

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

FINANCIAL STATEMENTS

June 30, 2015 and 2014

TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee
June 30, 2015 and 2014

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TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

INTRODUCTORY SECTION

June 30, 2015 and 2014

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF BOARD OF DIRECTORS
June 30, 2015

Tom Tallent	Chairman
Jim Brooks	Vice-Chairman
Roy Goddard	Secretary
John Hammontree	Director
Robert Wooldridge	Director
George Miller II	Director

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

FINANCIAL SECTION

June 30, 2015 and 2014



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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Tellico Area Services Systems
Vonore, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Tellico Area Services Systems as of and for the years ended June 30, 2015 and 2014 and the related notes to the financial statements, which comprise the Systems' basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Tellico Area Services Systems as of June 30, 2015 and 2014 and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 7 and the required supplementary information (schedule of funding progress) on pages 29 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The supplemental information on pages 32 through 38 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information on pages 29 through 31 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The AWWA Reporting Worksheet on pages 37 through 38 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2015, on our consideration of the Tellico Area Services Systems' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Tellico Area Services Systems' internal control over financial reporting and compliance.

Ingram, Overholt & Bean, P.C.

Alcoa, Tennessee

November 17, 2015



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

November 17, 2015

Our discussion and analysis of the Tellico Area Services Systems' financial performance provides an overview of the Utility's activities for the years ended June 30, 2015 and 2014. Please read it in conjunction with the Utility's financial statements, as listed in the Table of Contents.

USING THIS ANNUAL REPORT

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

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

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

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

FINANCIAL HIGHLIGHTS

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Water revenues	79.93%	79.69%	75.62%
Capital contributions	.41%	1.28%	6.20%
Sewer revenues	14.25%	15.61%	14.24%
Interest income	.31%	.35%	.57%
Forfeited discounts	.66%	.80%	.77%
Sprinkler system income	1.06%	1.05%	.95%
Customer service charges and miscellaneous income	3.38%	1.22%	1.65%
Total Revenues	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Operational costs for the Utility were \$3,611,170 and \$3,460,053 for the fiscal years ended June 30, 2015 and 2014 respectively.

ASSETS, LIABILITIES, AND NET POSITION

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current Assets	\$ 5,532,204	\$ 4,737,863	\$ 4,451,939
Non-Current Assets	<u>25,835,700</u>	<u>25,972,754</u>	<u>26,434,163</u>
Total Assets	<u>31,367,904</u>	<u>30,710,617</u>	<u>30,886,102</u>
Deferred Outflow of Resources	<u>72,580</u>	-	-
Current Liabilities	628,784	448,111	579,092
Non-Current Liabilities	<u>7,835,750</u>	<u>8,649,990</u>	<u>9,372,007</u>
Total Liabilities	<u>8,464,534</u>	<u>9,098,101</u>	<u>9,951,099</u>
Deferred Inflows of Resources	<u>198,020</u>	-	-
Net Position – Unrestricted	4,334,399	3,742,896	3,344,774
Net Investment in Capital Assets	17,693,531	17,119,620	16,840,229
Restricted for replacements	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>
Total Net Position	<u>\$ 22,777,930</u>	<u>\$ 21,612,516</u>	<u>\$ 20,935,003</u>
Total Revenues	\$ 4,784,936	\$ 4,269,491	\$ 4,683,227
Total Expenses	<u>3,727,897</u>	<u>3,591,978</u>	<u>3,397,157</u>
Change in Net Position	<u>\$ 1,057,039</u>	<u>\$ 677,513</u>	<u>\$ 1,286,070</u>

The assets of the Utility increased by 2.14% during the current year. Net Position of the Utility increased by 5.39%.

FINANCIAL RATIOS

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Working Capital (the amount by which current assets exceed current liabilities)	\$ 4,903,420	4,289,752	\$ 3,872,847
Current Ratio (compares current assets to liabilities-as an indicator of the ability to pay current obligations)	8.80	10.57	7.69
Return Assets (illustrates to what extent there will be sufficient funds to replace assets in the future)	3.37%	2.21%	4.16%

CAPITAL ASSETS

At the fiscal year ended June 30, 2015 the Utility had \$37,295,723 invested in capital assets as outlined below (a 1.59% increase over the last year).

