

ANDERSON COUNTY WATER AUTHORITY
Clinton, Tennessee

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

For the Years Ended

June 30, 2015 and 2014

PREPARED BY:

Larry Clowers, General Manager

ANDERSON COUNTY WATER AUTHORITY
Clinton, Tennessee
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INTRODUCTORY SECTION



**P. O. Box 70
Clinton, Tennessee 37717**

Anderson County Water Authority

(865) 457-3033

October 30, 2015

Board of Directors of
Anderson County Water Authority
Clinton, Tennessee

State law and the Comptroller of the Treasury, State of Tennessee, requires that every political subdivision or municipal corporation publish within six months of the close of each fiscal year-end, a complete set of audited financial statements. This Comprehensive Annual Financial Report (CAFR) of the Anderson County Water Authority (the Authority) is published to fulfill these requirements for the fiscal years ended June 30, 2015 and 2014.

Internal Controls

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatements.

Independent Audit

Parsons & Wright CPA's have issued an unmodified ("clean") opinion on the Authority's financial statements for the years ended June 30, 2015 and 2014, respectively. As stated in the independent auditor's report, the audits were conducted in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A)

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of MD&A. The Letter of Transmittal is designed to complement MD&A and should be read in conjunction with it. The Authority's MD&A can be found immediately following the Independent Auditor's Report.

Profile of the Authority

The Authority was created by the Tennessee General Assembly Private Act No. 40 and approved by the Anderson County Commission on July 16, 2007. The Authority started organizing activities on July 16, 2007, and began significant operations on January 1, 2009 and provides water and wastewater collection services to the unincorporated areas of Anderson County, Tennessee. The purpose of the Authority is to "acquire, construct, improve, extend, operate, and maintain a water system." The Authority's primary source of water is drawn from the Clinch River.

The Authority is governed by a Board of Directors composed of five citizens who reside in, or are customers, of the Authority. Board members are nominated by the Anderson County Mayor for a term of four years, subject to confirmation by the Anderson County Commission.

The Authority's primary capital assets consists of two water treatment plants, one office building, one wastewater treatment plant, and eleven water reservoir tanks.

The Authority receives no financial support from Anderson County, Tennessee and has no taxing authority. The Authority's revenues are derived from water and wastewater charges based upon metered water consumption of customers. The water and wastewater rates are established by the Board of Directors.

Budgeting

The Authority adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with GAAP. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contributions, grants, borrowings and certain revenues for capital projects.

Local Economy

The Authority is located within the Knoxville Metropolitan Statistical Area (MSA) which includes Knox, Blount, Anderson, Sevier, Loudon and Union Counties. The Knoxville MSA is also the trade center for several counties in East Tennessee, and parts of Kentucky, Virginia and North Carolina.

For June 2015, the unemployment rates according to the U.S. Bureau of Labor Statistics for Anderson County, Tennessee, and the Nation were 6.4%, 5.7% and 5.3%, respectively.

Per capita income in 2014 for Anderson County, Tennessee, and the Nation was \$39,148, \$39,324, and \$44,543, respectively.

The Knoxville MSA has several large employers including the Tennessee Valley Authority, U.S. Department of Energy, Alcoa Aluminum, several hospitals, Clayton Homes, HGTV cable network, Denso and several automobile parts manufacturers, the University of Tennessee, and several regional shopping malls and centers.

Long-Term Financial Planning

The Authority has projected a 2% annual increase in the number of customers over the next several years. The Authority is planning several capital improvements including upgrading water and sewer lines, pump stations, and building additional water lines to provide new water service to various areas.

The financing of the Authority's capital improvements is by internally generated cash flows and the issuance of long-term debt.

Relevant Financial Policies

The combination of continued customer growth, moderate rate increases and the issuance of long-term debt are projected to provide the Authority with adequate resources to provide for the delivery of water and wastewater services and for capital improvements.

Major Initiatives

During FY 2016 the Authority plans to start construction of a 12 mile forced wastewater main line that will connect all of the Authority's sewer customers directly to the Clinton Utilities Board wastewater treatment plant which will reduce monthly treatment costs by 50%. This project is to be financed by a \$3,500,000 thirty year low interest rate loan, that includes a 20% principal debt forgiveness, with the State of Tennessee Revolving Loan Fund and is expected to be completed in FY 2018 and save an estimated \$24,000 annually (net of debt service payments) in operating costs.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting. The Authority received this award for the fifth consecutive year for the FYE June 30, 2014. In order to be awarded a Certificate of Achievement, the Authority must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

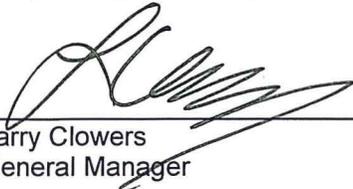
A Certificate of Achievement is valid for a period of only one year. We believe that our current comprehensive annual financial report will meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this CAFR results from the combined efforts of our staff, accountant, and technical assistance provided by our independent auditors. Those involved have our sincere appreciation for the individual and collective contributions made in preparation of the report. Thank you very much for your professional dedication.

Recognition and appreciation are also extended to the Board of Directors for its continued guidance of the operation of the Authority in a financially responsible and progressive manner.

Respectfully submitted,



Larry Clowers
General Manager

ANDERSON COUNTY WATER AUTHORITY

ORGANIZATION CHART

June 30, 2015

ACWA BOARD OF DIRECTORS



Larry Clowers
General Manager



Teresa Ridenour
Office Manager



Tina Dando
Lori Noonan
Jeannie Gregory
Ollie Carter
Melissa Vanhuss

Annelle Brown
HR Director
Payroll Officer

John Mitchell
Supt. of Operations



Jeff Elliott
Chief WTP Operator



Walter Sharp
Jon Martin
Randy Hensley
Steven Reed
Wayne Smith

Vestel Mitchell
Distribution Supt.



Harold Bray
Kirk Bray
Jerry Lindsey
Jamie Craig
Clayton Haney
Kevin Jeffers
Jimmy Spears
Travis Nelson
Steve Phillips
Justin Brown
Tony Parks
Cody Phillips
Jeremiah Sweat

Gary Sharp
Supt. Wastewater
Operator

David Noonan
Fleet Manager
Safety Director

Meter Programmer
Procurement

ANDERSON COUNTY WATER AUTHORITY
ROSTER OF AUTHORITY OFFICIALS AND OTHERS
June 30, 2015

Board of Directors

Duane Stooksbury, Chairman
Jack Shelton, Vice Chairman
Zenith R. Rose, Secretary
Jack D. Hill
Rex Lynch

Expiration of Term

September 30, 2017
September 30, 2015
September 30, 2015
September 30, 2016
September 30, 2017

Management

Larry Clowers, General Manager

Independent Auditors

Parsons & Wright CPA's
Certified Public Accountants
Kingston, Tennessee

Bond Counsel

Bass, Berry and Sims, PLC
Attorneys at Law
Nashville, Tennessee

General Counsel

C. Coulter Gilbert, Esquire
Attorney at Law
Knoxville, Tennessee

Consulting Engineer

Robert G. Campbell, PE
Robert B. Campbell & Associates, LP
Knoxville, Tennessee



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Anderson County Water Authority
Tennessee

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

A handwritten signature in black ink, reading "Jeffrey R. Emer".

Executive Director/CEO

FINANCIAL SECTION

CERTIFIED PUBLIC ACCOUNTANTS

Joe Savage
Marie I. Niekerk
Josh Stone
Earl O. Wright - 1988 - 2002

Stephen J. Parsons - Retired
Catherine R. Hulme
Rebecca Hutsell
William R. Scandlyn - 1988 - 1999

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Anderson County Water Authority
Clinton, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Anderson County Water Authority (the "Authority") as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 financial position of Anderson County Water Authority, as of June 30, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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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 11 and the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Based on Participation in The Public Employee Pension of TCRS – Last Fiscal Year, Schedule of Employer Contributions Based on Participation in the Public Employee Pension Plan of TCRS – Last Two Fiscal Years, Schedule of Employer Pension Contributions – Last Six Fiscal Years, and Schedule of Employer Pension Funding Progress – Last Two Valuation Dates on pages 38 through 41 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Anderson County Water Authority's basic financial statements. The introductory, supplementary information and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic 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 October 30, 2015, on our consideration of the Anderson County Water Authority'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 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 Anderson County Water Authority's internal control over financial reporting and compliance.

Parsons & Wright

Parsons & Wright
Certified Public Accountants
Kingston, Tennessee

October 30, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of Anderson County Water Authority's (the Authority) financial condition and results of operations for the years ending June 30, 2015, 2014, and 2013. This information should be read in conjunction with the accompanying financial statements.

The Authority was created on July 16, 2007, by the Anderson County Commission and significant operations began on January 1, 2009. On July 10, 2008, the Board of Commissioners for the North Anderson County Utility District (NACUD) and Anderson County Utilities Board (ACUB), a part of Anderson County, entered into a consolidation agreement to merge their operations into the Authority with an effective date of January 1, 2009.

INDEPENDENT AUDIT

The unqualified opinion of our independent auditors, Parsons & Wright CPA's, is included in this report on pages 1 and 2.

FINANCIAL HIGHLIGHTS

Management believes the Authority's financial position is strong and results of operations continue to improve.

The Authority maintained good debt service coverage and was in compliance with all debt covenants. The following are key financial highlights:

- The Authority sold 719, 693, and 706 million gallons of water in 2015, 2014 and 2013.
- Total assets and deferred outflows of resources at June 30, 2015, 2014 and 2013 were \$25,430,605, \$25,154,544 and \$25,279,598 and exceeded liabilities (net position), by \$17,054,842, \$16,722,776 and \$16,569,391, respectively. Of the total net position, \$2,824,680, \$2,463,093 and \$2,687,448 were unrestricted and were available to support short-term operations for 2015, 2014 and 2013. Net position increased by \$73,767 in 2015, by \$153,385 in 2014 and \$616,064 in 2013, as restated.
- Operating revenues were \$5,659,530, \$5,256,763, and \$5,029,783 for 2015, 2014 and 2013.
- During FY 2014 the East Tennessee area experienced record rainfall which resulted in approximately \$300,000 in less revenue than was projected.
- Operating expenses before depreciation were \$4,372,975, \$4,205,466 and \$3,841,087 for 2015, 2014 and 2013.
- Operating income (loss) was \$151,663, \$(60,823) and \$114,603 for 2015, 2014 and 2013.
- The ratios of operating income (loss) to total operating revenues were 2.7%, (1.2)%, and 2.3% for 2015, 2014 and 2013.
- Debt service coverage ratio was 2.42 for 2015, 2.00 for 2014 and 2.25 for 2013.
- There were no cash capital contributions received in 2015. Cash capital contributions for 2014 and 2013 were \$160,590 and \$197,528, respectively. Noncash contributions recorded in 2015, 2014 and 2013 were \$262,293, \$375,098 and \$605,897.
- During 2014 the Authority received \$71,233 in other income from the sale of common stock in an insurance company. The common stock was the result of a demutualization of life insurance company policies that were previously owned by the former NACUD.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF THE ANNUAL FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's budget, bond resolutions and other management information were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities.

The financial statements include a balance sheet; a statement of revenues, expenses and changes in net position; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the Authority on a full accrual basis of accounting. While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs.

The statement of cash flows presents cash receipt and cash disbursement information and changes in cash and cash equivalents resulting from operational, financing and investing activities.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The supplementary information provides information on debt service requirements and schedule of water rates and statistics. The required supplementary information provides information about the financial health of the Authority's defined benefit plan as administered by the Tennessee Consolidated Retirement System.

The compliance section includes the auditor's report on the Authority's internal controls and compliance. Also included is the auditor's schedule of audit findings and recommendations.

SUMMARY OF ORGANIZATION AND BUSINESS

The Authority was created under the authority of the Tennessee General Assembly Private Act No. 40 and approved by the Anderson County Commission on July 16, 2007. The Authority began significant operations on January 1, 2009. The purpose of the Authority is to "acquire, construct, improve, extend, operate, and maintain a water system" in the unincorporated areas of Anderson County. The Authority serves approximately 9,399 water customers and 1,012 wastewater customers in Anderson County. The Authority's primary source of water is drawn from the Clinch River that forms Norris and Melton Hill lakes.

The Authority is governed by a Board of Directors composed of five citizens who reside in, or are current customers, of the Authority. All Board members are nominated by the Anderson County Mayor for a term of four years, subject to confirmation by the Anderson County Commission.

The Authority's main capital assets consist of approximately 630 miles of water lines, two water treatment plants, one office building, one wastewater treatment facility, and 11 water reservoir tanks.

The Authority receives no financial support from Anderson County, Tennessee and has no taxing authority. The Authority's revenues are derived from water charges based upon metered water consumption of customers. The water and wastewater rates are established by the Authority's Board of Directors.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information provides key financial data and indicators for management, monitoring, and planning. Net position may serve over time as a useful indicator of the Authority's financial position.

