METROPOLITAN LYNCHBURG - MOORE COUNTY WATER AND SEWER DEPARTMENT

Lynchburg, Tennessee

June 30, 2014

WINNETT Associates, PLLC

Certified Public Accountants and Consultants

INTRODUCTORY SECTION

C O N T E N T S

INTRODUCTORY SECTION

Officials……. 4

FINANCIAL SECTION

Independent Auditor's Report……... 6
Financial Statements:
Statement of Net Position..... 9
Statement of Revenues, Expenses, and Changes in Net Position 10
Statement of Cash Flows..... 11
Notes to Financial Statements..... 12
Supplementary Information:
Schedule of Income - Budget and Actual 21
Schedule of Operating Expenses - Budget and Actual 22
Schedule of Revenue Bond Principal and Interest Requirements..... 24
Schedule of Water Loss –AWWA Reporting Worksheet..... 26
Schedule of Rates and Number of Customers..... 27
Schedule of Insurance 28
Schedule of Expenditures of Federal Awards and State Financial Assistance…….. 29

INTERNAL CONTROL AND COMPLIANCE SECTION

Independent Auditor's Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*..... 30

OFFICIALS

METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2014

UTILITY BOARD

Penny Smith - Chairman

Marty Copeland – Vice Chairman

Wayne Brandon

Coleman March

Oscar McGee

OTHER OFFICIALS

Rick Garland - Manager

Brooke Fanning - Office Manager

FINANCIAL SECTION

WINNETT
Associates, PLLC

Certified Public Accountants and Consultants

514 Elm Street, P. O. Box 745
Shelbyville, Tennessee 37162

INDEPENDENT AUDITOR'S 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, 2014 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, 2014, 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 Matters

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. As described in Note N to the financial statements, in fiscal year 2014, the Metropolitan Lynchburg-Moore County Water and Sewer Department adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

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 supplementary information 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 supplementary information 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 November 20, 2014, 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

November 20, 2014

STATEMENT OF NET POSITION

METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2014

ASSETS		
UTILITY PLANT:		
Utility plant in service - Notes B(2) and C	$ 17,168,874	
Less accumulated depreciation and amortization	(4,845,014)	
	12,323,860	
Construction in progress	83,569	$ 12,407,429
CURRENT ASSETS:		
Cash and cash equivalents - Note D	529,745	
Certificates of deposit - Note D	56,731	
Accounts receivable, net of allowance for uncollectible accounts of $1,896 - Notes B(3) and J	86,634	
Unbilled water and sewer charges	75,324	
Inventories - Note B(4)	50,368	
TOTAL CURRENT ASSETS		798,802
OTHER ASSETS:		
Utility deposits	510	
Restricted cash - Note D	50,184	50,694
TOTAL ASSETS		$ 13,256,925
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 156,798	
Accounts payable	41,898	
Accrued wages, payroll taxes, and withholdings	3,969	
Accrued interest	7,540	
Accrued vacation pay	17,158	
Customer advances	11,424	
Customer deposits - Note J	24,768	
TOTAL CURRENT LIABILITIES		$ 263,555
LONG-TERM DEBT:		
Revenue bonds - Note E	4,015,592	
Less current portion	(68,791)	
NET REVENUE BONDS	3,946,801	
Notes payable - Note F	1,566,034	
Less current portion	(88,007)	
NET NOTES PAYABLE	1,478,027	
NET LONG-TERM DEBT		5,424,828
TOTAL LIABILITIES		5,688,383
NET POSITION:		
Net investment in capital assets	6,825,803	
Restricted for debt retirement	50,184	
Unrestricted	692,555	
TOTAL NET POSITION		7,568,542
TOTAL LIABILITIES AND NET POSITION		$ 13,256,925

