,000,000 gallons – \$1.81/thousand

As of 6-30-13:

Number of Water Customers:	
Retail	4,014
Wholesale	5

Retail Sewer Rates as of June 30, 2013:

2,000 gallons (minimum) - \$21.63
All over 2,000 gallons - 6.29/thousand

Wholesale Sewer Rates as of June 30, 2013:

\$4.50/thousand gallons

As of 6-30-13:

Number of Sewer Customers:	
Retail	560
Wholesale	2

See accompanying independent auditors’ report and notes.

AWWA WATER REPORTING WORKSHEET

AWWA WLCC Free Water Audit Software: Reporting Worksheet

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Water Audit Report for: **Tellico Area Services System**
 Reporting Year: **2014** / 7/2013 - 6/2014

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:	?	9	1,371.178	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	?	8	0.140	under-registered MG/Yr
Water imported:	?	8	3.562	MG/Yr
Water exported:	?	9	735.455	MG/Yr
WATER SUPPLIED:			639.425	MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	?	10	381.704	MG/Yr
Billed unmetered:	?	10	0.000	MG/Yr
Unbilled metered:	?	10	39.632	MG/Yr
Unbilled unmetered:	?	10	7.993	MG/Yr
AUTHORIZED CONSUMPTION:			429.328	MG/Yr

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

Click here: ?
 for help using option buttons below
 Use buttons to select percentage of water supplied OR value
 Pcmt: 1.25% Value:

WATER LOSSES (Water Supplied - Authorized Consumption) 210.096 MG/Yr

Apparent Losses

Unauthorized consumption:	?	10	1.599	MG/Yr
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed				
Customer metering inaccuracies:	?	10	4.256	MG/Yr
Systematic data handling errors:	?	10	1.000	MG/Yr
Apparent Losses:			6.854	

Pcmt: 0.25% 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:	?	10	203.242	MG/Yr
WATER LOSSES:			210.096	MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER:	?	10	257.721	MG/Yr
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= Total Water Loss + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	?	8	260.0	miles
Number of active AND inactive service connections:	?	10	4,566	
Connection density:	?	10	18	conn./mile main
Average length of customer service line:	?	8	10.0	ft (pipe length between curbside and customer meter or property boundary)
Average operating pressure:	?	10	100.0	psi

COST DATA

Total annual cost of operating water system:	?	10	\$2,545,616	\$/Year
Customer retail unit cost (applied to Apparent Losses):	?	9	\$3.88	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	?	10	\$358.23	\$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	40.3%
Non-revenue water as percent by cost of operating system:	4.6%
Annual cost of Apparent Losses:	\$26,595
Annual cost of Real Losses:	\$72,807

Operational Efficiency Indicators

Apparent Losses per service connection per day:	4.11	gallons/connection/day
Real Losses per service connection per day*:	N/A	gallons/connection/day
Real Losses per length of main per day*:	2,141.64	gallons/mile/day
Real Losses per service connection per day per psi pressure:	78.71	gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):	78.71	million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	203.24	million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]:	2.58	

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

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 90 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	<div style="border: 1px solid black; padding: 5px; display: inline-block;"> For more information, click here to see the Grading Matrix worksheet </div>
2: Unauthorized consumption	
3: Master meter error adjustment	

AWWA Water Loss Control Committee

Reporting Worksheet 1

See accompanying independent auditors' report and notes.



Joe S. Ingram, CPA (1948 – 2011)
Lonas D. Overholt, CPA
Robert L. Bean, CPA

428 Marilyn Lane
Alcoa, Tennessee 37701

Telephone
865-984-1040
Facsimile
865-982-1665

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

Board of Commissioners
Tellico Area Services Systems
Vonore, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Tellico Area Services Systems, as of and for the year ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Tellico Area Services Systems' basic financial statements and have issued our report thereon dated November 11, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Ingram, Overholt & Bean, P.C.

Alcoa, Tennessee
November 11, 2014