Condensed Balance Sheets
(In Thousands of Dollars)
June 30, 2015, 2014 and 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>
ASSETS AND DEFERRED OUTFLOWS			
Current Assets	\$ 2,947	\$ 2,967	\$ 3,138
Capital Assets:			
Producing - Net	21,759	21,855	21,736
Other Assets - Net	286	0	0
Total Assets	<u>24,992</u>	<u>24,822</u>	<u>24,874</u>
Deferred Outflows of Resources			
Deferred Cost of Defeased & Refunded Bonds - Net	264	333	406
Deferred Cost of Pension Plan	175	0	0
Total Deferred Outflows	<u>439</u>	<u>333</u>	<u>406</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 25,431</u>	<u>\$ 25,155</u>	<u>\$ 25,280</u>
LIABILITIES, DEFERRED INFLOWS AND NET POSITION			
Liabilities:			
Current Liabilities	\$ 702	\$ 597	\$ 643
Bonds Payable - Net of Current Portion	7,587	7,835	8,068
Total Liabilities	<u>8,289</u>	<u>8,432</u>	<u>8,710</u>
Deferred Inflows of Resources			
Deferred Inflows - Pension Plan	<u>86</u>	<u>0</u>	<u>0</u>
NET POSITION			
Net Investment in Capital Assets	14,199	14,132	13,864
Restricted for:			
Debt Service	31	28	18
Capital Assets	0	100	0
Unrestricted	<u>2,825</u>	<u>2,463</u>	<u>2,687</u>
Total Net Position	<u>17,055</u>	<u>16,723</u>	<u>16,569</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 25,431</u>	<u>\$ 25,155</u>	<u>\$ 25,280</u>

The largest portion of the Authority's net position reflects its net investment in capital assets. The Authority uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to repay long-term debt.

The unrestricted net position may be used to meet the obligations to employees and creditors and provide current operating resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS (Continued)

Condensed Statements of Revenues, Expenses, and Changes in Net Position
(In Thousands of Dollars)
For the Years Ended June 30, 2015, 2014, and 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating Revenues			
Water - Net	\$ 4,481	\$ 4,195	\$ 3,994
Wastewater - Net	856	700	736
Connection Fees	95	91	88
Customer Forfeited Discounts	118	110	105
Tap Fees	98	150	91
Other Charges and Fees	<u>12</u>	<u>11</u>	<u>16</u>
Total Operating Revenues	<u>5,660</u>	<u>5,256</u>	<u>5,030</u>
Operating Expenses			
Water Treatment, Transmission and Distribution	2,929	2,819	2,686
Wastewater Treatment	642	601	522
Customer Billing and Accounting	21	16	10
General and Administrative	781	770	623
Depreciation	<u>1,135</u>	<u>1,112</u>	<u>1,074</u>
Total Operating Expenses	<u>5,508</u>	<u>5,318</u>	<u>4,915</u>
Operating Income (Loss)	<u>152</u>	<u>(62)</u>	<u>115</u>
Non-Operating Revenues (Expenses)			
Gain (Loss) on Disposal of Capital Assets	0	(18)	53
Investment Income (Loss)	13	10	5
Other Income	20	71	0
Interest Expense	<u>(373)</u>	<u>(383)</u>	<u>(360)</u>
Total Non-Operating Revenues (Expenses) - Net	<u>(340)</u>	<u>(320)</u>	<u>(302)</u>
Increase (Decrease) in Net Position Before Capital Contributions	<u>(189)</u>	<u>(381)</u>	<u>(187)</u>
Capital Contributions			
Cash	0	161	198
Non-Cash	<u>262</u>	<u>375</u>	<u>606</u>
Total Capital Contributions	<u>262</u>	<u>536</u>	<u>804</u>
Change in Net Position	<u>74</u>	<u>154</u>	<u>617</u>
Net Position, Beginning of Year, as Previously Reported	16,723	16,569	15,952
Prior Period Adjustment for 2015 (See Note 18)	<u>258</u>	<u>0</u>	<u>0</u>
Net Position, Beginning of Year, As Restated for 2015	<u>16,981</u>	<u>16,569</u>	<u>15,952</u>
Net Position, End of Year	<u>\$ 17,055</u>	<u>\$ 16,723</u>	<u>\$ 16,569</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OTHER SELECTED INFORMATION

Selected Data:

	2015		2014		2013
Full-Time Equivalent Employees at Year-End	32		31		29
Full-Time Average Employees for the Year	31.5		30		30
Customers at Year-End:					
Water	9,399		9,283		9,227
Wastewater	1,012		1,014		986
Water (Millions of Gallons)					
Treated and Purchased	1,148		1,131		1,122
Sold	719		693		706
Per Average Employee:					
Operating Revenues	\$ 179,668	\$	175,225	\$	173,441
Operating Expenses	\$ 174,853	\$	177,253	\$	169,489
Realized Rate per 1,000 Gallons of Water Sold:					
Retail	\$ 8.51	\$	8.09	\$	7.65
Wholesale	\$ 1.13	\$	1.15	\$	1.15
Ratio of Operating Revenues to:					
Operating Expenses	1.03		0.99		1.02
Operating Expenses Excluding Depreciation	1.29		1.25		1.31
Total Assets	0.22		0.21		0.20
Net Position	0.33		0.31		0.30
Debt Related Ratios:					
Long-Term Debt to Net Position	0.44		0.47		0.49
Long-Term Debt to Total Assets	0.30		0.31		0.32
Coverage Ratio	2.42		2.00		2.25

GENERAL TRENDS AND SIGNIFICANT EVENTS

Customer growth in the Authority has remained strong over the last several years, especially in the eastern area of the district primarily in the Andersonville and Bethel area near I-75.

FINANCIAL CONDITION

The Authority's financial condition remained strong at year-end with adequate current assets and a reasonable level of unrestricted net position. The current financial condition, staff capabilities, operating plans and upgrade plans to meet future water quality requirements are well balanced and under control.

Net customer accounts receivable at year-end 2015, 2014, and 2013 was \$743,616, \$684,849, and \$666,689. At year-end 2015, 2014, and 2013, 80%, 74% and 68% of billed accounts receivable were current within 30 days. The Authority's allowance for uncollectible accounts receivable was \$72,470, \$104,684 and \$123,490 for 2015, 2014, and 2013.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

RESULTS OF OPERATIONS

Operating Revenues

Revenues from operations fall into three general categories: water and wastewater service and ancillary charges. Ancillary charges include connection fees, account set up and customer forfeited discounts, and charges for miscellaneous billed services.

During FY 2015, the Authority lowered the minimum monthly water billings from 1,500 to 1,200 gallons. Also during FY 2015, the Authority increased wastewater rates by 8%. During 2014 the Authority increased water rates by 13% and wastewater rates by 8%. Also during FY 2014 East Tennessee experienced record rainfall which resulted in water revenues decreasing by \$300,000 than was originally projected.

There was no increase in water or wastewater rates during 2013.

The average realized rate from retail water sales was \$8.51, \$8.09 and \$7.65 per thousand gallons and \$1.13, \$1.15 and \$1.15 per thousand gallons for wholesale water sales in 2015, 2014, and 2013.

Capital Contributions

The Authority collects water connection fees in order to ensure that current customers do not bear the burden of growth. These fees are paid by new customers and represent the cost of service connectivity of the new customer. These fees are paid at the time a new water customer is connected to the system. In addition, the Authority accepts new water lines that are donated by residential and commercial real estate developers, and various federal, state and local government entities.

Capital contributions during 2015, 2014, and 2013, consisted of the following:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cash:			
Anderson County, TN	\$ 0	\$ 136,000	\$ 197,528
City of Rocky Top, TN (formerly Lake City)	<u>0</u>	<u>24,590</u>	<u>0</u>
Total Cash	<u>0</u>	<u>160,590</u>	<u>197,528</u>
Non-Cash:			
Anderson County, TN (via Federal Grants)	<u>262,293</u>	<u>375,098</u>	<u>605,897</u>
Total	<u>\$ 262,293</u>	<u>\$ 535,688</u>	<u>\$ 803,425</u>

The non-cash capital contributions from Anderson County (the “County”) are funded primarily by various federal grant awards for which the County is the grantee and is responsible for administering these grants in accordance with various federal audit requirements including OMB Circular A-133. After the grant projects are completed the capital asset are accepted by the Authority and placed into service.

The Authority’s capital contributions activity for 2015 and 2014 are more fully described in Note 11 to the financial statements.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

RESULTS OF OPERATIONS (Continued)

Operating Expenses

Operating expenses, excluding depreciation, increased (decreased) by \$112,482 in 2015, \$364,379 in 2014, and \$55,309 in 2013. This was a result of increases and (decreases) during 2015, 2014 and 2013 in:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Electricity & Utilities	\$ 23,594	\$ 0	\$ 115,398
Salaries and Benefits	68,514	104,168	(96,157)
Wastewater Treatment Costs	23,646	28,825	(20,027)
Meter Reading Services	0	0	(18,245)
Fuel	(21,994)	49,226	0
Distribution Supplies	33,308	69,102	0
Repairs & Maintenance - Equipment	13,659	29,462	0
Chemicals	11,156	14,781	9,324
Other	<u>15,626</u>	<u>68,815</u>	<u>65,016</u>
Total	<u>\$ 167,509</u>	<u>\$ 364,379</u>	<u>\$ 55,309</u>

During 2015, the Authority hired one additional employee, electricity usage and chemical costs increased as the result of treating more water, increased charges from CUB for wastewater treatment fees and distribution supplies continued to increase as the result of repairing more water line leaks in the northern part of the district.

During 2014 the Authority hired two additional staff members, CUB increased its wastewater treatment fees, fuel charges and chemical costs increased as a result of increased petroleum commodity prices and more distribution supplies were required to repair several water line leaks in the northern part of the district.

During 2013 the Authority experienced a TVA electric rate increase through its power distributor CUB.

CAPITAL ASSETS

The Authority is improving its water treatment, distribution and storage system to reduce water line loss and provide adequate capacity for future customer growth. In addition the Authority is improving its wastewater collection and treatment systems.

During 2015, 2014, and 2013, the Authority increased its capital assets before depreciation and disposals by \$1,068,734, \$1,733,489, and \$653,597. This increase is due to the following:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Easements	\$ 114,225	\$ 0	\$ 0
Water Reservoirs, Line Improvements & Extensions	432,740	1,252,579	327,897
Water Treatment Plant Improvements	0	24,536	0
Wastewater Collection Lines and Equipment	392,115	196,835	320,300
Vehicles and Equipment	129,654	249,104	5,400
Office Furniture and Equipment	<u>0</u>	<u>10,435</u>	<u>0</u>
Total	<u>\$ 1,068,734</u>	<u>\$ 1,733,489</u>	<u>\$ 653,597</u>

During 2015 the Authority purchased the majority of easements for the 12 mile wastewater line project, the replacement of several water lines, the extension of wastewater lines and the purchase of several vehicles.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CAPITAL ASSETS (Continued)

During 2014 the Authority completed several capital projects that were placed into service including water line improvements and extensions for Park Road – Phase I & II, B. Wells Lane, Seiber Road, the Claxton business district wastewater line and several vehicles and machinery and equipment. Also during 2014 there were several capital assets that were written off due to no longer being in service that were fully depreciated several years ago.

During 2013 the Authority completed renovations to the Elza gate water reservoir tank and water line extensions for Laurel Road, Mt. Olive Road, New River Road Phase II, and the Claxton & Edgemoor Road sewer line and a new dump truck. Also during 2013 the Authority sold the old NACUD office building.

The Authority's capital asset activity for 2015 and 2014 is described in Notes 3 and 4 to the financial statements.

DEBT

At June 30, 2015, 2014, and 2013, the Authority had \$7,822,563, \$8,054,979 and \$8,277,558 in revenue bonds payable, net of unamortized bond premiums.

During 2015, 2014, and 2013, the Authority incurred \$372,973, \$383,398, and \$360,087 in interest expense. During 2013 the Authority capitalized \$31,809 of interest costs as part of the capital asset costs since several of these projects were financed by the Series 2010 revenue bonds which were issued in FY 2011.

The long-term debt to total assets ratio was .30, .31 and .33 at years-end 2015, 2014, and 2013, respectively.

More detailed information about the Authority's debt is described in Notes 7 and 8 to the financial statements.

NET PENSION ASSET (LIABILITY)

As calculated under GASB Statements No. 67, 68 and 71, the Authority's net pension asset was \$286,464 as of year-end 2015 for its participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS). More detailed information about the Authority's participation in TCRS is described in Note 14 to the financial statements.

ECONOMIC FACTORS AND FISCAL YEAR 2016

- Number of water customers is projected to increase by 2% during 2016 due to the completion of several water line extensions.
- FY 2016 Budget:

Revenues	\$	5,888,000
Expenses		<u>(5,756,600)</u>
Increase in Net Position	\$	<u>131,400</u>

- The budget includes increases of 4% for salaries during 2015.
- Due to the decline in debt and equity financial markets during FY 2015 when compared to FY 2014, the Authority expects that the net pension asset will decrease and the related pension expense will increase during FY 2016.
- The Authority plans to start construction of a 12 mile forced wastewater main line that directly connects the Authority's sewer customers to the Clinton Utilities Board wastewater treatment plant which will reduce monthly treatment costs by 50%. This project is to be financed by a \$3,500,000 thirty-year low-interest-rate loan with the State of Tennessee Revolving Loan Fund and is expected to save an estimated \$24,000 annually (net of debt service payments) in operating costs.