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, 2014

OPERATING REVENUES: - Note E		
Water sales	$ 1,476,116	
Sewer service charges	241,042	
Penalties	20,711	
Service fees	11,037	
Sanitation revenue	7,030	
Tap connection fees	28,985	
Pre-treatment income	9,123	
Credit card income	1,132	
Surcharges	60,061	
Miscellaneous	1,003	
Uncollectible accounts	(6,948)	
TOTAL OPERATING REVENUES		$ 1,849,292
OPERATING EXPENSES:		
General and administrative	313,411	
Water operating expenses	904,307	
Sewer operating expenses	180,778	
Utility maintenance	175,363	
TOTAL OPERATING EXPENSES		1,573,859
OPERATING INCOME		275,433
NONOPERATING REVENUES (EXPENSES):		
Interest income	3,089	
Interest expense	(192,411)	
Loss on retirement of fixed assets	(7,899)	
TOTAL NONOPERATING REVENUES (EXPENSES), NET		(197,221)
INCOME (LOSS) BEFORE CONTRIBUTIONS, GRANTS, AND TRANSFERS		78,212
CONTRIBUTIONS, GRANTS, AND TRANSFERS:		
Tap fees in excess of cost		9,115
Contributions from developers		1,745
Grants		65,011
Transfers to Metropolitan Government		(21,304)
CHANGE IN NET POSITION		132,779
TOTAL NET POSITION - BEGINNING (RESTATED)		7,435,763
TOTAL NET POSITION- ENDING		$ 7,568,542

Provision for depreciation and amortization for the year totalled $459,837.

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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers, including other funds	$ 1,875,476	
Payments to suppliers	(527,370)	
Payments to or on behalf of employees	(567,209)	
NET CASH PROVIDED BY OPERATIONS		$ 780,897
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Transfers to Metropolitan Government		(21,304)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(722,929)	
Loan proceeds	567,052	
Borrowings repaid	(529,096)	
Contributions, grants, and transfers in aid of construction	89,797	
Interest paid	(193,290)	
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		(788,466)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Certificate of deposit interest, reinvested	(5)	
Interest income	3,089	
NET CASH PROVIDED BY INVESTING ACTIVITIES		3,084
DECREASE IN CASH AND CASH EQUIVALENTS		(25,789)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		555,534
CASH AND CASH EQUIVALENTS AT END OF YEAR		$ 529,745

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	$ 275,433
Depreciation and amortization	459,837
Changes in operating assets and liabilities:	
Accounts receivable	3,208
Other assets	39,608
Accrued revenue	12,409
Inventories	(4,322)
Accounts payable	6,257
Accrued wages and payroll taxes	(13,179)
Accrued vacation pay	1,506
Customer deposits and deferred fees	140
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 780,897

Schedule of non-cash capital and related financing activities:	
Purchase of capital assets on account-prior year	$ (60,272)
Capitalized interest	625

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

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 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) Measurement Focus and Basis of Accounting

These financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Compensated Absences

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

(6) 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.

(7) 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.

(8) 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.

(9) 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.

(10) 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.

NOTE C - UTILITY PLANT ADDITIONS AND RETIREMENTS

	Balance June 30, 2013	Additions & Reclassifications	Retirements & Reclassifications	Balance June 30, 2014
Capital assets not being depreciated or amortized:				
Land and land rights	$ 92,459			$ 92,459
Construction in progress	726,803	$ 578,118	$ 1,221,352	83,569
Total capital assets not being depreciated or amortized	819,262	578,118	1,221,352	176,028
Other capital assets:				
General	338,563	13,692		352,255
Water	13,497,336	248,974		13,746,310
Sewer	1,630,355	1,043,850	43,915	2,630,290
Maintenance	146,315			146,315
Acquisition adjustment	301,099			301,099
	15,913,668	1,306,516	43,915	17,176,269
Less accumulated depreciation/amortization for:				
General	151,418	18,167		169,585
Water	3,108,119	362,734		3,470,853
Sewer	1,081,904	52,897	36,014	1,098,787
Maintenance	94,805	10,984		105,789
Acquisition adjustment	84,799	15,055		99,854
Total accumulated depreciation/amortization	4,521,045	459,837	36,014	4,944,868
Other capital assets, net	11,392,623	846,679	7,901	12,231,401
Capital assets, net	$ 12,211,885	$ 1,424,797	$ 1,229,253	$ 12,407,429