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Land and land rights	\$ 324,700	\$ 324,700	\$ 324,700
Building and improvements	1,077,363	1,077,363	1,077,363
Distribution facilities	34,597,693	34,366,784	33,361,580
Office furniture and fixtures	123,055	123,056	120,505
Tools and equipment	829,926	770,257	759,481
Construction in progress	<u>342,986</u>	<u>48,618</u>	<u>742,523</u>
Totals	<u>\$ 37,295,723</u>	<u>\$ 36,710,778</u>	<u>\$ 36,386,152</u>

DEBT

The change in bonds and notes payable for the fiscal year ended June 30, 2015 is as follows:

	<u>Balance</u> <u>6/30/14</u>	<u>Proceeds</u>	<u>Retired</u>	<u>Balance</u> <u>6/30/15</u>
Monroe County Bonds	\$ 780,000	\$ -	\$ (450,000)	\$ 330,000
TRDA Note	1,250,122	-	(12,000)	1,238,122
SRF Note	<u>6,822,837</u>	<u>-</u>	<u>(370,872)</u>	<u>6,451,965</u>
Total	<u>\$ 8,852,959</u>	<u>\$ -</u>	<u>\$ (832,872)</u>	<u>\$ 8,020,087</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Respectfully submitted,



Mark Clinton
Systems Manager

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

FINANCIAL STATEMENTS

June 30, 2015 and 2014

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
STATEMENTS OF NET POSITION

ASSETS	June 30, <u>2015</u>	June 30, <u>2014</u>
Current Assets:		
Certificate of Deposit	\$ 950,000	\$ 1,500,000
Cash.....	2,926,439	1,791,164
Accounts receivable	788,028	588,235
Inventory	113,532	105,598
Restricted:		
Certificate of Deposit – Replacement Fund	750,000	750,000
Prepaid services.....	4,205	2,866
Total Current Assets.....	<u>5,532,204</u>	<u>4,737,863</u>
Non-Current Assets:		
Non-depreciable capital assets	324,700	324,700
Depreciable capital assets, net of accumulated depreciation	25,045,932	25,599,261
Construction in process	342,986	48,618
Utility deposits	175	175
Net Pension Asset	121,907	-
Total Non-Current Assets.....	<u>25,835,700</u>	<u>25,972,754</u>
Total Assets.....	<u>31,367,904</u>	<u>30,710,617</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Pension deferrals	<u>72,580</u>	<u>-</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	180,729	11,459
Sales tax payable	15,115	13,877
Advances from customers	1,414	1,737
Bonds and notes payable within one (1) year.....	431,526	421,038
Total Current Liabilities	<u>628,784</u>	<u>448,111</u>
Non-Current Liabilities:		
Customer meter deposits	80,740	66,920
Accrued compensated absences	166,449	151,149
Bonds and notes payable	7,588,561	8,431,921
Total Non-Current Liabilities.....	<u>7,835,750</u>	<u>8,649,990</u>
Total Liabilities	<u>8,464,534</u>	<u>9,098,101</u>
DEFERRED INFLOWS OF RESOURCES:		
Pension deferrals	101,842	-
Deferred revenue – Gun Ridge Road and Kincaid Road Project	96,178	-
Total Deferred Inflows of Resources	<u>198,020</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	17,693,531	17,119,620
Restricted for replacements.....	750,000	750,000
Unrestricted.....	4,334,399	3,742,896
Total Net Position.....	<u>\$ 22,777,930</u>	<u>\$ 21,612,516</u>

See accompanying independent auditors' report and notes.

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

	<u>FISCAL YEARS ENDED JUNE 30,</u>	
	<u>2015</u>	<u>2014</u>
OPERATING REVENUES:		
Metered water sales	\$ 3,730,388	\$ 3,345,396
Water tap fees.....	94,019	56,905
Metered sewer sales, sewer service charges and sewer tap fees.....	682,054	666,553
Customers' forfeited discounts	31,436	34,150
Sprinkler systems' income.....	50,738	44,841
Customer service charges and miscellaneous income.....	<u>83,134</u>	<u>29,799</u>
Total Operating Revenues	<u>4,671,769</u>	<u>4,177,644</u>
OPERATING EXPENSES:		
Salaries and wages	1,078,823	1,022,883
Payroll taxes.....	78,243	74,619
Laboratory supplies.....	31,954	28,792
Chemicals.....	222,847	222,386
Goodwill advertising.....	5,170	2,045
Utilities.....	405,022	392,687
Telephone.....	30,880	25,477
Office supplies, and postage	40,928	44,969
Maintenance and plant expenses	275,363	222,025
Repairs	44,673	40,801
Commissioner's fee	41,080	38,670
Insurance	63,511	58,908
Employee benefits – Health insurance	225,692	214,772
Billing service	11,314	5,656
Legal and audit.....	7,007	6,853
Uniforms	3,984	4,852
Miscellaneous.....	26,415	31,759
Retirement benefits	49,996	58,606
Small tools	2,196	3,010
Professional consultants	33,923	32,273
Vehicle expenses.....	57,380	77,309
Depreciation.....	843,906	837,083
Travel – management.....	6,619	8,586
Travel – employees	3,274	782
Pension expense	15,730	-
Registration fees.....	<u>5,240</u>	<u>4,250</u>
Total Operating Expenses.....	<u>3,611,170</u>	<u>3,460,053</u>
OPERATING INCOME.....	<u>1,060,599</u>	<u>717,591</u>
OTHER INCOME (EXPENSES):		
Interest earned.....	14,666	14,750
Interest expense.....	(106,856)	(117,801)
Gain on sale of fixed asset	5,180	22,238
Other expense.....	(9,871)	(14,124)
Contract services	<u>73,689</u>	<u>-</u>
Total Other Income (Expense)	<u>(23,192)</u>	<u>(94,937)</u>

(Continued)

See accompanying independent auditors' report and notes.