CONTACTING THE AUTHORITY

This comprehensive annual financial report (CAFR) is designed to provide our customers, creditors and regulatory agencies with a general overview of the Authority's finances. If you have any questions about this report or need additional information, you may contact the Authority:

Mr. Larry Clowers, General Manager
Anderson County Water Authority
P.O. Box 70
Clinton, TN 37716
865-457-3033

BASIC FINANCIAL STATEMENTS

ANDERSON COUNTY WATER AUTHORITY

BALANCE SHEETS

	As of June 30,	<u>2015</u>	<u>2014</u>
ASSETS AND DEFERRED OUTFLOWS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$	776,505	\$ 589,938
Cash and Cash Equivalents - Restricted		57,081	153,984
Certificates of Deposit		1,200,116	1,342,567
Accounts Receivable - Customers (Net of Allowance for Uncollectible Accounts of \$72,470 for 2015 and \$104,684 for 2014.)		743,616	684,849
Accrued Interest Receivable		17,238	6,238
Prepaid Expenses		10,242	9,000
Inventories		<u>142,177</u>	<u>180,240</u>
Total Current Assets		<u>2,946,975</u>	<u>2,966,816</u>
NON-CURRENT ASSETS			
Capital Assets - Net		21,757,741	21,854,374
Net Pension Asset		286,464	0
Utility Deposits		<u>635</u>	<u>635</u>
Total Non-Current Assets		<u>22,044,840</u>	<u>21,855,009</u>
TOTAL ASSETS		<u>24,991,815</u>	<u>24,821,825</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Cost of Defeased Bonds		183,316	238,604
Deferred Cost of Refunded Bonds		80,636	94,115
Deferred Cost of Pension Plan		<u>174,838</u>	<u>0</u>
Total Deferred Outflows of Resources		<u>438,790</u>	<u>332,719</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$	<u><u>25,430,605</u></u>	\$ <u><u>25,154,544</u></u>

The accompanying notes are an integral part of these financial statements.

ANDERSON COUNTY WATER AUTHORITY

BALANCE SHEETS (Continued)

	As of June 30,	<u>2015</u>	<u>2014</u>
LIABILITIES, DEFERRED INFLOWS AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable	\$	147,690	\$ 104,144
Accrued Liabilities		69,618	41,564
Accrued Bond Interest Payable		26,049	26,415
Compensated Absences Payable		49,101	40,465
Customer Deposits		174,348	164,201
Bonds Payable - Current Portion		<u>235,000</u>	<u>220,000</u>
Total Current Liabilities		701,806	596,789
NON-CURRENT LIABILITIES			
Bonds Payable - Net of Current Portion		<u>7,587,563</u>	<u>7,834,979</u>
Total Liabilities		<u>8,289,369</u>	<u>8,431,768</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows - Pension Plan		<u>86,394</u>	<u>0</u>
NET POSITION			
Net Investment in Capital Assets		14,199,130	14,132,114
Restricted:			
Debt Service		31,032	27,569
Capital Assets		0	100,000
Unrestricted		<u>2,824,680</u>	<u>2,463,093</u>
Total Net Position		<u>17,054,842</u>	<u>16,722,776</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$	<u>25,430,605</u>	\$ <u>25,154,544</u>

The accompanying notes are an integral part of these financial statements.

ANDERSON COUNTY WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	For the Years Ended June 30,	<u>2015</u>	<u>2014</u>
OPERATING REVENUES			
Water - Net	\$	4,480,748	\$ 4,194,593
Wastewater - Net		855,701	699,653
Connection Fees		95,450	90,920
Customer Forfeited Discounts		118,050	110,039
Tap Fees		97,850	150,250
Other Charges and Fees		11,731	11,308
Total Operating Revenues		<u>5,659,530</u>	<u>5,256,763</u>
OPERATING EXPENSES			
Water Treatment, Transmission, and Distribution		2,929,398	2,818,994
Wastewater Treatment		642,206	600,936
Customer Billing and Accounting		20,629	15,882
General and Administrative		780,742	769,654
Depreciation		1,134,892	1,112,120
Total Operating Expenses		<u>5,507,867</u>	<u>5,317,586</u>
OPERATING INCOME (LOSS)		<u>151,663</u>	<u>(60,823)</u>
NON-OPERATING REVENUES (EXPENSES)			
Gain (Loss) on Disposal of Capital Assets		0	(18,498)
Interest Income		12,576	9,183
Other Income (Expenses) - Net		20,208	71,233
Interest Expense		(372,973)	(383,398)
Total Non-Operating Revenues (Expenses) - Net		<u>(340,189)</u>	<u>(321,480)</u>
INCREASE (DECREASE) IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS		<u>(188,526)</u>	<u>(382,303)</u>
CAPITAL CONTRIBUTIONS			
Cash		0	160,590
Non-Cash		262,293	375,098
Total Capital Contributions		<u>262,293</u>	<u>535,688</u>
CHANGE IN NET POSITION		<u>73,767</u>	<u>153,385</u>
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED - 2015		16,722,776	16,569,391
PRIOR PERIOD ADJUSTMENT - 2015 (See Note 18)		<u>258,299</u>	<u>0</u>
NET POSITION, BEGINNING OF YEAR, AS RESTATED		<u>16,981,075</u>	<u>16,569,391</u>
NET POSITION, END OF YEAR	\$	<u>17,054,842</u>	\$ <u>16,722,776</u>

The accompanying notes are an integral part of these financial statements.

ANDERSON COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 5,636,849	\$ 5,303,286
Payments to Employees	(2,012,001)	(1,865,004)
Payments to Suppliers	<u>(2,386,466)</u>	<u>(2,470,274)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,238,382</u>	<u>968,008</u>
NONCAPITAL FINANCING ACTIVITIES		
Net Proceeds from Sale of Asset Recovery	<u>0</u>	<u>71,233</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	0	160,590
Acquisition and Construction of Capital Assets	(775,967)	(888,725)
Interest & Fees Paid on Revenue Bonds	(317,004)	(323,257)
Principal Paid on Revenue Bonds	(220,000)	(210,000)
Proceeds from Sale of Materials & Disposal of Capital Assets	<u>20,226</u>	<u>14,210</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,292,745)</u>	<u>(1,247,182)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Certificates of Deposit	1,576	3,356
Maturity (Purchase) of Certificates of Deposit	<u>142,451</u>	<u>(1,001,188)</u>
Net Cash Provided (Used) by Investing Activities	<u>144,027</u>	<u>(997,832)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	89,664	(1,205,773)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>743,922</u>	<u>1,949,695</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 833,586</u>	<u>\$ 743,922</u>

The accompanying notes are an integral part of these financial statements.

ANDERSON COUNTY WATER AUTHORITY
STATEMENTS OF CASH FLOWS (Continued)

	For the Years Ended June 30,	2015	2014
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF:			
Unrestricted Cash and Cash Equivalents	\$	776,505	\$ 589,938
Restricted Cash and Cash Equivalents		57,081	153,984
Total	\$	833,586	\$ 743,922
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$	151,663	\$ (60,823)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation		1,134,892	1,112,120
Provision for Uncollectible Receivables		25,636	46,629
Net Change in Net Pension (Asset) Obligation		(104,134)	0
Net Change in Deferred Outflows - Pensions		(98,869)	0
Net Change in Deferred Inflows - Pensions		86,394	0
Changes in:			
Accounts Receivable, Net of Charge Offs		(84,403)	(64,789)
Other Current Assets		36,821	(9,619)
Accounts Payable		43,546	(71,823)
Other Accrued Liabilities		28,053	7,902
Compensated Absences Payable		8,636	(6,455)
Customer Deposits		10,147	14,866
Net Cash Provided by Operating Activities	\$	1,238,382	\$ 968,008
 NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES			
Amortization of Bond Premiums	\$	12,416	\$ 12,579
Amortization of Deferred Cost of Defeased Bonds		55,288	58,748
Amortization of Deferred Cost of Refunded Bonds		13,479	14,323
Contribution of Capital Assets by Anderson County		262,293	375,098

The accompanying notes are an integral part of these financial statements.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Anderson County Water Authority (the Authority) was created on July 16, 2007 by the Anderson County Commission under the authority of the Tennessee State Legislature Private Act No. 40 (House Bill No. 2388 and Senate Bill No. 2362) passed on May 7, 2007 and signed by the Governor on May 21, 2007.

On July 10, 2008, the Board of Commissioners for the North Anderson County Utility District (NACUD) and Anderson County Utilities Board (ACUB), a part of Anderson County, Tennessee, entered into a consolidation agreement to merge NACUD and ACUB into the Authority with an effective date of January 1, 2009. The Authority provides water and wastewater services to customers in the unincorporated areas of Anderson County, Tennessee.

The Authority's Board of Directors serves staggered four-year terms. The Anderson County Mayor nominates all five directors, which are subject to confirmation by the Anderson County Commission. Therefore, the Authority is considered a related organization of Anderson County as defined by the Governmental Accounting Standards Board. However, Anderson County, Tennessee (the "County") does not have any fiscal or budgetary control over the Authority. In addition, the County does not approve or pledge assets to secure the debts of the Authority. The operations of the Authority are funded by water and wastewater rates established by the Authority's Board of Directors.

A summary of the major accounting policies of the Authority are presented as follows:

Basis of Accounting and Presentation - The Authority's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets and deferred outflows of resources, net of total liabilities and deferred inflows of resources, if any) are segregated into net investment in capital assets; restricted for capital asset activity and debt service; and unrestricted components.

Budgeting - The Authority adopts a flexible annual operating budget. The budget is adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The Authority's budget is not legally binding.

Management submits a proposed budget to the Authority's Board of Directors prior to the July Board meeting. A budget is adopted by resolution prior to July 1.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents, Deposits and Investments - Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, interest in State Treasurer's Investment Pool, certificates of deposit, and debt security investments with a maturity at purchase of three months or less.

Investments are reported at their fair value. Fair value is based upon quoted market prices. Realized gains and losses from the sale of investments are calculated separately from the change in the fair value using the specific identification method. Realized gains or losses in the current period include unrealized amounts from prior periods.

Restricted Assets - Restricted assets represent cash and investments maintained in accordance with bond resolutions, loan agreements, grant awards and other resolutions and formal actions of the Authority or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the system. Restricted assets are generally not available for current operating expenses.

Receivables and Revenues - Revenues are billed monthly to customers on a cyclical meter reading basis. Unbilled revenues are accrued for estimated usage from the last meter reading date to year-end.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Authority provides for estimated uncollectible receivables through a reduction of gross water revenues and a credit to an allowance based on its assessment of the current status of individual accounts and historical write-off experience. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Operating revenues consist of net water and wastewater revenues, forfeited discounts, inspection fees and various service fees. Connection (tap) fees are recorded as revenue to the extent of expenses incurred in connecting a customer to the system. Connection fees in excess of costs, if any, are recorded as cash capital contributions.

Non-operating revenue consists of investment income and gains (losses) on the sale or disposal of capital assets. Investment income is interest earned and the change in unrealized gains and losses on the fair value of marketable debt securities.

Expenses - Operating expenses consist of the cost of water treatment, storage and distribution. Other operating expenses include customer billing, collections, administrative and general and depreciation on capital assets.

Non-operating expenses consist of interest on long-term liabilities and loss on the disposal or impairment of capital assets.

Inventories - Material and supply inventories are stated at cost using the first in, first out method. Incidental supplies are not included in inventory.

Capital Assets - Property, plant and equipment in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to fair market value.

Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred.

Interest is not capitalized on project costs funded by contributed capital, such as grants, gifts and impact fees. Interest costs of tax-exempt borrowings are capitalized, net of related investment earnings on the proceeds, during the construction period. Depreciation is not recorded until the assets are actually put into use.

The Authority defines a capital asset as an asset with an initial individual cost, or a project with a cumulative cost of more than \$5,000 and an estimated useful life in excess of one year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets are depreciated using primarily the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Water and Wastewater Treatment Plants	40-50
Transmission and Distribution Lines	40-50
Meters	10-15
Vehicles	5-10
Machinery and Equipment	5-20
Buildings and Improvements	15-40
Office Furniture and Equipment	5-10

Long-Term Obligations and Costs - Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts and gains or losses on advance or current refundings or defeasances are deferred and amortized over the life of the related bonds.

Compensation Absences - Accumulated vacation eligible to be paid to employees at termination is recorded as an expense and liability as the benefits are earned. The Authority has assumed a first-in, first-out method of using accumulated compensated time and the related liability has been recorded as a liability in the financial statements.

Pensions - For purposes of measuring the net pension liability, or asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the Authority's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

Contributions - Contributions are recognized in the statement of revenues, expenses and changes in net position when earned. Contributions include developer contributed utility systems, capacity and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

Presentation of Certain Taxes - The Authority collects various taxes from customers and remits these amounts to applicable taxing authorities. The Authority's accounting policy is to exclude these taxes from revenues and cost of sales.