NOTE D - CASH AND RESTRICTED FUNDS

The following is a summary of cash and restricted funds at June 30, 2014:

	Cash Equivalents	Certificates of Deposit	Total
Cash for general use:	$ 529,745	$ 56,731	$ 586,476
Restricted funds:			
Bond reserve fund		50,184	50,184
	$ 529,745	$ 106,915	$ 636,660

The Bond Reserve fund is restricted for future bond and interest payments. The Department has also designated $437,193 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

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, 2014, includes the following:

Balance - beginning of year	$ 4,081,221
Bond payments	(65,629)
	4,015,592
Less current maturities	(68,791)
Revenue bonds, less current maturities - end of year	$ 3,946,801

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	$231,040
Series 2000 Water Revenue and Tax Bonds, 4.75% payable $1,711 per month including principal and interest with final maturity in 2038	292,562
Series 2001 Water Revenue and Tax Bonds, 4.75% payable $1,012 per month including principal and interest with final maturity in 2040	179,754

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	952,498
Series 2008 Water Revenue and Tax Bonds, 4.12% payable $8,700 per month including principal and interest with final maturity in 2046	1,832,309
Series 2008 Water Revenue and Tax Bonds, 4.625% payable $2,606 per month including principal and interest with final maturity in 2047	527,429
	$4,015,592

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, 2014, are as follows:

Year	Principal	Interest
2015	$ 68,791	$ 172,805
2016	71,848	169,749
2017	75,041	166,555
2018	78,378	163,218
2019	81,861	159,735
2020-2024	467,280	740,700
2025-2029	580,960	627,020
2030-2034	719,333	488,646
2035-2039	800,133	316,494
2040-2044	817,071	147,346
2045-2047	254,896	12,765
	$4,015,592	$3,165,033

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.

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, 2014.

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

	June 30, 2013	June 30, 2014
Revenue	$ 610,350	$ 584,561
Operation and Maintenance	1,910	1,915
Bond	50,184	50,184

Principal and interest payments for these revenue bonds as a percentage of pledged revenue totaled 13% 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:

	Principal	Interest
2015	$ 44,323	$ 15,125
2016	45,648	13,800
2017	47,013	12,435
2018	48,419	11,029
2019	49,867	9,581
2020-2024	268,387	24,565
2025	29,810	252
Total	$533,467	$ 86,787

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

The Department has borrowed $880,175 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.

NOTE F - NOTES PAYABLE (Continued)

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

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			11,375
Total	$ 42,241	$ 53,274	$ 56,877

The obligations are non-interest bearing.

Notes payable activity for the year ended June 30, 2014, is as follows:

Balance June 30, 2013	Draws	Repayments	Balance June 30, 2014
$1,392,511	$260,042	$86,519	$1,566,034

The Department incurred $193,036 in interest costs during the current year, of which $625 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 there was no outstanding balance as of June 30, 2014. Draws during the year totaled $307,010 with repayments of $376,948.

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.

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, 2014, totaled $88,530. Deposits from these customers, totaling $24,768 at June 30, 2014, are held as security for these accounts receivable.

Water and sewer revenues from Jack Daniel Distillery account for approximately twenty-three 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 cleanup 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, 2014, the Department has used $1,100,219 of this funding.

The Department has been 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. No draws of this funding have been made as of June 30, 2014.

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 $21,304.

NOTE N - RESTATEMENT OF NET POSITION

The Department restated beginning net position to comply with the provisions of GASB Statement No. 65 which requires most debt issuance costs to be expensed when incurred. The restatement resulted in a decrease in net position of $39,826.