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

	<u>FISCAL YEARS ENDED JUNE 30,</u>	
	<u>2015</u>	<u>2014</u>
Income Before Contributions	1,037,407	622,654
Capital Contributions.....	<u>19,632</u>	<u>54,859</u>
Change in Net Position	1,057,039	677,513
Net Position, Beginning of Year, as previously reported	21,612,516	20,935,003
Prior Period Adjustment (Note 2n).....	<u>108,375</u>	<u>-</u>
Net Position, Beginning of Year, as restated	<u>21,720,891</u>	<u>20,935,003</u>
Net Position, End of Year.....	<u>\$ 22,777,930</u>	<u>\$ 21,612,516</u>

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 STATEMENTS OF CASH FLOWS

	<u>FISCAL YEARS ENDED JUNE 30,</u>	
	<u>2015</u>	<u>2014</u>
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:		
Cash received from customers	\$ 4,462,703	\$ 4,459,693
Cash payments to suppliers for goods and services	(1,426,193)	(1,646,138)
Cash payments to employees for services.....	<u>(1,141,766)</u>	<u>(1,089,030)</u>
Net Cash Flows Provided By		
Operating Activities	<u>1,894,744</u>	<u>1,724,525</u>
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets and change in construction in progress...	(584,945)	(389,798)
Proceeds from sale of capital assets	5,180	22,238
Principal paid on bonds and notes.....	(832,872)	(740,800)
Interest paid on debt.....	(106,856)	(117,801)
Capital contributions	19,632	54,859
Pension deferrals	111,908	-
Contracted services and expense.....	<u>63,818</u>	<u>-</u>
Net Cash Flows Provided (Used) By Capital and Related Financing Activities	<u>(1,324,135)</u>	<u>(1,171,302)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:		
Interest received	14,666	14,750
Proceeds from certificate of deposit	<u>555,000</u>	<u>250,000</u>
Net Cash Flows Provided by Investing Activities	<u>564,666</u>	<u>264,750</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,135,275	817,973
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR.....	<u>1,791,164</u>	<u>973,191</u>
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	<u>\$ 2,926,439</u>	<u>\$ 1,791,164</u>
RECONCILIATION OF OPERATING REVENUE TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income.....	\$ 1,060,599	\$ 717,591
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	843,906	837,083
Change in assets and liabilities:		
Accounts receivable, trade	(199,793)	189,875
Prepaid services.....	(1,339)	(2,220)
Due from TVA	-	75,711
Advances from customers	(323)	1,737
Inventory	(7,934)	18,683
Customer meter deposits	13,820	(2,200)
Accounts payable	169,270	(97,881)
Sales tax payable	1,238	1,709
Compensated absences.....	15,300	8,472
Accrued interest	<u>-</u>	<u>(24,035)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	<u>\$ 1,894,744</u>	<u>\$ 1,724,525</u>

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 1 – REPORTING ENTITY:

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

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

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

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

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

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

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

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

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES:

(a) Accounting Method:

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

(b) Cash and Cash Equivalents:

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

(c) Accounts Receivable:

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

(d) Inventories:

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

(e) Utility Plant and Depreciation:

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

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

(f) Construction Period Interest:

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

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued):

(g) Compensated Absences:

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

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

(h) Use of Estimates:

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

(i) Use of Resources:

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

(j) Classification of Revenues and Expenses:

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

(k) Implementation of New Accounting Standards:

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

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015 and 2014

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

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

(l) Net Position:

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

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

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

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

(m) Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Tellico Area Services Systems’ participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Tellico Area Services Systems’ 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.

(n) Implementation of New Accounting Pronouncement:

In June 2012 the Governmental Accounting Standards Board issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the fiscal year beginning July 1, 2014. This statement revises existing standards for measuring and reporting pension liabilities for pensions provided by the Agency to its employees. This Statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan’s fiduciary net position. The Agency implemented this standard effective July 1, 2014.

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015 and 2014

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued):

(n) Implementation of New Accounting Pronouncement (Continued):

The Agency's Net Position at that date was restated to reflect the effects of this pronouncement as follows:

Net position, June 30, 2014		\$ 21,612,516
Recognition of Pension liability		<u>108,375</u>
Restated Net Position, July 1, 2014		<u>\$ 21,720,891</u>

NOTE 3 – CASH AND INVESTMENTS:

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

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

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

Total cash and investments at a carrying amount of \$4,626,439 and \$4,041,164 at June 30, 2015 and 2014, respectively, are classified as follows:

Type	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Petty cash.....	\$ 100	\$ 100
Local financial institutions -		
Checking accounts.....	2,905,505	1,785,265
Local financial institutions:		
Savings	20,834	5,799
Certificates of Deposit	<u>1,700,000</u>	<u>2,250,000</u>
Total.....	<u>\$ 4,626,439</u>	<u>\$ 4,041,164</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 3 – CASH AND INVESTMENTS (Continued):

Custodial Credit Risk – The Utility has no formal policy regarding custodial credit risk. However, as of June 30, 2015 and 2014, total cash in financial institutions in the amount of \$4,626,439 and \$4,041,164, respectively, were entirely insured by the Tennessee Investment Collateral Pool.