Deferred Outflows/Inflows of Resources - In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position - Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted for capital activity and debt service; and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and deferred outflows of resources and deferred inflows of resources and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets; debt or deferred inflow of resources attributable to unspent proceeds or other restricted cash and investments are excluded from the determination. Restricted for capital activity and debt service consists of net positions for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position Flow Assumption - Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted resources are available for use, it is the Authority’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

New Accounting Governmental Accounting Standards Board Pronouncements

GASB Statement No. 68 - During fiscal year 2015, the Authority implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statements No. 27 and 50*. The requirements of this new standard, its effect on the financial statements and the amount of the prior period adjustment are disclosed in Notes 14 and 18.

GASB Statement No. 71 - During fiscal year 2015, the Authority implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. This statement requires the Authority to record employer pension contributions after the measurement date to be recorded as a deferred outflow of resources. Since the Authority’s pension contributions for FY 2015 were made after the measurement date, the effects are disclosed on the balance sheet and in Note 14.

GASB Statement No. 72 - During fiscal year 2015, the Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application*.

Reclassification of Comparative Financial Statements - Certain items in the 2014 financial statements have been reclassified to conform to the 2015 financial statements.

NOTE 2 - DEPOSITS AND INVESTMENTS

Tennessee Code Annotated (TCA) Section 7-82-108 and bond covenants restrict the types of depositories and investment securities available to the Authority. State statutes and bond indentures limit depositories to state or national banks, or credit unions located in the United States. The types of deposits and investments permitted are certificates of deposit, repurchase agreements in governmental obligations, money market accounts, state local government investment pool (SLGIP), obligations of states, municipalities, U.S. Government and federal agency debt securities.

At June 30, 2015 and 2014, the Authority had the following bank deposits and investments:

	<u>2015</u>	<u>2014</u>
Deposits:		
Demand Deposits	\$ 833,586	\$ 743,922
Certificates of Deposit	<u>1,200,116</u>	<u>1,342,567</u>
Total	<u>\$ 2,033,702</u>	<u>\$ 2,086,489</u>

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

A summary of the bank deposits and investments on the balance sheets at June 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Current Assets:		
Cash and Cash Equivalents	\$ 776,505	\$ 589,938
Cash and Cash Equivalents - Restricted	57,081	153,984
Certificates of Deposits - .10% to 1.10% maturing from 7/26/2014 to 12/6/2015.	<u>1,200,116</u>	<u>1,342,567</u>
Total	<u>\$ 2,033,702</u>	<u>\$ 2,086,489</u>

Restricted Cash Equivalents - The restricted cash and cash equivalents are for construction projects and also for required reserves by various covenants of the revenue bonds and are to be used solely for the repayment of debt and capital improvements. As of June 30, 2015 and 2014 the amount of restricted cash and cash equivalents was \$153,984 and \$45,099.

Custodial Credit Risk - Deposits - The Authority's deposits, with a carrying amount of \$2,033,702 and \$2,086,489 at June 30, 2015 and 2014, respectively, were covered by FDIC insurance, pledged investment collateral held in safekeeping by a custodial bank, or by the bank collateral pool administered by the Treasurer of the State of Tennessee. The bank may use one of three different pledged security levels (90, 100 or 105%) depending on the specific bank holding the deposit. Participating banks determine the aggregate balance of their public fund accounts for the Authority. 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 individual 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 and classified as Category 1, under GASB Statement No. 40, for purposes of custodial credit risk disclosure.

During 2014 the Authority's primary depository bank became a member of the bank collateral pool as administered by the Treasurer of the State of Tennessee.

Investment Income (Loss) - Investment income (loss) for 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Interest Income	\$ <u>12,576</u>	\$ <u>9,183</u>

Investment Policies

Custodial Credit Risk: The Authority's investment policy requires that investment securities be registered in the name of Anderson County Water Authority. All safekeeping receipts for investment instruments are held in accounts in the Authority's name and all securities are registered in the Authority's name.

Credit Risk: The Authority's investment policy and state law limits investments in non-federal obligations to issuers that are rated in the two highest rating categories by a nationally recognized rating agency of such obligations.

Interest Rate Risk: The Authority's Investment Policy limits its holdings to obligations having a final maturity on the date of investment of not to exceed forty-eight (48) months. Investments are made based upon prevailing market conditions with the intent to hold the instrument until maturity. If the performance of the portfolio can be improved upon by the sale of an investment prior to maturity, the policy allows for the implementation of this strategy. The Authority uses the specific identification method to manage interest rate risk.

Concentration of Credit Risk: The Authority's Investment Policy has no limit to its exposure to various investment debt securities as a whole or individually.

The Authority's Investment Policy does not require diversification among authorized investment broker-dealers. Presently, the Authority has selected Raymond James, Inc. as its authorized broker-dealer.

NOTE 3 - CAPITAL ASSETS

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2015 was as follows:

	Balance 7/1/14	Additions and Transfers	Deletions, Retirements and Transfers	Balance 06/30/15
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 390,134	\$ 114,225	\$ 0	\$ 504,359
Construction in Progress	<u>321,322</u>	<u>708,241</u>	<u>(676,788)</u>	<u>352,775</u>
Total Capital Assets Not Being Depreciated	<u>711,456</u>	<u>822,466</u>	<u>(676,788)</u>	<u>857,134</u>
Capital Assets Being Depreciated:				
Water System:				
Mains, Lines and Reservoirs	22,832,092	353,868	0	23,185,960
Treatment Facilities	9,750,326	78,872	0	9,829,198
Wastewater System:				
Collection Lines and Equipment	4,861,247	392,115	0	5,253,362
Treatment Facilities	306,734	0	0	306,734
Other:				
Building and Improvements	537,025	0	0	537,025
Machinery and Equipment	67,647	0	0	67,647
Vehicles	1,026,774	123,110	(165,162)	984,722
Office Furniture and Equipment	<u>106,945</u>	<u>0</u>	<u>0</u>	<u>106,945</u>
Total Capital Assets Being Depreciated	<u>39,488,790</u>	<u>947,965</u>	<u>(165,162)</u>	<u>40,271,593</u>
Less Accumulated Depreciation:				
Water System:				
Mains, Lines and Reservoirs	9,526,223	610,380	0	10,136,603
Treatment Facilities	6,330,989	272,239	0	6,603,228
Wastewater System:				
Collection Lines and Equipment	1,578,104	122,560	0	1,700,664
Treatment Facilities	136,606	6,932	0	143,538
Other:				
Building and Improvements	54,434	13,426	0	67,860
Machinery and Equipment	51,137	3,671	0	54,808
Vehicles	599,246	94,744	(109,778)	584,212
Office Furniture and Equipment	<u>69,133</u>	<u>10,940</u>	<u>0</u>	<u>80,073</u>
Total Accumulated Depreciation	<u>18,345,872</u>	<u>1,134,892</u>	<u>(109,778)</u>	<u>19,370,986</u>
Total Capital Assets Being Depreciated - Net	<u>21,142,918</u>	<u>(186,927)</u>	<u>(55,384)</u>	<u>20,900,607</u>
Total Capital Assets	<u>\$ 21,854,374</u>	<u>\$ 635,539</u>	<u>\$ (732,172)</u>	<u>\$ 21,757,741</u>

Depreciation expense was \$1,134,892 for 2015.

NOTE 3 - CAPITAL ASSETS (Continued)

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2014, was as follows:

	Balance 07/01/13	Additions and Transfers	Deletions, Retirements and Transfers	Balance 06/30/14
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 390,134	\$ 0	\$ 0	\$ 390,134
Construction in Progress	<u>790,992</u>	<u>624,707</u>	<u>(1,094,377)</u>	<u>321,322</u>
Total Capital Assets Not Being Depreciated	<u>1,181,126</u>	<u>624,707</u>	<u>(1,094,377)</u>	<u>711,456</u>
Capital Assets Being Depreciated:				
Water System:				
Mains, Lines and Reservoirs	12,685,077	10,347,305	(200,290)	22,832,092
Treatment Facilities	19,698,753	(9,426,464)	(521,963)	9,750,326
Wastewater System:				
Collection Lines and Equipment	4,368,872	492,375	0	4,861,247
Treatment Facilities	300,591	24,535	(18,392)	306,734
Other:				
Buildings and Improvements	445,260	91,765	0	537,025
Machinery and Equipment	307,050	(229,001)	(10,402)	67,647
Vehicles	746,460	425,930	(145,616)	1,026,774
Office Furniture and Equipment	<u>191,128</u>	<u>25,435</u>	<u>(109,618)</u>	<u>106,945</u>
Total Capital Assets Being Depreciated	<u>38,743,191</u>	<u>1,751,880</u>	<u>(1,006,281)</u>	<u>39,488,790</u>
Less Accumulated Depreciation:				
Water System:				
Mains, Lines and Reservoirs	4,758,989	4,958,016	(190,782)	9,526,223
Treatment Facilities	10,879,961	276,492	(4,825,464)	6,330,989
Wastewater System:				
Collection Lines and Equipment	1,432,425	145,679	0	1,578,104
Treatment Facilities	148,589	6,319	(18,302)	136,606
Other:				
Buildings and Improvements	41,009	13,425	0	54,434
Machinery and Equipment	268,534	5,058	(222,455)	51,137
Vehicles	508,348	218,610	(127,712)	599,246
Office Furniture and Equipment	<u>151,084</u>	<u>26,622</u>	<u>(108,573)</u>	<u>69,133</u>
Total Accumulated Depreciation	<u>18,188,939</u>	<u>5,650,221</u>	<u>(5,493,288)</u>	<u>18,345,872</u>
Total Capital Assets Being Depreciated - Net	<u>20,554,252</u>	<u>(3,898,341)</u>	<u>4,487,007</u>	<u>21,142,918</u>
Total Capital Assets	<u>\$ 21,735,378</u>	<u>\$ (3,273,634)</u>	<u>\$ 3,392,630</u>	<u>\$ 21,854,374</u>

Depreciation expense was \$1,112,120 for 2014.

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress at June 30 consisted of:

Projects	2015		2014	
	Actual To Date	Remaining Contractual Commitments	Actual To Date	Remaining Contractual Commitments
Braden Flats Water Pump	\$ 0	\$ 0	\$ 64,778	\$ 0
CUB Wastewater Monitoring	0	0	81,448	0
NACUD New Water Line Switchover	0	0	84,659	0
Wastewater Line Project to CUB	223,507	0	34,500	0
Commercial Water Meter Replacement	57,588	0	0	0
Various Projects	71,680	0	55,937	0
Total Construction in Progress	\$ 352,775	\$ 0	\$ 321,322	\$ 0

There were no construction contractual commitments as of June 30, 2015 and 2014.

NOTE 5 - GAIN (LOSS) ON DISPOSAL OF CAPITAL ASSETS

The Authority's gain (loss) on disposal of capital assets for 2015 and 2014 was as follows:

	2015	2014
Sales Proceeds	\$ 0	\$ 14,210
Less: Net Book Value of Capital Asset	0	(32,708)
Net Gain (Loss)	\$ 0	\$ (18,498)

NOTE 6 - ACCRUED LIABILITIES

Accrued liabilities at year-end 2015 and 2014 consisted of the following:

	2015	2014
Sales Taxes Payable	\$ 37,154	\$ 36,850
Accrued Salaries and Payroll Taxes	32,464	4,714
Total	\$ 69,618	\$ 41,564

NOTE 7 - LONG-TERM DEBT

Long-term debt at June 30, 2015 and 2014, consisted of the following

Revenue Bonds

	<u>2015</u>	<u>2014</u>
Revenue Term Bonds Series 2010 of \$8,650,000 with an interest rate of between 2% to 5%. Semi-annual payments on June 1 and December 1 through June 1, 2036. Principal payments are annually deposited with the bond trustee on June 1, ranging from \$165,000 to \$555,000. Interest is paid semi-annually ranging from \$167,167 to \$13,875.	\$ 7,655,000	\$ 7,875,000
Add: Unamortized Bond Premium	<u>167,563</u>	<u>179,979</u>
Total	<u>\$ 7,822,563</u>	<u>\$ 8,054,979</u>
Current Portion	\$ 235,000	\$ 220,000
Long-Term	<u>7,587,563</u>	<u>7,834,979</u>
Total	<u>\$ 7,822,563</u>	<u>\$ 8,054,979</u>

The Authority has pledged revenues as collateral for the Revenue Term Bonds Series 2010. The bond holders have placed a statutory lien upon the Authority as permitted by TCA, Section 7-28-101, and will remain in effect until the bond issue is paid in full. There is a bond covenant, which requires a minimum debt service coverage ratio of 1.2, the ratio for 2015 and 2014 was 2.42 and 2.00.