SUPPLEMENTARY INFORMATION

SCHEDULE OF INCOME - BUDGET AND ACTUAL

METROPOLITAN LYNCHBURG - MOORE COUNTY WATER AND SEWER DEPARTMENT

Year ended June 30, 2014

	Budget	Actual	Favorable (Unfavorable)
REVENUES			
Water sales	$ 1,447,100	$ 1,476,116	$ 29,016
Sewer service charges	354,158	241,042	(113,116)
Surcharges	59,500	60,061	561
Penalties	21,000	20,711	(289)
Pre-treatment income	10,000	9,123	(877)
Credit card revenue	2,200	1,132	(1,068)
Miscellaneous	3,000	1,003	(1,997)
Service fees	8,500	11,037	2,537
Sanitation revenue	7,200	7,030	(170)
Tap connection fees	26,000	28,985	2,985
Uncollectible accounts	(3,000)	(6,948)	(3,948)
TOTAL REVENUES	1,935,658	1,849,292	(86,366)
OPERATING EXPENSES			
General and administrative	328,364	313,411	14,953
Water operating expenses	896,702	904,307	(7,605)
Sewer operating expenses	181,439	180,778	661
Utility maintenance expenses	213,123	175,363	37,760
TOTAL OPERATING EXPENSES	1,619,628	1,573,859	45,769
Operating income	316,030	275,433	(40,597)
NONOPERATING INCOME (EXPENSE)			
Interest income	3,500	3,089	(411)
Interest expense	(206,239)	(192,411)	13,828
Loss on retirement of fixed assets	-	(7,899)	(7,899)
Total nonoperating income (expense), net	(202,739)	(197,221)	5,518
NET INCOME (LOSS) BEFORE CONTRIBUTIONS, GRANTS, AND TRANSFERS	113,291	78,212	(35,079)
Tap fees in excess of cost	-	9,115	9,115
Grants	-	65,011	65,011
Contributions from developers	-	1,745	1,745
Transfers to Metropolitan Government	(23,500)	(21,304)	2,196
	$ 89,791	$ 132,779	$ 42,988

See independent auditor's report.

SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL

METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

Year Ended June 30, 2014

	Budget	Actual	Favorable (Unfavorable)
GENERAL AND ADMINISTRATIVE:			
Salaries and wages	$ 175,820	$ 166,367	$ 9,453
Payroll taxes and employee benefits	46,642	43,969	2,673
Telephone	6,800	6,164	636
Utilities	4,500	4,198	302
Depreciation and amortization	34,912	33,222	1,690
Insurance	1,360	1,649	(289)
Postage	12,000	11,304	696
Advertising	300	1,165	(865)
Office equipment service contract	5,800	5,659	141
Surety bond	750	750	-
Legal and professional fees	7,330	7,190	140
Education	650	612	38
Maintenance and repair	2,600	3,595	(995)
Fuel	10,500	6,733	3,767
Supplies	10,150	12,869	(2,719)
General services	2,650	2,761	(111)
Vehicle maintenance and repair	500	361	139
Dues and subscriptions	3,100	3,145	(45)
Credit card expense	2,000	1,698	302
GENERAL AND ADMINISTRATIVE	328,364	313,411	14,953
WATER:			
Plant operations:			
Salaries and wages	110,000	116,504	(6,504)
Payroll taxes and employee benefits	20,700	20,467	233
Telephone	2,250	2,444	(194)
Electricity	100,000	98,718	1,282
Treated water	49,000	48,561	439
Education	1,200	1,286	(86)
Chemicals	133,000	128,632	4,368
Depreciation	366,302	362,734	3,568
Maintenance and repair	15,000	21,293	(6,293)
Raw water	5,000	4,999	1
Postage	300	31	269
Advertising	1,100	-	1,100
Insurance	14,650	14,505	145
Lab expense	2,000	2,550	(550)
State fees	3,500	3,022	478
Miscellaneous supplies	4,300	3,482	818
Subscriptions and dues	100	80	20
	828,402	829,308	(906)
Distribution:			
Electricity	28,000	26,522	1,478
Meters and parts	7,000	6,491	509
Maintenance and repair	15,000	12,239	2,761
Tap connection and construction expense	15,000	25,855	(10,855)
Engineering fee	1,200	1,257	(57)
Miscellaneous supplies	100	765	(665)
Lab fees	2,000	1,870	130
	68,300	74,999	(6,699)
WATER OPERATING EXPENSES	896,702	904,307	(7,605)

See independent auditor's report.

SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL (Continued)

METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

Year Ended June 30, 2014

	Budget	Actual	Favorable (Unfavorable)
SEWER:			
Plant Operations:			
Salaries and wages	36,040	38,239	(2,199)
Payroll taxes and employee benefits	8,460	8,061	399
Telephone	2,000	1,962	38
Electricity	30,000	28,339	1,661
Education	400	360	40
Maintenance and repair	750	1,100	(350)
Vehicle maintenance and repair	500	694	(194)
Insurance	4,500	4,472	28
Postage	75	23	52
Miscellaneous supplies	3,500	3,196	304
Fuel	700	633	67
State fees	3,600	3,810	(210)
Pre-treatment expense	5,000	5,188	(188)
Tap and meter connections	1,250	3,130	(1,880)
Engineering fee	-	209	(209)
Depreciation	60,764	52,897	7,867
Chemicals	11,800	12,697	(897)
	169,339	165,010	4,329
Collection:			
Electricity	11,600	10,739	861
Engineering fee	-	209	(209)
Miscellaneous supplies	-	260	(260)
Maintenance and repair	500	4,560	(4,060)
	12,100	15,768	(3,668)
SEWER OPERATING EXPENSES	181,439	180,778	661
UTILITY MAINTENANCE			
Salaries and wages	118,475	115,145	3,330
Payroll taxes and employee benefits	52,348	46,783	5,565
Electricity	600	545	55
Insurance	3,200	3,185	15
Maintenance and repair	2,000	1,848	152
Education	-	104	(104)
Vehicle maintenance and repair	6,500	4,766	1,734
Depreciation	13,000	10,984	2,016
Fuel	9,000	10,592	(1,592)
Miscellaneous supplies	5,000	4,721	279
Utility maintenance tools	3,000	75	2,925
Allocable expenses	-	(23,385)	23,385
UTILITY MAINTENANCE EXPENSES	213,123	175,363	37,760
TOTAL OPERATING EXPENSES	$ 1,619,628	$ 1,573,859	$ 45,769

See independent auditor's report.

SCHEDULE OF REVENUE BOND PRINCIPAL AND INTEREST REQUIREMENTS

METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2014

Year Ending	Series 1997		Series 2000		Series 2001	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
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	3,001	11	18,361	2,171	9,979	2,165
2037			19,252	1,280	10,463	1,681
2038			16,500	331	10,971	1,173
2039					11,504	540
2040					7,249	108
2041						
2042						
2043						
2044						
2045						
2046						
2047						
	$ 231,040	$ 139,640	$ 292,562	$ 196,505	$ 179,754	$ 131,103

See independent auditor's report.

Series 2006		Series 2008		Totals	
Principal	Interest	Principal	Interest	Principal	Interest
$ 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	156,941	70,159
39,493	16,331	91,505	44,083	160,713	63,375
41,205	14,619	95,424	40,164	164,100	56,287
42,991	12,833	99,511	36,077	154,006	49,450
44,854	10,970	103,772	31,816	155,875	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
31,300	848	127,985	7,603	159,285	8,451
		65,963	2,960	65,963	2,960
		29,648	1,354	29,648	1,354
$ 952,498	$ 754,370	$ 2,359,738	$ 1,943,415	$ 4,015,592	$ 3,165,033

AWWA WLCC Free Water Audit Software: Reporting Worksheet

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WAS v4.2

Back to Instructions

? Click to access definition

Water Audit Report for: Metro Utility Department
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:	?	8	207.182	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	?	7	6.000	under-registered MG/Yr
Water imported:	?	7	17.887	MG/Yr
Water exported:	?	n/a	0.000	MG/Yr
WATER SUPPLIED:			231.069	MG/Yr