NOTE 4 – ACCOUNTS RECEIVABLE:

Accounts receivable are comprised of the following:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Metered water sales:		
Billed revenue	\$ 326,647	\$ 206,289
Unbilled revenue.....	<u>461,381</u>	<u>381,946</u>
Total	<u>\$ 788,028</u>	<u>\$ 588,235</u>

NOTE 5 – CAPITAL ASSETS:

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

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

Land and land rights	0%
Water lines.....	2%
Water treatment plant	2% to 10%
Meters	3%
Office building.....	2%
Water storage tanks	3%
Pump station	5%
Sewer lines.....	2%
Fencing	10%
Wastewater treatment plant	2%
Office furniture and equipment	10% to 20%
Transportation equipment.....	20%
Tools, shop and garage equipment	10% to 33%

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015 and 2014

NOTE 5 – CAPITAL ASSETS (Continued):

Capital assets activity for the year ended June 30, 2015 was as follows:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2015</u>
Capital Assets, non-depreciable:				
Land.....	\$ 324,700	\$ -	\$ -	\$ 324,700
Other Capital Assets:				
Water lines and appurtenances .	12,842,572	62,194	-	12,904,766
Fire hydrants.....	136,400	-	-	136,400
Meters.....	1,497,517	90,980	-	1,588,497
Water treatment plant	5,642,811	74,202	-	5,717,013
Office building	1,037,345	-	-	1,037,345
Water storage tanks	2,008,164	-	-	2,008,164
Grading and surfacing	10,978	-	-	10,978
Office furniture and fixtures.....	123,055	-	-	123,055
Tools and equipment	339,036	10,177	-	349,213
Transportation equipment.....	431,222	49,491	-	480,713
Fencing	29,040	-	-	29,040
Pump station.....	433,036	2,761	-	435,797
Collection system	31,867	-	-	31,867
Sewer lines	1,574,122	-	-	1,574,122
Wastewater treatment plant	<u>10,200,295</u>	<u>772</u>	-	<u>10,201,067</u>
Total Other Capital Assets at Historical Cost.....	<u>36,337,460</u>	<u>290,577</u>	-	<u>36,628,037</u>
Less Accumulated Depreciation for:				
Water lines and appurtenances .	(3,857,826)	(256,289)	-	(4,114,115)
Fire hydrants.....	(69,003)	(2,728)	-	(71,731)
Meters.....	(367,475)	(46,373)	-	(413,848)
Water treatment plant	(3,461,055)	(113,635)	-	(3,574,690)
Office building	(202,884)	(24,957)	-	(227,841)
Water storage tanks	(658,863)	(52,814)	-	(711,677)
Grading and surfacing	(10,978)	-	-	(10,978)
Office furniture and fixtures.....	(113,257)	(3,151)	-	(116,408)
Tools and equipment	(260,308)	(16,078)	-	(276,386)
Transportation equipment.....	(302,458)	(44,042)	-	(346,500)

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 5 – CAPITAL ASSETS (Continued):

Capital assets activity for the year ended June 30, 2015 was as follows (Continued):

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2015</u>
Less Accumulated Depreciation for:				
Fencing	(29,040)	-	-	(29,040)
Pump station.....	(142,843)	(26,051)	-	(168,894)
Collection system	(12,644)	(3,167)	-	(15,811)
Sewer lines	(278,095)	(31,482)	-	(309,577)
Wastewater treatment plant.....	(971,470)	(223,139)	-	(1,194,609)
Total Accumulated Depreciation	<u>(10,738,199)</u>	<u>(843,906)</u>	<u>-</u>	<u>(11,582,105)</u>
Other Capital Assets, net.....	<u>25,599,261</u>	<u>(553,329)</u>	<u>-</u>	<u>25,045,932</u>
Construction in Progress	<u>48,618</u>	<u>342,986</u>	<u>(48,618)</u>	<u>342,986</u>
Total Capital Assets, net	<u>\$ 25,972,579</u>	<u>\$ (210,343)</u>	<u>\$ (48,618)</u>	<u>\$ 25,713,618</u>