Activity

The following is a summary of changes in long-term debt for 2015 and 2014:

<u>2015</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Revenue Bonds	\$ 7,875,000	\$ 0	\$ (220,000)	\$ 7,655,000	\$ 235,000
Add: Bond Premium	<u>179,979</u>	<u>0</u>	<u>(12,416)</u>	<u>167,563</u>	<u>0</u>
Total	<u>\$ 8,054,979</u>	<u>\$ 0</u>	<u>\$ (232,416)</u>	<u>\$ 7,822,563</u>	<u>\$ 235,000</u>
<u>2014</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Revenue Bonds	\$ 8,085,000	\$ 0	\$ (210,000)	\$ 7,875,000	\$ 220,000
Add: Bond Premium	<u>192,558</u>	<u>0</u>	<u>(12,579)</u>	<u>179,979</u>	<u>0</u>
Total	<u>\$ 8,277,558</u>	<u>\$ 0</u>	<u>\$ (222,579)</u>	<u>\$ 8,054,979</u>	<u>\$ 220,000</u>

NOTE 7 - LONG-TERM DEBT (Continued)

Debt Service

The Annual debt service requirements of the bonds payable as of June 30, 2015, are as follows:

Years Ending June 30,	Principal	Interest	Total
2016	\$ 235,000	\$ 312,588	\$ 547,588
2017	245,000	307,888	552,888
2018	255,000	302,375	557,375
2019	260,000	296,000	556,000
2020	270,000	288,850	558,850
2021-2025	1,530,000	1,286,950	2,816,950
2026-2030	1,910,000	950,950	2,860,950
2031-2035	2,395,000	504,900	2,899,900
2036	555,000	27,750	582,750
Total	<u>\$ 7,655,000</u>	<u>\$ 4,278,251</u>	<u>\$ 11,933,251</u>

Interest Expense

Interest expense for 2015 and 2014 consisted of the following:

	2015	2014
Interest Paid	\$ 316,989	\$ 321,188
Change in Accrued Interest Payable	(367)	(351)
Less: Capitalization of Construction Period Interest	0	0
Amortization of Bond Premium	(12,416)	(12,579)
Amortization of Deferred Cost of Defeasance	55,288	58,748
Amortization of Deferred Refunding Loss	13,479	14,323
Debt Servicing Fees	0	2,069
Total	<u>\$ 372,973</u>	<u>\$ 383,398</u>

The amortization of the deferred cost of defeasance is related to an advance refunding of debt as described in Note 8. The amortization of refunding costs is due to a current refunding of debt that occurred during FY 2011.

Restricted Cash and Cash Equivalents - Debt Service

The Revenue Term Bonds – Series 2010, require the Authority to make mandatory semi-annual sinking fund payments to the bond trustee, Regions Bank, who is responsible for paying the bondholder when the term bond matures on June 1, 2036.

The Authority is required by various bond covenants to maintain the following restricted cash and cash equivalents at June 30, 2015 and 2014:

	2015	2014
Bond Principal and Interest Payment Account	<u>\$ 57,081</u>	<u>\$ 53,984</u>

NOTE 8 - DEFEASANCE OF DEBT

Advanced Refunding

On December 31, 2008, the Authority refinanced \$3,080,000 in revenue bonds previously issued by North Anderson County Utility District (NACUD) which were assumed by the Authority. The Authority placed \$3,355,507 of funds with the escrow agent (Regions Bank) which was used to purchase State and Local Government Securities (SLGS) for the purpose of generating resources for future debt service payments of \$3,540,450. Future payments consist of annual bond principal maturities of between \$275,000 to \$305,000 on January 1, 2010 through January 1, 2013, and a final principal redemption of \$1,920,000, which requires a call premium of 1%, on the call date of January 1, 2014. As a result, the advanced refunded bonds are considered to be defeased and the liability has been removed from the Authority's balance sheet. The escrowed investment securities exceeded the net carrying amount of the old debt by \$595,687. This amount is being amortized over the original life of the old NACUD Series 2004 debt issue through January 1, 2019, using the stated interest required method.

Due to the additional eight years until maturity in 2026, the refunding increased total aggregate debt service payment by \$736,263. In addition, the Authority incurred an economic loss, the difference between the present values of the old and new debt service payments of \$145,899.

Deferred Outflows of Resources

As of June 30, 2015 and 2014 the remaining unamortized deferred cost of defeasance was \$183,316 and \$238,604 and the unamortized cost of refunding of was \$80,636 and \$94,115.

NOTE 9 - COMPENSATED ABSENCES

Changes in compensated absences for the years ended June 30, 2015 and 2014, consisted of:

	<u>2015</u>	<u>2014</u>
Beginning Balance	\$ 40,465	\$ 46,920
Earned	71,663	71,760
Used	<u>(63,027)</u>	<u>(78,215)</u>
Ending Balance	<u>\$ 49,101</u>	<u>\$ 40,465</u>
Current Portion Due	<u>\$ 49,101</u>	<u>\$ 40,465</u>

Since the amount of compensated absences used by the employees during FY 2015 and 2014 is more than the amount outstanding at year-end 2015 and 2014, then the year-end liability amount has been recorded on the balance sheets as a current liability.

NOTE 10 - NET POSITION

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources, if any. The net position at June 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Net Investment in Capital Assets		
Capital Assets, Net of Accumulated Depreciation	\$ 21,757,741	\$ 21,854,374
Less: Revenue Bonds Payable - Net of Unamortized Premiums and Discounts	(7,822,563)	(8,054,979)
Add: Unamortized Deferred Defeasance & Refunding	263,952	332,719
Add: Debt Proceeds to be Used for Capital Assets	<u>0</u>	<u>0</u>
	<u>14,199,130</u>	<u>14,132,114</u>
Restricted for Debt Service:		
Restricted Cash and Cash Equivalents	57,081	53,984
Less: Accrued Interest Payable - Revenue Bonds	<u>(26,049)</u>	<u>(26,415)</u>
	<u>31,032</u>	<u>27,569</u>
Restricted for Capital Asset Activity:		
Restricted Cash and Cash Equivalents	0	100,000
Restricted Investments	0	0
Less: Debt Proceeds to be Used for Capital Assets	0	0
Accounts Receivable - Capital Contribution	<u>0</u>	<u>0</u>
	<u>0</u>	<u>100,000</u>
Unrestricted	<u>2,824,680</u>	<u>2,463,093</u>
Total	<u>\$ 17,054,842</u>	<u>\$ 16,722,776</u>

During 2014 the Authority received \$100,000 from Anderson County, TN to improve water and wastewater lines in an industrial park which was completed by the Authority in FY 2015.

NOTE 11 - CAPITAL CONTRIBUTIONS

Capital contributions during 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Cash:		
Anderson County, TN	\$ 0	\$ 136,000
City of Rocky Top, TN (formerly Lake City)	<u>0</u>	<u>24,590</u>
Total	<u>0</u>	<u>160,590</u>
Non-Cash:		
Anderson County, TN (Funded by Federal Grants awarded to the County.)	<u>262,293</u>	<u>375,098</u>
Total	<u>\$ 262,293</u>	<u>\$ 535,688</u>

Cash

During 2015, the Authority did not receive any contributed capital cash.

NOTE 11 - CAPITAL CONTRIBUTIONS (Continued)

Cash (Continued)

During 2014, the Authority received contributed cash totaling \$136,000 from Anderson County, TN (the "County") and \$24,590 from the City of Rocky Top, TN (the "City") for the following projects: (a) \$24,590 from the City to complete a tie in of the Authority's water lines to Industrial Park Drive, (b) \$100,000 from the County to improve water and wastewater line upgrades to the David Jones Industrial Park which was completed in 2015, (c) \$21,000 from the County for the Seiber Flats water line project (funded by the U.S. Office of Surface Mining and the County) and (d) \$15,000 from the County for the installation of five new fire hydrants.

Noncash

During 2015, non-cash contributions from the County, which were funded by federal grants awarded to and administered by Anderson County (funded by the Appalachian Regional Commission), consisted of \$262,293 for the sewer lines on Elza Drive Phase I.

During 2014, non-cash contributions from the County, which were funded by federal grants awarded to and administered by the County, consisted of: (a) \$139,606 for wastewater lines on B. Wells Road (funded by the U.S. Housing & Urban Development – Community Block Grant Program) and (b) \$235,492 for water lines on Seiber Flats Road (funded by the U.S. Office of Surface Mining and the County) based on actual costs incurred by the County.

NOTE 12 - NET OPERATING REVENUES

Net operating revenues during 2015 and 2014 consisted of the following:

	<u>Water</u>	<u>Wastewater</u>	<u>Other Charges</u>	<u>Total</u>
<u>2015</u>				
Gross Revenues	\$ 4,502,273	\$ 859,812	\$ 323,081	\$ 5,685,166
Less: Provision for Bad Debt Expense	<u>(21,525)</u>	<u>(4,111)</u>	<u>0</u>	<u>(25,636)</u>
Operating Revenues - Net	<u>\$ 4,480,748</u>	<u>\$ 855,701</u>	<u>\$ 323,081</u>	<u>\$ 5,659,530</u>
<u>2014</u>				
Gross Revenues	\$ 4,234,556	\$ 706,319	\$ 362,517	\$ 5,303,392
Less: Provision for Bad Debt Expense	<u>(39,963)</u>	<u>(6,666)</u>	<u>0</u>	<u>(46,629)</u>
Operating Revenues - Net	<u>\$ 4,194,593</u>	<u>\$ 699,653</u>	<u>\$ 362,517</u>	<u>\$ 5,256,763</u>

NOTE 13 - WHOLESALE WATER SALES

The Authority sells treated water on a month-to-month basis to the Caryville - Jacksboro Utility District (CJUD) and the City of Rocky Top, Tennessee (formerly Lake City) for \$1.20 per 1,000 gallons. During 2015 and 2014, the revenues earned under these billings were \$248,507 and \$228,742.

NOTE 14 - DEFINED BENEFIT PENSION PLAN

On January 1, 2009, the Authority established a defined benefit plan through the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System, (TCRS). All full-time employees (also known as members) are required to participate. The FY 2015 disclosures and required supplementary information are provided in accordance with GASB Statements No. 67, 68 and 71 (new method). The FY 2014 disclosures and required supplementary information are provided in accordance with GASB Statements No. 25 and 27 (old method).

FY 2015 Disclosures

Plan Description - Employees of the Authority are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. TCRS was created by state statute under Tennessee Code Annotate (TCA) Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of TCRS. TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided - TCA Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The Authority’s Board of Directors may adopt the benefit terms permitted by state statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member’s highest five consecutive year compensation and the member’s years of service credit. Reduced benefits for early retirement are available at age 55 for members who are vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLA’s) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July in the previous year. A COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees Covered by Benefit Terms - At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Inactive Employees or beneficiaries currently receiving benefits	1
Inactive Employees entitled to but not yet receiving benefits	2
Active Employees	31
Total	<u>34</u>

Contributions - Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of salary. The Authority makes employer contributions at the rate set by the TCRS Board of Trustees as determined by an actuarial valuation. For the fiscal year ended June 30, 2015, employer contributions made by the Authority were \$84,583 based on a rate of 5.85% of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the Authority’s state shared taxes, if applicable, if the required employer contributions are not remitted. The employer’s actuarially determined contributions (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of unfunded liability.

Net Pension Liability (Asset)

The Authority’s net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)**FY 2015 Disclosures (Continued)**

Actuarial Assumptions - The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Reporting Date	June 30, 2015
Measurement Date	June 30, 2014
Actuarial Valuation Date	June 30, 2014
Amortization Method	Level Dollar
Asset Valuation Method	Fair Market Value
Actuarial Cost Method	Entry Age Normal
Inflation	3.0%
Salary Increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment Rate of Return	7.5%, net of pension plan investment expenses, including inflation
Discount Rate	7.5% per annum, compounded annually
Cost-of-living-adjustment	2.5%
Remaining Amortization Period	10 years
Retirement Age	Pattern of retirement was determined by an experience study.
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement.

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%.

NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)

FY 2015 Disclosures (Continued)

Actuarial Assumptions (Continued)

The target allocation and best estimates of arithmetic real rates of return, net of 3% inflation, for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity	6.46%	33%
Developed Market International Equity	6.26%	17%
Emerging Market International Equity	6.40%	5%
Private Equity and Strategic Lending	4.61%	8%
U.S. Fixed Income	0.98%	29%
Real Estate	4.73	7%
Short-Term Securities	0.00%	1%
Total		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that employer contributions from the Authority will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Balance at June 30, 2013	\$ 940,559	\$ 1,122,889	\$ (182,330)
Changes for the Year:			
Service Cost	58,821	0	58,821
Interest	74,681	0	74,681
Differences between expected and actual experience	100,283	0	100,283
Contributions - Employer	0	75,969	(75,969)
Contributions - Employees	0	65,831	(65,831)
Net Investment Income	0	197,213	(197,213)
Benefit Payments, including Refunds of Employee Contributions	(7,269)	(7,269)	0
Administrative Expenses	0	(1,094)	1,094
Net Change	<u>226,516</u>	<u>330,650</u>	<u>(104,134)</u>
Balance at June 30, 2014	\$ <u>1,167,075</u>	\$ <u>1,453,539</u>	\$ <u>(286,464)</u>

NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)

FY 2015 Disclosures (Continued)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate - The following presents the net pension liability (asset) of the Authority calculated using the discount rate of 7.5%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
	<u> </u>	<u> </u>	<u> </u>
Net Pension Liability (Asset)	\$ (71,406)	\$ (286,464)	\$ (460,503)

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources

Pension Expense (Income) - For the fiscal year ended June 30, 2015, the Authority recognized pension expense (income) of \$(32,026) which consisted of the following:

	Pension Expense (Income)
	<u> </u>
Service Cost	\$ 58,821
Interest	74,681
Contributions - Employees	(65,831)
Projected Investment Income	(89,221)
Recognition of Experience (Gain)/Loss	10,028
Recognition of Investment (Gain)/Loss	(21,598)
Administrative Expenses	<u>1,094</u>
Pension Expense (Income)	\$ <u>(32,026)</u>

Deferred Outflows of Resources and Deferred Inflows of Resources - For the fiscal year ended June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between Expected and Actual Experience	\$ 90,255	\$ 0
Net Difference between Projected and Actual Investment Earnings	0	86,394
Employer contributions subsequent to the measurement date of June 30, 2014.	<u>84,583</u>	<u>0</u>
Total	\$ <u>174,838</u>	\$ <u>86,394</u>

NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)

FY 2015 Disclosures (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

The amount shown above for “Employer contributions subsequent to the measurement date of June 30, 2014”, will be recognized as a reduction (increase) to the net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

<u>Years Ended June 30:</u>	<u>Amounts</u>
2016	\$ 73,013
2017	(11,570)
2018	(11,570)
2019	(11,570)
2020	10,028
2021 & Thereafter	<u>40,113</u>
Totals	<u>\$ 88,444</u>

In the table above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

At June 30, 2015, the Authority reported a payable of \$18,921 to TCRS for the year ended June 30, 2015 that was remitted on July 1, 2015. The payable of \$18,921 consisted of \$8,719 of employee contributions and \$10,202 of employer contributions.

Required Supplementary Information

The Authority has presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the net pension liability (asset) assets is increasing or decreasing over time relative to the plan’s fiduciary net position and if the Authority has made its actuarial determined contributions as required by the TCRS.

NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)

FY 2014 Disclosures

Plan Description

Employees of the Authority are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits, as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55.

Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in performance of duty. Members joining the system on or after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute, Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions, such as the Authority, 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 the Authority unless approved by the Board of Directors.

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 the following address:

Tennessee Treasury Department
Consolidated Retirement System
10th Floor, Andrew Jackson State Office Building
Nashville, TN 37243-0230
(615) 741-7063
www.tn.gov/treasury/tcrs/PS

Funding Policy

The Authority requires employees to contribute 5.0% of earnable compensation.

The Authority is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2014 was 5.77% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Authority is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2014, the Authority's annual pension cost of \$75,969 to TCRS was equal to the Authority's required and actual employer 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% a year compounded annually, (b) projected 3.0% annual rate of inflation, (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% 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. The Authority's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 18 years. An actuarial valuation was performed as of July 1, 2011, which established employer contribution rates effective July 1, 2012.

NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)

FY 2014 Disclosures (Continued)

Trend Information

During FY 2014 and 2013 the Authority made annual employer contributions of \$75,969 and \$54,126 which was 100% of the annual pension costs. The Authority did not have an outstanding net pension obligation as of June 30, 2014 and 2013.

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 73% funded. The actuarial accrued liability for benefits was \$949,000 and the actuarial value of assets was \$692,000 resulting in an unfunded actuarial accrued liability (UAAL) of \$257,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$913,000 and the ratio of the UAAL to the covered payroll was 28%.

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 AALs for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2013	\$ 692,000	\$ 949,000	\$ 257,000	73%	\$ 909,000	28%
7/1/2011	371,000	690,000	319,000	54%	913,000	35%

Since the Authority started participation in the TCRS defined benefit plan on January 1, 2009, the first actuarial valuation was completed as of July 1, 2011.

NOTE 15 - RISK MANAGEMENT

The Authority 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 Authority's loss exposure for general liability and worker's compensation is limited by state law.

During FY 2015 and 2014, the Authority obtained general liability, vehicle, errors and omissions, worker's compensation, and other property and casualty insurance coverage through commercial insurance.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The occurrence deductible for each insurance policy of the Authority is as follows: comprehensive general liability \$0, public official's liability \$2,500, electronic data processing \$0, property \$1,000, automobile \$500, and umbrella policy \$0.

NOTE 16 - ECONOMIC CONCENTRATION

The Authority's area covers the unincorporated areas of Anderson County located in East Tennessee. At June 30, 2015 and 2014, the Authority served 9,399 and 9,283 water customers located in a semi-rural area 25 miles from Knoxville, Tennessee. The Authority's ten largest customers accounted for 13% and 11% of water revenues during 2015 and 2014.

NOTE 17 - ASSET RECOVERY AND SALE

During 2014 the Authority received 1,703 shares of common stock of a publicly traded life insurance company. The common stock was the result of a demutualization of a life insurance company which had issued policies owned by the former NACUD. The common stock was sold in FY 2014 and the Authority received \$71,233 which was net of \$17,808 in recovery and legal fees. These transactions were reviewed by the Authority's legal counsel and approved by the Board of Directors.

NOTE 18 - PRIOR PERIOD ADJUSTMENT AND IMPLEMENTATION OF NEW GASB ACCOUNTING PRONOUNCEMENTS

During 2015 the Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment to GASB Statement No. 27*, which requires the Authority to recognize a net pension liability, or asset, on the balance sheet. In addition, the Authority adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. GASB Statement No. 71 requires the Authority to record employer pension contributions after the measurement date to be recorded as a deferred outflow of resources. See Note 14 for additional information about the Authority's pension plan.

As a result of implementing GASB Statements No. 68 and 71, the Authority has recorded a prior period adjustment to the unrestricted net position as of July 1, 2014.

	<u>Effect of Prior Period Adjustment</u>
Net Pension Asset/Obligation, Beginning of Year, as previously reported under GASB Statements No. 25 & 27 (old method).	\$ 0
Net Pension Asset, Beginning of Year, as calculated and reported under GASB Statements No. 67 & 68 (new method).	182,330
Recording of Employer Contributions made during FY 2014 for transition to GASB Statement No. 68 per paragraph 9 of GASB Statement No. 71.	<u>75,969</u>
Net Effect of Prior Period Adjustment for New Accounting Standard	258,299
Net Position, Beginning of Year, as Originally Reported	<u>16,722,776</u>
Net Position, Beginning of Year, as Restated	<u>\$ 16,981,075</u>

The effects of implementing GASB Statements No. 68 and 71 in the Authority's FY 2014 results of operations and beginning of year net position as of July 1, 2013 were not available from TCRS; therefore the financial statements for FY 2014 cannot be restated and are as originally presented.

REQUIRED SUPPLEMENTARY INFORMATION

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
 BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS

Last Fiscal Year

	<u>2015</u>
Total Pension Liability	
Service Cost	\$ 58,821
Interest	74,681
Changes in Benefit Terms	0
Differences between Actual and Expected Experience	100,283
Change of Assumptions	0
Benefit Payments, Including Refunds of Employee Contributions	<u>(7,269)</u>
Net Change in Pension Liability	226,516
Total Pension Liability - Beginning	940,559
Total Pension Liability - Ending (a)	<u>\$ 1,167,075</u>
 Plan Fiduciary Net Position	
Contributions - Employer	\$ 75,969
Contributions - Employees	65,831
Net Investment Income	197,213
Benefit Payments, Including Refunds of Employee Contributions	(7,269)
Administrative Expenses	<u>(1,094)</u>
Net Change in Plan Fiduciary Net Position	330,650
Plan Fiduciary Net Position - Beginning	1,122,889
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,453,539</u>
 Net Pension Liability (Asset) - Ending (a) - (b)	<u>\$ (286,464)</u>
 Plan Fiduciary Net Position as % of Total Pension Liability	124.55%
 Covered-Employee Payroll	\$ 1,316,623
 Net Pension Liability (Asset) as a % of Covered-Employee Payroll	-21.76%

Notes: (1) The last measurement period was for the year ended June 30, 2014 for
 FY 2015 financial reporting and disclosures.

(2) Fiscal year 2015 was the first year the Authority implemented GASB Statement No. 68.

(3) Future years will be added to this schedule until 10 years of information is available.

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF EMPLOYER CONTRIBUTIONS BASED ON PARTICIPATION IN THE
PUBLIC EMPLOYEE PENSION PLAN OF TCRS

Last Two Fiscal Years

	2015	2014
Actuarially Determined Contribution (ADC)	\$ 84,583	\$ 75,969
Contributions Made in Relation to ADC	84,583	75,969
Contribution Deficiency (Excess)	\$ 0	\$ 0
Covered-Employee Payroll	\$ 1,445,856	\$ 1,316,623
Contributions as a % of Covered-Employee Payroll	5.85%	5.77%

Notes to the Schedule

Valuation Date: Actuarially determined contribution rates for FY 2015 and 2014 were calculated based on the July 1, 2013 actuarial valuation.

Methods and Assumptions used to determine contribution rates:

Actuarial Cost Method	Frozen Initial Liability
Amortization Method	Level Dollar, Closed (not to exceed 20 years)
Remaining Amortization Period	11 Years
Asset Valuation	10 Year Smoothed within a 20% corridor to market value
Inflation	3.0%
Salary Increases	Graded salary ranges from 8.97 to 3.71% based on age, including inflation, averaging 4.25%.
Investment Rate of Return	7.5%, net of investment expense, including inflation
Retirement Age	Pattern of retirement determined by experience study.
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvements.
Cost of Living Adjustments	2.5%

Note: (A) Future years will be added to this schedule until 10 years of information is available.

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
Last Six Fiscal Years

Fiscal Year	Annual Required Contribution (ARC)	Contributions Made	Percentage of Contributions/ ARC
2009	\$ 26,593	\$ 26,593	100%
2010	65,937	65,937	100%
2011	67,830	67,830	100%
2012	75,333	75,333	100%
2013	54,126	54,126	100%
2014	75,969	75,969	100%

- Notes: (A) The Authority started participation in the TCRS defined benefit plan on January 1, 2009.
- (B) This schedule is presented under GASB Statements No. 25 & 27 (old method) so no information is provided after fiscal year 2014 due to the implementation of GASB Statement No. 68.

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF EMPLOYER PENSION FUNDING PROGRESS

Last Two Valuation Dates

Actuarial Valuation Date	<u>7/1/2011</u>	<u>7/1/2013</u>
Actuarial Value of Assets	\$ 371,000	\$ 692,000
Actuarial Accrued Liability	<u>(690,000)</u>	<u>(949,000)</u>
Total Unfunded Actuarial Accrued Liability	<u>\$ (319,000)</u>	<u>\$ (257,000)</u>
Funded Ratio (Actuarial Value of Assets as a Percentage of the Actuarial Accrued Liability)	54%	73%
Annual Covered Payroll	\$ 913,000	\$ 909,000
Ratio of the Unfunded Actuarial Liability to Annual Covered Payroll	35%	28%

- Notes: (A) Since the Authority started participation in the TCRS defined benefit plan on January 1, 2009, the first actuarial valuation was completed as of July 1, 2011. TCRS performs an actual valuation every two years.
- (B) This schedule is presented under GASB Statements No. 25 & 27 (old method).
- (C) Due to the implementation of GASB Statements No. 68 & 71 during FY 2015, this is the last year that this schedule will be presented.

SUPPLEMENTARY INFORMATION

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2015

Years Ending June 30,	Revenue Term Bonds		Total
	Series 2010		
	Principal	Interest	
2016	\$ 235,000	\$ 312,588	\$ 547,588
2017	245,000	307,888	552,888
2018	255,000	302,375	557,375
2019	260,000	296,000	556,000
2020	270,000	288,850	558,850
2021	280,000	280,750	560,750
2022	290,000	269,550	559,550
2023	305,000	257,950	562,950
2024	320,000	245,750	565,750
2025	335,000	232,950	567,950
2026	350,000	219,550	569,550
2027	370,000	205,550	575,550
2028	380,000	190,750	570,750
2029	400,000	175,550	575,550
2030	410,000	159,550	569,550
2031	435,000	143,150	578,150
2032	455,000	125,750	580,750
2033	480,000	103,000	583,000
2034	500,000	79,000	579,000
2035	525,000	54,000	579,000
2036	555,000	27,750	582,750
TOTAL	\$ 7,655,000	\$ 4,278,251	\$ 11,933,251

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF RATES AND STATISTICS

June 30, 2015 and 2014

1. Monthly Water Rates

All Customers:

1st 1,200 (FY 2015) and 1,500 (FY 2014) gallons - \$18.00 minimum bill.

All over 1,200 (FY 2015) and 1,500 (FY 2014) gallons - \$6.20 per 1,000 gallons.

2. Monthly Wastewater Rates

Sewer Residential:

1st 1,200 (FY 2015) and 1,500 (FY 2014) gallons of water used - \$24.48 (FY 2015) and \$19.48 (FY 2014) minimum bill.

All over 1,200 (FY 2015) and 1,500 (FY 2014) gallons of water used - \$9.32 per 1,000 gallons.