AUTHORIZED CONSUMPTION

Click here: ? for help using option buttons below

					Pcnt:	Value:
Billed metered:	?	8	145.463	MG/Yr		
Billed unmetered:	?	n/a	0.000	MG/Yr		
Unbilled metered:	?	10	11.961	MG/Yr		
Unbilled unmetered:	?		2.888	MG/Yr	1.25%	

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

AUTHORIZED CONSUMPTION:	?	160.312	MG/Yr

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

WATER LOSSES (Water Supplied - Authorized Consumption)

70.757 MG/Yr

Apparent Losses

					Pcnt:	Value:
Unauthorized consumption:	?		0.578	MG/Yr	0.25%	
Customer metering inaccuracies:	?	7	4.869	MG/Yr	3.00%	
Systematic data handling errors:	?	8	1.789	MG/Yr		
Apparent Losses:	?		7.235			

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

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:	?	63.521	MG/Yr
WATER LOSSES:		70.757	MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER:	?	85.606	MG/Yr

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	?	7	232.0	miles
Number of active AND inactive service connections:	?	9	2,356	
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	70.0	psi

COST DATA

Total annual cost of operating water system:	?	10	$1,654,802	$/Year
Customer retail unit cost (applied to Apparent Losses):	?	6	$10.15	$/1000 gallons (US)
Variable production cost (applied to Real Losses):	?	7	$1,366.36	$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	37.0%
Non-revenue water as percent by cost of operating system:	10.9%
Annual cost of Apparent Losses:	$73,440
Annual cost of Real Losses:	$86,793

Operational Efficiency Indicators

Apparent Losses per service connection per day:	8.41	gallons/connection/day
Real Losses per service connection per day*:	N/A	gallons/connection/day
Real Losses per length of main per day*:	750.13	gallons/mile/day
Real Losses per service connection per day per psi pressure:		gallons/connection/day/psi
? Unavoidable Annual Real Losses (UARL):	42.81	million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	63.52	million gallons/year
? Infrastructure Leakage Index (ILI) [CARL/UARL]:	1.48	

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

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 76 out of 100 *****

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

PRIORITY AREAS FOR ATTENTION:

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

1: Volume from own sources
2: Master meter error adjustment
3: Water imported

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, 2014

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, 2014:	
Water	2,326
Sewer	308

See independent auditor's report.

SCHEDULE OF INSURANCE

METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2014

Property	$11,547,890
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 auditor's report.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
METROPOLITAN LYNCHBURG-MOORE COUNTY WATER AND SEWER DEPARTMENT
Year ended June 30, 2014

Grantor Agency	CFDA Number	Contract Number	Beginning Accrued	Cash Receipts	Expenditures	Ending Accrued
FEDERAL AWARDS						
Environmental Protection Agency	66.458	CS47000110-0	$ -	$ 134,762	$ 134,762	$ -
TOTAL FEDERAL AWARDS			-	134,762	134,762	-
STATE FINANCIAL ASSISTANCE						
TN Dept. of Environment and Conservation	N/A	CS47000110-0	-	190,291	190,291	-
TOTAL STATE FINANCIAL ASSISTANCE			-	190,291	190,291	-
TOTAL FEDERAL AND STATE AWARDS			$ -	$ 325,053	$ 325,053	$ -

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

Loans outstanding:
At June 30, 2014, there was an outstanding balance of $533,467 on a loan obtained in a previous year through the State Revolving Loan Fund. Payments during the current fiscal year totaled $42,834.
The balance of the loan for the current project is $880,175.

WINNETT
Associates, PLLC

Certified Public Accountants and Consultants

514 Elm Street, P. O. Box 745
Shelbyville, Tennessee 37162

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

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, 2014, and the related notes to the financial statements, which collectively comprise the Department's financial statements, and have issued our report thereon dated November 20, 2014.

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 material weaknesses or significant deficiencies, 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. 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.

We consider the following deficiency (which was also noted in the prior year) 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

November 20, 2014