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

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital Assets, non-depreciable:				
Land.....	<u>\$ 324,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 324,700</u>
Other Capital Assets:				
Water lines and appurtenances .	12,842,572	-	-	12,842,572
Fire hydrants.....	128,264	8,136	-	136,400
Meters.....	1,458,151	39,366	-	1,497,517
Water treatment plant	5,633,438	9,373	-	5,642,811
Office building	1,037,345	-	-	1,037,345
Water storage tanks	1,075,745	932,419	-	2,008,164
Grading and surfacing	10,978	-	-	10,978
Office furniture and fixtures.....	120,505	2,550	-	123,055
Tools and equipment	338,786	250	-	339,036
Transportation equipment.....	420,695	68,087	(57,560)	431,222
Fencing	29,040	-	-	29,040
Pump station.....	428,936	4,100	-	433,036
Collection system	31,867	-	-	31,867
Sewer lines	1,574,122	-	-	1,574,122
Wastewater treatment plant.....	<u>10,188,485</u>	<u>11,810</u>	<u>-</u>	<u>10,200,295</u>
Total Other Capital Assets at Historical Cost	<u>35,318,929</u>	<u>1,076,091</u>	<u>(57,560)</u>	<u>36,337,460</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2015 and 2014

NOTE 5 – CAPITAL ASSETS (Continued):

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

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

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

A Summary of Long-Term Debt is presented below:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Balance	\$ 8,852,959	\$ 9,593,759
Additions	-	-
Retirements – debt paid	<u>(832,872)</u>	<u>(740,800)</u>
Balance	<u>\$ 8,020,087</u>	<u>\$ 8,852,959</u>

Local Government Public Improvement Bonds, Series E-7-A, in the amount of \$1,035,000 were issued through Monroe County, Tennessee. The bonds were issued in Monroe County’s name and it is liable for repayment if the Utility defaults. The bonds are payable over twenty-five (25) years. The monthly payments include variable interest. The balance of the bonds as of June 30, 2015 was \$330,000 (Water Plant Renovations).

Maturities and interest requirements of the bond are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Bond</u> <u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 55,000	\$ 16,500	\$ 71,500
2017	60,000	13,750	73,750
2018	60,000	10,750	70,750
2019	65,000	7,750	72,750
2020	<u>70,000</u>	<u>4,500</u>	<u>74,500</u>
Subtotal	<u>310,000</u>	<u>53,250</u>	<u>363,250</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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

Year Ending <u>June 30,</u>	<u>Bond Principal</u>	<u>Interest</u>	<u>Total</u>
2021	<u>20,000</u>	<u>1,000</u>	<u>21,000</u>
	<u>\$ 330,000</u>	<u>\$ 54,250</u>	<u>\$ 384,250</u>

State of Tennessee Revolving Fund Loan Program, in the amount of \$9,416,068. There are two loans, one issued through Loudon County – SRF 07-198 and one issued through Monroe County SRF 07-198A. The loans were used for the construction of a new wastewater treatment plant. The loans are payable over twenty (20) years. The monthly payment includes interest at 1.47%. As of June 30, 2015 the balance of the Loudon County loan was \$3,220,857 and the balance of the Monroe County loan was \$3,231,107.

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

Year Ending <u>June 30,</u>	<u>Bond Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 188,341	\$ 46,079	\$ 234,420
2017	191,128	43,292	234,420
2018	193,957	40,463	234,420
2019	196,827	37,593	234,420
2020	<u>199,741</u>	<u>34,679</u>	<u>234,420</u>
Subtotal	<u>969,994</u>	<u>202,106</u>	<u>1,172,100</u>
2021	202,697	31,723	234,420
2022	205,697	28,723	234,420
2023	208,741	25,679	234,420
2024	211,830	22,590	234,420
2025	<u>214,965</u>	<u>19,455</u>	<u>234,420</u>
Subtotal	<u>1,043,930</u>	<u>128,170</u>	<u>1,172,100</u>
2026	218,146	16,274	234,420
2027	221,375	13,045	234,420
2028	224,651	9,769	234,420
2029	227,976	6,444	234,420
2030	<u>231,350</u>	<u>3,070</u>	<u>234,420</u>
Subtotal	<u>1,123,498</u>	<u>48,602</u>	<u>1,172,100</u>
2031	<u>83,435</u>	<u>313</u>	<u>83,748</u>
Total	<u>\$ 3,220,857</u>	<u>\$ 379,191</u>	<u>\$ 3,600,048</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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

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

Year Ending June 30,	Bond Principal	Interest	Total
2016	\$ 188,187	\$ 46,233	\$ 234,420
2017	190,972	43,448	234,420
2018	193,799	40,621	234,420
2019	196,667	37,753	234,420
2020	<u>199,577</u>	<u>34,843</u>	<u>234,420</u>
Subtotal	<u>969,202</u>	<u>202,898</u>	<u>1,172,100</u>
2021	202,531	31,889	234,420
2022	205,529	28,891	234,420
2023	208,570	25,850	234,420
2024	211,657	22,763	234,420
2025	<u>214,789</u>	<u>19,631</u>	<u>234,420</u>
Subtotal	<u>1,043,076</u>	<u>129,024</u>	<u>1,172,100</u>
2026	217,968	16,452	234,420
2027	221,194	13,226	234,420
2028	224,467	9,953	234,420
2029	227,789	6,631	234,420
2030	<u>231,160</u>	<u>3,260</u>	<u>234,420</u>
Subtotal	<u>1,122,578</u>	<u>49,522</u>	<u>1,172,100</u>
2031	<u>96,251</u>	<u>352</u>	<u>96,603</u>
Total	<u>\$ 3,231,107</u>	<u>\$ 381,796</u>	<u>\$ 3,612,903</u>