Sewer Commercial:

1st 1,200 (FY 2015) and 1,500 (FY 2014) gallons of water used - \$24.48 (FY 2015) and \$19.48 (FY 2014) minimum bill.

All over 1,200 (FY 2015) and 1,500 (FY 2014) gallons of water used - \$10.58 per 1,000 gallons.

3. Service Charges:

Residential Connection Fee	\$	40
Customer Deposits - Residential Renters		100
Commercial Connection Fee		100
Wastewater Connection Fee		50
Reconnection Fee for Nonpayment		50
Returned Check Fee		25
Reactivation Fee		20

4. New Service Installation:

Water Tap Fees for:

¾"	\$	600
1"		800
1 ½"		2,000
2"		2,500
Above 2"		1,000
		Plus actual costs

5. There were 9,399 and 9,283 water and 1,012 and 1,014 wastewater customers at June 30, 2015 and 2014.



AWWA Free Water Audit Software: Reporting Worksheet

WAS v5.0

American Water Works Association.

- ?
- +

Water Audit Report for: Anderson County Water Authority (0000514)
Reporting Year: 2015 7/2014 - 6/2015

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 (n/a or 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

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

Master Meter and Supply Error Adjustments

WATER SUPPLIED

		<----- Enter grading in column 'E' and 'J' ----->				Pcnt: Value:			
Volume from own sources:	+ ?	<input type="text" value="8"/>	<input style="width: 100px;" type="text" value="1,080.819"/>	MG/Yr	+ ?	<input type="text" value="3"/>	<input type="text" value="1.00%"/> <input type="radio"/> <input type="radio"/>	<input style="width: 100px;" type="text"/>	MG/Yr
Water imported:	+ ?	<input type="text" value="8"/>	<input style="width: 100px;" type="text" value="66.741"/>	MG/Yr	+ ?	<input type="text" value="2"/>	<input type="text" value="1.00%"/> <input type="radio"/> <input type="radio"/>	<input style="width: 100px;" type="text"/>	MG/Yr
Water exported:	+ ?	<input type="text" value="8"/>	<input style="width: 100px;" type="text" value="219.177"/>	MG/Yr	+ ?	<input type="text" value="2"/>	<input type="text" value="1.00%"/> <input type="radio"/> <input type="radio"/>	<input style="width: 100px;" type="text"/>	MG/Yr

WATER SUPPLIED: 919.191 MG/Yr

Enter negative % or value for under-registration
Enter positive % or value for over-registration

AUTHORIZED CONSUMPTION

Billed metered:	+ ?	<input type="text" value="8"/>	<input style="width: 100px;" type="text" value="695.955"/>	MG/Yr
Billed unmetered:	+ ?	<input type="text" value="n/a"/>	<input style="width: 100px;" type="text" value="0.000"/>	MG/Yr
Unbilled metered:	+ ?	<input type="text" value="9"/>	<input style="width: 100px;" type="text" value="5.098"/>	MG/Yr
Unbilled unmetered:	+ ?	<input type="text" value="10"/>	<input style="width: 100px;" type="text" value="40.789"/>	MG/Yr

Unbilled Unmetered volume entered is greater than the recommended default value

AUTHORIZED CONSUMPTION: 741.842 MG/Yr

Click here: ?
for help using option buttons below

Pcnt: Value: MG/Yr

Use buttons to select percentage of water supplied
OR
value

WATER LOSSES (Water Supplied - Authorized Consumption)

177.349 MG/Yr

Apparent Losses

Unauthorized consumption: + ? MG/Yr

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

Customer metering inaccuracies:	+ ?	<input type="text" value="9"/>	<input style="width: 100px;" type="text" value="7.081"/>	MG/Yr
Systematic data handling errors:	+ ?	<input type="text" value="5"/>	<input style="width: 100px;" type="text" value="1.740"/>	MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: 11.119 MG/Yr

Pcnt: Value:

MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: 166.230 MG/Yr

WATER LOSSES: 177.349 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 223.236 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	+ ?	<input type="text" value="6"/>	<input style="width: 100px;" type="text" value="630.0"/>	miles
Number of active AND inactive service connections:	+ ?	<input type="text" value="8"/>	<input style="width: 100px;" type="text" value="9,360"/>	
Service connection density:	?		<input style="width: 100px;" type="text" value="15"/>	conn./mile main

Are customer meters typically located at the curbside or property line? (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure: + ? psi

COST DATA

Total annual cost of operating water system:	+ ?	<input type="text" value="10"/>	<input style="width: 100px;" type="text" value="\$5,109,142"/>	\$/Year
Customer retail unit cost (applied to Apparent Losses):	+ ?	<input type="text" value="10"/>	<input style="width: 100px;" type="text" value="\$4.72"/>	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	+ ?	<input type="text" value="10"/>	<input style="width: 100px;" type="text" value="\$631.99"/>	\$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 83 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:

-
-
-



**AWWA Free Water Audit Software:
System Attributes and Performance Indicators**

WAS v5.0

American Water Works Association.

Water Audit Report for:
 Reporting Year: |

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 83 out of 100 ***

System Attributes:

Apparent Losses:	<input type="text" value="11.119"/>	MG/Yr
+ Real Losses:	<input type="text" value="166.230"/>	MG/Yr
= Water Losses:	<input type="text" value="177.349"/>	MG/Yr

? Unavoidable Annual Real Losses (UARL): MG/Yr

Annual cost of Apparent Losses:

Annual cost of Real Losses: Valued at **Variable Production Cost**

Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial: {

Non-revenue water as percent by volume of Water Supplied:

Non-revenue water as percent by cost of operating system: Real Losses valued at Variable Production Cost

Operational Efficiency: {

Apparent Losses per service connection per day: gallons/connection/day

Real Losses per service connection per day: gallons/connection/day

Real Losses per length of main per day*: gallons/mile/day

Real Losses per service connection per day per psi pressure: gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): million gallons/year

? Infrastructure Leakage Index (ILI) [CARL/UARL]:

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

STATISTICAL SECTION

This part of the Authority's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority's overall financial health.

<u>Contents</u>	<u>Pages</u>
Financial Trends	
These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.	46-47
Revenue Capacity	
These schedules contain information to help the reader assess the Authority's operating revenues and customer statistics.	48-52
Debt Capacity	
These schedules present information to help the reader assess the affordability of the Authority's current levels of outstanding debt and the Authority's ability to issue additional debt in the future.	53-54
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place.	55-56
Operating Information	
These schedules contain service data to help the reader understand how the information in the Authority's financial report relates to the water services provided by the Authority.	57-58

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

ANDERSON COUNTY WATER AUTHORITY

NET POSITION BY COMPONENT

Last Eight Fiscal Years

Fiscal Year		Net Investment in Capital Assets	Restricted		Unrestricted	Total
			Debt Service	Capital Activity		
2008	(A)	\$ 0	\$ 0	\$ 0	\$ 14,823	\$ 14,823
2009	(B)	12,765,165	17,862	627,330	2,630,990	16,041,347
2010		13,134,668	25,260	45,000	2,508,266	15,713,194
2011		13,196,514	16,503	0	2,517,613	15,730,630
2012 (Restated)		13,425,235	16,582	0	2,511,511	15,953,328
2013		13,863,610	18,333	0	2,687,448	16,569,391
2014		14,132,114	27,569	100,000	2,463,093	16,722,776
2015	(C)	14,199,130	31,032	0	2,824,680	17,054,842

Notes: (A) FY 2008 was the first year the Authority was organized.

(B) FY 2009 was the first year the Authority began operations (effective January 1, 2009).

(C) FY 2015 the Authority implemented GASB Statements No. 68 and No. 71.

ANDERSON COUNTY WATER AUTHORITY

CHANGES IN NET POSITION

Last Eight Fiscal Years

	(C) 2015	2014	2013	(Restated) 2012	2011	2010	(B) 2009	(A) 2008
Operating Revenues								
Water - Net	\$ 4,480,748	\$ 4,194,593	\$ 3,993,754	\$ 3,965,496	\$ 3,713,110	\$ 3,894,825	\$ 1,873,956	\$ 0
Wastewater - Net	855,701	699,653	735,767	732,686	641,015	578,260	339,171	0
Connection Fees	95,450	90,920	87,590	123,143	105,190	50,810	11,201	0
Customer Forfeited Discounts	118,050	110,039	105,100	111,258	87,518	0	41,300	0
Tap Fees	97,850	150,250	91,210	68,650	55,620	40,550	15,500	0
Other Charges and Fees	11,731	11,308	16,362	7,901	17,728	40,127	43,201	0
Total Operating Revenues	5,659,530	5,256,763	5,029,783	5,009,134	4,620,181	4,604,572	2,324,329	0
Operating Expenses								
Water Treatment, Transmission and Distribution	2,929,398	2,818,994	2,685,646	2,621,711	2,444,457	2,488,121	1,402,607	0
Wastewater Treatment	642,206	600,936	522,323	533,027	462,561	449,829	246,428	0
Customer Billing and Accounting	20,629	15,882	9,843	31,152	100,940	189,670	119,442	0
General and Administrative	780,742	769,654	623,275	599,888	617,668	626,086	377,710	5,200
Depreciation	1,134,892	1,112,120	1,074,093	963,933	915,378	901,475	436,347	0
Total Operating Expenses	5,507,867	5,317,586	4,915,180	4,749,711	4,541,004	4,655,181	2,582,534	5,200
Operating Income (Loss)	151,663	(60,823)	114,603	259,423	79,177	(50,609)	(258,205)	(5,200)
Non-Operating Revenues (Expenses)								
Gain (Loss) on Disposal of Capital Assets	0	(18,498)	53,126	36,915	12,000	(15,721)	10,281	0
Investment Income	12,576	9,183	4,997	(1,828)	24,253	14,669	20,484	23
Other Income (Expense) - Net	20,208	71,233	0	0	0	0	0	0
Debt Issuance Costs	0	0	0	0	0	(138,411)	0	0
Interest (Expense)	(372,973)	(383,398)	(360,087)	(193,613)	(334,791)	(283,081)	(148,657)	0
Non-Operating Revenues (Expenses) - Net	(340,189)	(321,480)	(301,964)	(158,526)	(298,538)	(422,544)	(117,892)	23
Increase (Decrease) in Net Position Before Capital Contributions	(188,526)	(382,303)	(187,361)	100,897	(219,361)	(473,153)	(376,097)	(5,177)
Capital Contributions								
Cash	0	160,590	197,528	121,799	236,800	145,000	2,988,916	20,000
Non-Cash	262,293	375,098	605,897	0	0	0	13,413,705	0
Total Capital Contributions	262,293	535,688	803,425	121,799	236,800	145,000	16,402,621	20,000
Change in Net Position	\$ 73,767	\$ 153,385	\$ 616,064	\$ 222,696	\$ 17,439	\$ (328,153)	\$ 16,026,524	\$ 14,823

Notes: (A) FY 2008 was the first year the Authority was organized.

(B) FY 2009 was the first year the Authority began operations (effective January 1, 2009).

(C) FY 2015 the Authority implemented GASB Statements No. 68 and No. 71.

ANDERSON COUNTY WATER AUTHORITY
CUSTOMER STATISTICS, WATER RATES, AND TAP SALES
Last Seven Fiscal Years

Fiscal Year	Water Customers	Former ACUB Territory		Former NACUD Territory		Annual Tap Sales
		Minimum Bill (A)	Rate Per 1,000 Gallons	Minimum Bill (A)	Rate Per 1,000 Gallons	
2009 (C)	8,990	\$ 15.20	\$ 4.90	\$ 21.14	\$ 5.42	19
2010	9,136	15.20	4.90	21.14	5.42	78
2011 (D)	9,132	18.00	5.50	18.00	5.50	93
2012 (E)	9,126	18.00	5.50	18.00	5.50	107
2013	9,227	18.00	5.50	18.00	5.50	134
2014 (F)	9,283	18.00	6.20	18.00	6.20	169
2015 (G)	9,399	18.00	6.20	18.00	6.20	87

- Notes:
- (A) Minimum bill is based upon the first 2,000 and 1,500 gallons of water purchased.
 - (B) Rates are the same for any size meter.
 - (C) FY 2009 was the first year the Authority began operations (effective January 1, 2009).
 - (D) During FY 2011, the Authority changed the rate per 1,000 gallons to \$5.50 and the monthly minimum residential billing to \$18.00 for ratepayers in the former ACUB and NACUD territories.
 - (E) During FY 2012, the Authority reduced the monthly minimum billing to 1,500 gallons.
 - (F) During FY 2014, the Authority increased the rate per 1,000 gallons to \$6.20.
 - (G) During FY 2015, the Authority reduced the monthly minimum billing to 1,200 gallons.

ANDERSON COUNTY WATER AUTHORITY
WATER TREATED, SOLD, AND CONSUMED
Last Seven Fiscal Years

<u>Fiscal Year</u>	<u>Gallons of Water (In Thousands)</u>			<u>Percent Lost</u>
	<u>Water Treated and Purchased</u>	<u>Water Sold and Consumed</u>	<u>Water Unbilled</u>	
2009	495,339	335,174	160,165	32.3%
2010	1,015,372	684,203	331,169	32.6%
2011	1,047,568	688,207	359,361	34.3%
2012	1,131,927	748,779	383,148	33.8%
2013	1,116,747	749,325	367,421	32.9%
2014	1,131,480	752,809	378,671	33.5%
2015	1,147,559	787,879	359,681	31.3%

Note: FY 2009 was the first year the Authority began operations (effective January 1, 2009).