Total interest incurred on the Utility's debt for the years ended June 30, 2015 and June 30, 2014, was \$106,856 and \$117,801, respectively.

NOTE 7 – NOTES PAYABLE:

East Coast Tellico Parkway Sewer Line:

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

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

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 7 – NOTES PAYABLE:

East Coast Tellico Parkway Sewer Line:

Tellico Area Services Systems will pay TRDA on a quarterly basis \$1,500 of each tap fee for each qualified tap made during said quarter until the full cost of construction is paid. The balance of this note as of June 30, 2015 is \$1,238,123

Total Long Term debt is as follows:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Long-term debt	\$ 8,020,087	\$ 8,852,959
Interest	<u>815,237</u>	<u>962,897</u>
Total Debt and Interest.....	<u>\$ 8,835,324</u>	<u>\$ 9,815,856</u>

NOTE 8 – EMPLOYEES’ RETIREMENT PLAN:

Plan Description:

Employees of the Utility are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated 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 the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided:

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by 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 average compensation and the member’s years of service credit. Reduced benefits for early retirement are available at age 55 and 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 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, 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.

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
 June 30, 2015 and 2014

NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued):

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	4
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>20</u>
	<u>30</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 percent of salary. The Utility makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for the Utility were \$49,997 based on a rate of 4.94% of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the Utility’s state shared taxes if required employer contributions are not remitted. The employer’s actuarially determined contribution (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 any unfunded liability.

Net Pension Liability (ASSET)

The Utility’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.

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:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5 percent

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.

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued):

Net Pension Liability (ASSET) (Continued)

Actuarial assumptions (Continued):

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 asset 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 expense 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 percent. The target allocation and best estimates of arithmetic real rates of return 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%	<u>1%</u>
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent 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 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Tellico Area Services Systems 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 plan’s 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.

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2015 and 2014

NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued):

Changes in the Net Pension Liability (Asset)

	Total Pension Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability (Asset) <u>(a) – (b)</u>
Balance at June 30, 2013	\$ 1,308,712	\$ 1,358,481	\$ (49,769)
Changes for the year:			
Service cost	88,276	-	88,276
Interest	104,039	-	104,039
Differences between expected and actual experience	25,406	-	25,406
Contributions – employer	-	58,606	(58,606)
Contributions – employees	-	49,582	(49,582)
Net investment income	-	232,480	(232,480)
Benefit payments, including refunds of employee contributions	(19,614)	(19,614)	-
Administrative expense	-	(812)	812
Net Changes	<u>198,107</u>	<u>320,242</u>	<u>(122,135)</u>
Balance at June 30, 2014	<u>\$ 1,506,819</u>	<u>\$ 1,678,723</u>	<u>\$ (171,904)</u>

Sensitivity of the net pension liability (asset) to changes in the discount rate:

The following presents the net pension liability (asset) of the Utility calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease <u>(6.5%)</u>	Current Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
The Utility’s net pension liability (asset)	\$ 109,029	\$ (171,904)	\$ (400,344)

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension expense:

For the year ended June 30, 2015, Tellico Area Services Systems recognized pension income of \$15,730.

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued):

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Deferred outflows of resources and deferred inflows of resources:

For the year ended June 30, 2015, The Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 22,583	\$ -
Net difference between projected and actual earnings on pension plan investments	-	101,842
Contributions subsequent to the measurement date of June 30, 2014	<u>49,997</u>	<u>-</u>
Total	<u>\$ 72,580</u>	<u>\$ 101,842</u>

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2014,” will be recognized as a reduction (increase) to 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 pension expense as follows:

Year Ended June 30,	
2016	\$ (22,638)
2017	(22,638)
2018	(22,638)
2019	(22,638)
2020	2,823
Thereafter	8,469

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

Payable to the Pension Plan

At June 30, 2015, The Utility reported a payable of \$8,054 for outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 9 – RISK FINANCING ACTIVITIES:

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

NOTE 10 – COMMITTED CONSTRUCTION:

As of June 30, 2015, the Utility had the following commitment with respect to unfinished construction in progress:

<u>Project Name</u>	Total Contract or Estimated <u>Amount</u>	Costs Incurred through <u>June 30, 2015</u>	Estimated Cost to <u>Complete</u>
Hackney Hill Tank Project	\$ 215,998	\$ 124,505	\$ 91,493
Gun Ridge Road and Kinkaid Road	104,085	7,907	96,178
Smoky Branch Road and Citico Road	495,000	2,995	492,005
Sedimentation Basin Upgrade	205,095	165,714	39,381
Clean TN Energy Grant Program	<u>56,493</u>	<u>41,865</u>	<u>14,628</u>
	<u>\$ 1,076,671</u>	<u>\$ 342,986</u>	<u>\$ 733,685</u>

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

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

NOTE 11 – SUBSEQUENT EVENT:

The date to which events occurring after June 30, 2015, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is November 17, 2015, which is the date on which the financial statements were issued.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2015 and 2014

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
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 Ended June 30, 2014

Total pension liability	
Service cost	\$ 88,276
Interest	104,039
Changes in benefit terms	-
Differences between actual & expected experience	25,406
Change of assumptions	-
Benefit payments, including refunds of employee contributions	<u>(19,614)</u>
Net change in total pension liability	198,107
Total pension liability-beginning	<u>1,308,712</u>
Total pension liability-ending (a)	<u>\$ 1,506,819</u>
Plan fiduciary net position	
Contributions – employer	\$ 58,606
Contributions – employee	49,582
Net investment income	232,480
Benefit payments, including refunds of employee contributions	(19,614)
Administrative expense	(812)
Other	<u>-</u>
Net change in plan fiduciary net position	320,242
Plan fiduciary net position – beginning	<u>1,358,481</u>
Plan fiduciary net position – ending (b)	<u>\$ 1,678,723</u>
Net Pension Liability (asset)-ending (a) – (b)	<u>\$ (171,904)</u>
Plan fiduciary net position as a percentage of total pension liability	111.41%
Covered-employee payroll	\$ 991,659
Net Pension liability (asset) as a percentage of covered-employee payroll	(17.33)%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will add to this schedule in future fiscal years until 10 years of information is available.

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
**SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION IN THE
 PUBLIC EMPLOYEE PENSION PLAN OF TCRS**
 Last Fiscal Year Ended June 30,

	<u>2014</u>	<u>2015</u>
Actuarially determined contribution	\$ 58,606	\$ 49,997
Contributions in relation to the actuarially determined contribution	<u>(58,606)</u>	<u>(49,997)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 991,659	\$ 1,012,088
Contributions as a percentage covered – employee payroll	5.91%	4.94%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES
 PRESENTED ON PAGES 27-28
 Last Fiscal Year Ended June 30, 2015

Valuation date:

Actuarially determined contribution rates for 2015 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	1 year
Asset valuation	10-year smoothed with a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment Rate of Return	7.5 percent, 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 improvement
Cost of Living Adjustments	2.5 percent

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

SUPPLEMENTAL INFORMATION SECTION

June 30, 2015 and 2014

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION
June 30, 2015 and 2014

	Balance 7-1-14	ASSETS			ACCUMULATED DEPRECIATION			
		Additions	Retirements	Balance 6-30-15	Balance 7-1-14	Additions	Retirements	Balance 6-30-15
Capital Assets, non-depreciable:								
Land	\$ 324,700	\$ -	\$ -	\$ 324,700	\$ -	\$ -	\$ -	\$ -
Capital Assets, depreciable:								
Water lines and appurtenances	12,842,572	62,194	-	12,904,766	3,857,826	256,289	-	4,114,115
Fire hydrants	136,400	-	-	136,400	69,003	2,728	-	71,731
Meters	1,497,517	90,980	-	1,588,497	367,475	46,373	-	413,848
Water treatment plant, water supply intake, and waste-water facility	5,642,811	74,202	-	5,717,013	3,461,055	113,635	-	3,574,690
Office building	1,037,345	-	-	1,037,345	202,884	24,957	-	227,841
Water storage tanks – 3	2,008,164	-	-	2,008,164	658,863	52,814	-	711,677
Grading and surfacing road - Tank #3	10,978	-	-	10,978	10,978	-	-	10,978
Office furniture and fixtures....	123,055	-	-	123,055	113,257	3,151	-	116,408
Tools and equipment	339,036	10,177	-	349,213	260,308	16,078	-	276,386
Transportation equipment	431,222	49,491	-	480,713	302,458	44,042	-	346,500
Fencing.....	29,040	-	-	29,040	29,040	-	-	29,040
Pump station.....	433,036	2,761	-	435,797	142,843	26,051	-	168,894
Collection system.....	31,867	-	-	31,867	12,644	3,167	-	15,811
Wastewater treatment plant.....	10,200,295	772	-	10,201,067	971,470	223,139	-	1,194,609
Sewer lines	<u>1,574,122</u>	<u>-</u>	<u>-</u>	<u>1,574,122</u>	<u>278,095</u>	<u>31,482</u>	<u>-</u>	<u>309,577</u>
Total Capital Assets, depreciable	<u>36,337,460</u>	<u>290,577</u>	<u>-</u>	<u>36,628,037</u>	<u>10,738,199</u>	<u>843,906</u>	<u>-</u>	<u>11,582,105</u>
Total Capital Assets	<u>\$ 36,662,160</u>	<u>\$ 290,577</u>	<u>\$ -</u>	<u>\$ 36,952,737</u>	<u>\$ 10,738,199</u>	<u>\$ 843,906</u>	<u>\$ -</u>	<u>\$ 11,582,105</u>