ANDERSON COUNTY WATER AUTHORITY

ANNUAL TAPS SOLD

Last Seven Fiscal Years

<u>Fiscal Year</u>	<u>Water Meter Taps Sold</u>	<u>Sewer Taps Sold</u>	<u>Total Taps</u>
2009	19	0	19
2010	69	9	78
2011	66	27	93
2012	95	12	107
2013	124	10	134
2014	149	20	169
2015	77	10	87

Note: FY 2009 was the first year the Authority began operations (effective January 1, 2009).

ANDERSON COUNTY WATER AUTHORITY

NUMBER OF CUSTOMERS BY TYPE

Last Seven Fiscal Years

<u>Fiscal Year</u>	<u>Water</u>	<u>Wastewater</u>
2009	8,990	1,089
2010	9,136	1,063
2011	9,132	1,059
2012	9,126	928
2013	9,227	986
2014	9,283	1,014
2015	9,399	1,012

Note: FY 2009 was the first year the Authority began operations (effective January 1, 2009).

ANDERSON COUNTY WATER AUTHORITY

TEN LARGEST CUSTOMERS

Current Fiscal Year and Six Fiscal Years Ago

Customer	Type of Business	2015		2009 (B)	
		(A) Total Annual Sales	Percentage of Total Sales	(A) Total Annual Sales	Percentage of Total Sales
City of Lake City	Municipality	\$ 177,392	3.96%	\$ 49,634	2.65%
Clinton Utility Board	Municipality	60,494	1.35%	15,186	0.81%
Stardust Marina	Recreation	51,514	1.15%	16,268	0.87%
Waterside Marina	Recreation	35,681	0.80%	16,043	0.86%
Mariner Health	Health Care	112,101	2.50%	26,488	1.41%
Mountain Lake Marina	Recreation	70,693	1.58%	38,517	2.06%
TVA	Electrical Power Distributor	25,403	0.57%	26,684	1.42%
City of Caryville	Municipality	10,221	0.23%	5,851	0.31%
Meadowview Senior Living	Health Care	11,590	0.26%	0	0.00%
Rocky Top Marina	Recreation	0	0.00%	11,843	0.63%
Norris Dam State Park	Recreation	0	0.00%	1,696	0.09%
Shoney's of Knoxville	Restaurant	30,563	0.68%	0	0.00%
Total		\$ <u>585,652</u>	<u>13.07%</u>	\$ <u>208,210</u>	<u>11.11%</u>

Note: (A) Sales includes net water revenues only.

(B) FY 2009 is for the initial six month period ending June 30, 2009.

ANDERSON COUNTY WATER AUTHORITY

OUTSTANDING DEBT PER CUSTOMER

Last Seven Fiscal Years

<u>Fiscal Year</u>	<u>Revenue Bonds (A)</u>	<u>Number of Customers (B)</u>	<u>Amount of Outstanding Debt Per Customer</u>
2009 (C)	\$ 4,750,000	8,990	\$ 528
2010	4,550,000	9,136	498
2011	8,703,192	9,132	953
2012	8,495,299	9,126	931
2013	8,277,558	9,227	897
2014	8,054,979	9,283	868
2015	7,822,563	9,399	832

Notes: (A) Net of related unamortized bond premiums or discounts.

(B) Water customers at year end.

(C) Fiscal year 2009 was the first year the Authority began operations (effective January 1, 2009).

(D) No debt to personal income ratio is shown because personal income for the Authc service area, which excludes the Cities of Oak Ridge, Clinton, and Norris, TN, is not available.

ANDERSON COUNTY WATER AUTHORITY

PLEDGED REVENUE COVERAGE

Last Seven Fiscal Years

(A) Fiscal Year	(B) Gross Revenues	(C) Operating Expenses	Net Revenues Available for Debt Service	Debt Service Requirements			(E) Coverage Ratio
				Principal	(D) Interest Paid	Total	
2009	\$ 2,344,813	\$ 2,146,187	\$ 198,626	\$ 150,000	\$ 95,729	\$ 245,729	0.80
2010	4,619,241	3,753,706	865,535	200,000	199,975	399,975	2.16
2011	4,644,434	3,625,626	1,018,808	165,000	262,947	427,947	2.38
2012 (Restated)	5,007,306	3,785,778	1,221,528	195,000	329,188	524,188	2.33
2013	5,034,780	3,841,087	1,193,693	205,000	325,955	530,955	2.25
2014	5,265,946	4,205,466	1,060,480	210,000	321,188	531,188	2.00
2015	5,672,106	4,372,975	1,299,131	220,000	316,989	536,989	2.42

- Notes:
- (A) FY 2009 is for a six month period beginning January 1, 2009, the effective date of significant operations.
 - (B) Includes operating revenues and investment interest income.
 - (C) Does not include depreciation expense.
 - (D) Includes interest paid net of capitalization construction period interest.
 - (E) The Bond Series 2010 covenants requires a coverage ratio of 1.20.

ANDERSON COUNTY WATER AUTHORITY
DEMOGRAPHIC AND ECONOMIC INDICATORS (E)

Last Seven Fiscal Years

Fiscal Year	Population (A)	Personal Income In Thousands (A)	Per Capita Personal Income (A)	Median Age (A)	School Attendance (B)	Unemployment Rates (C)	
						County	State
2009	74,738	\$ 2,258,433	\$ 30,218	41.4	8,541	11.2%	10.8%
2010	74,849	2,154,154	28,780	39.2	8,117	9.1%	10.0%
2011	75,129	2,580,901	34,358	39.9	8,186	9.2%	9.8%
2012	75,129	2,543,192	33,851	39.5	8,141	9.0%	8.1%
2013	75,416	2,908,538	38,567	40.5	8,081	8.8%	8.5%
2014	75,542	2,957,316	39,148	42.0	8,080	7.0%	6.6%
2015	N/A	N/A	N/A	42.6	8,053	6.4%	5.7%

- Notes: (A) U.S. Department of Commerce Bureau of Economic Analysis for the previous calendar year.
 (B) Anderson County Board of Education - Average Daily Attendance
 (C) U.S. Department of Labor - Bureau of Labor Statistics for June.
 (D) The Authority was created in Fiscal Year 2008 on July 16, 2007.
 (E) Demographic and economic information is for Anderson County, Tennessee. Specific information for the Authority is not available.
 (F) N/A data not yet available.

ANDERSON COUNTY WATER AUTHORITY

PRINCIPAL EMPLOYERS

Current Fiscal Year and Six Fiscal Years Ago

Customer	2015			2009		
	Employees	Rank	Percentage of County Workforce	Employees	Rank	Percentage of County Workforce
BWXT - Y12	7,000	1	20.28%	4,500	1	12.56%
UT Battelle (Oak Ridge National Laboratory)	4,374	2	12.67%	4,200	2	11.73%
Anderson County Government	1,644	3	4.76%	1,542	3	4.30%
Covenant Health Systems (Methodist Medical Center)	1,407	5	4.08%	1,337	5	3.73%
Bechtel Jacobs Co., LLC	1,042	4	3.02%	1,306	4	3.65%
SAIC	1,000	6	2.90%	902	8	2.52%
City of Oak Ridge	800	8	2.32%	1,053	6	2.94%
Oak Ridge Associated Universities (ORAU)	788	7	2.28%	600	10	1.68%
Sitel	725	9	2.10%	0	0	0.00%
Energy Solutions	625	10	1.81%	0	0	0.00%
Wackenhut	0	0	0.00%	902	7	2.52%
Eagle Bend Manufacturing	0	0	0.00%	624	9	1.74%
Duratek Resource Recovery	0	0	0.00%	510	11	1.43%
Carlisle Tire and Wheel Co. (B)	0	0	0.00%	400	12	1.12%
Total	19,405		56.22%	17,876		49.92%

Notes: (A) Source(s): Tennessee Department of Economic and Community Development and Tennessee Department of Labor and Workforce Development.

(B) Carlisle Tire and Wheel Co. was previously named Dico Tire.

ANDERSON COUNTY WATER AUTHORITY

EMPLOYEES BY FUNCTION

Last Seven Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
WATER AND WASTEWATER							
Water System	21.5	23	22	22	24	21	20
Wastewater System	<u>2</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>23.5</u>	<u>24</u>	<u>22</u>	<u>22</u>	<u>24</u>	<u>21</u>	<u>20</u>
ADMINISTRATION							
Billing and Customer Service	5.5	4	2	2	2	2	4.5
Finance & Accounting	2	2	2	2	2.5	2.5	2
Administrative	<u>1</u>	<u>1</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>2</u>
	<u>8.5</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>7.5</u>	<u>7.5</u>	<u>8.5</u>
TOTAL EMPLOYEES	<u>32</u>	<u>31</u>	<u>29</u>	<u>29</u>	<u>31.5</u>	<u>28.5</u>	<u>28.5</u>

Note: FY 2009 was the first year the Authority began significant operations on January 1, 2009.

ANDERSON COUNTY WATER AUTHORITY

OPERATING AND CAPITAL INDICATORS

Last Seven Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Area in Square Miles:	220	220	220	220	220	220	220
Water System:							
Miles of Water Mains	630	630	625	612	426	422	420
Number of:							
Water Service Connections	9,399	9,283	9,227	9,126	9,132	9,136	8,990
Wastewater Service Connections	1,012	1,014	986	928	1,059	1,063	1,089
Office Building	1	1	1	1	1	1	0
Water Treatment Plants	2	2	2	2	2	2	2
Wastewater Treatment Plants	1	1	1	1	1	1	1
Reservoirs	11	11	13	13	16	16	16
Water Pumping Stations	23	23	23	24	24	24	24
Wastewater Pumping Stations	19	19	19	19	19	19	19
Fire Hydrants	347	345	340	330	327	325	325
Daily Average Water Treatment in Gallons (MGD)	2.96	2.92	2.87	2.90	2.69	2.61	2.58
Daily Average Water Purchases in Gallons (MGD)	0.18	0.18	0.18	0.18	0.18	0.17	0.12
Daily Average Water Sales and Consumption in Gallons (MGD)	2.16	2.06	2.05	1.87	1.86	1.87	1.84
Water Reservoir Storage Capacity (Millions of Gallons)	6.00	6.00	6.00	6.00	4.38	4.38	4.38

Notes: (A) MGD = Million of gallons per day

(B) FY 2009 was the first year that the Authority began significant operations on January 1, 2009.

COMPLIANCE SECTION

CERTIFIED PUBLIC ACCOUNTANTS

Joe Savage
Marie I. Niekerk
Josh Stone
Earl O. Wright - 1988 - 2002

Stephen J. Parsons - Retired
Catherine R. Hulme
Rebecca Hutsell
William R. Scandlyn - 1988 - 1999

**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**

Board of Directors
Anderson County Water Authority
Clinton, 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 Anderson County Water Authority ("the Authority"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Anderson County Water Authority's basic financial statements and have issued our report thereon dated October 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Anderson County Water Authority'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 Anderson County Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Anderson County Water Authority's 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 Anderson County Water Authority's financial statements are free from 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 audits, 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*.

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Crossville, Tennessee 38555
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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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Parsons & Wright

Parsons & Wright
Certified Public Accountants
Kingston, Tennessee

October 30, 2015

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015

CURRENT YEAR FINDING

NONE

PRIOR YEAR FINDING – RESOLVED

2014-1 Sales Tax Returns

Criteria or Specific Requirement – The Authority serves water customers in multiple municipalities and counties and is required to report applicable sales on a sales tax return for each.

Condition – Since inception, the Authority has only filed one sales tax return, for Anderson County. Water sales for the entire distribution area have been reported on the sales tax return and all sales tax paid to Anderson County.

Cause and Effect – The Authority is not filing all applicable sales tax returns and is not paying sales tax to the correct municipality or county. The Authority has also collected and paid sales tax at the incorrect rate for some customers.

Recommendation – We recommend that the Authority complete and file applicable sales tax returns for the previous 3 years. The Authority will need to work with Anderson County to get excess taxes refunded or transferred to appropriate municipality or county. In the future, the Authority needs to file sales tax returns for all applicable municipalities and counties. This would include withholding and paying the correct rate of sales tax in each municipality and county.

Management's Response – We concur and have started the process to remedy the past 3 years, the maximum length of time allowed by the State. The process includes working with the State to make each municipality and county whole. We will also calculate a credit amount for all customers charged a higher rate of tax. The credit amount will be based on the average bill for the past three years. The credit amount will be calculated based on actual billings for large customers. Additionally, our system has been updated to charge the correct rate going forward and all applicable sales tax returns will be completed and filed.

Current Status – The Authority has completed and filed all applicable past (amended) and current sales tax returns in the appropriate municipality or county. Additionally, the correct rate of sales tax has been withheld for each municipality and county. This is no longer considered a finding.