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
SCHEDULE OF BONDS PAYABLE
 June 30, 2015 and 2014

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

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 55,000	\$ 16,500	\$ 71,500
2017	60,000	13,750	73,750
2018	60,000	10,750	70,750
2019	65,000	7,750	72,750
2020	<u>70,000</u>	<u>4,500</u>	<u>74,500</u>
Subtotal	<u>310,000</u>	<u>53,250</u>	<u>363,250</u>
2021	<u>20,000</u>	<u>1,000</u>	<u>21,000</u>
Total	<u>\$ 330,000</u>	<u>\$ 54,250</u>	<u>\$ 384,250</u>

STATE OF TENNESSEE
 REVOLVING LOAN
 LOUDON COUNTY ISSUE

STATE OF TENNESSEE
 REVOLVING LOAN
 MONROE COUNTY ISSUE

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 188,341	\$ 46,079	\$ 234,420	\$ 188,187	\$ 46,233	\$ 234,420
2017	191,128	43,292	234,420	190,972	43,448	234,420
2018	193,957	40,463	234,420	193,799	40,621	234,420
2019	196,827	37,593	234,420	196,667	37,753	234,420
2020	<u>199,741</u>	<u>34,679</u>	<u>234,420</u>	<u>199,577</u>	<u>34,843</u>	<u>234,420</u>
Subtotal	<u>969,994</u>	<u>202,106</u>	<u>1,172,100</u>	<u>969,202</u>	<u>202,898</u>	<u>1,172,100</u>
2021	202,697	31,723	234,420	202,531	31,889	234,420
2022	205,697	28,723	234,420	205,529	28,891	234,420
2023	208,741	25,679	234,420	208,570	25,850	234,420
2024	211,830	22,590	234,420	211,657	22,763	234,420
2025	<u>214,965</u>	<u>19,455</u>	<u>234,420</u>	<u>214,789</u>	<u>19,631</u>	<u>234,420</u>
Subtotal	<u>1,043,930</u>	<u>128,170</u>	<u>1,172,100</u>	<u>1,043,076</u>	<u>129,024</u>	<u>1,172,100</u>
2026	218,146	16,274	234,420	217,968	16,452	234,420
2027	221,375	13,045	234,420	221,194	13,226	234,420
2028	224,651	9,769	234,420	224,467	9,953	234,420
2029	227,976	6,444	234,420	227,789	6,631	234,420
2030	<u>231,350</u>	<u>3,070</u>	<u>234,420</u>	<u>231,160</u>	<u>3,260</u>	<u>234,420</u>
Subtotal	<u>1,123,498</u>	<u>48,602</u>	<u>1,172,100</u>	<u>1,122,578</u>	<u>49,522</u>	<u>1,172,100</u>
2031	<u>83,435</u>	<u>313</u>	<u>83,748</u>	<u>96,251</u>	<u>352</u>	<u>96,603</u>
Total	<u>\$ 3,220,857</u>	<u>\$ 379,191</u>	<u>\$ 3,600,048</u>	<u>\$ 3,231,107</u>	<u>\$ 381,796</u>	<u>\$ 3,612,903</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF BONDS PAYABLE (Continued)
June 30, 2015 and 2014

TOTALS			
Year Ended June 30,	Total <u>Principal</u>	Total <u>Interest</u>	Total
2016	\$ 431,528	\$ 108,812	\$ 540,340
2017	442,100	100,490	542,590
2018	447,756	91,834	539,590
2019	458,494	83,096	541,590
2020	469,318	74,022	543,340
Subtotal	<u>2,249,196</u>	<u>458,254</u>	<u>2,707,450</u>
2021	425,228	64,612	489,840
2022	411,226	57,614	468,840
2023	417,311	51,529	468,840
2024	423,487	45,353	468,840
2025	429,754	39,086	468,840
Subtotal	<u>2,107,006</u>	<u>258,194</u>	<u>2,365,200</u>
2026	436,114	32,726	468,840
2027	442,569	26,271	468,840
2028	449,118	19,722	468,840
2029	455,765	13,075	468,840
2030	462,510	6,330	468,840
Subtotal	<u>2,246,076</u>	<u>98,124</u>	<u>2,344,200</u>
2031	<u>179,686</u>	<u>665</u>	<u>180,351</u>
Total	6,781,964	815,237	7,597,201
TRDA Note	<u>1,238,123</u>	-	<u>1,238,123</u>
	<u>\$ 8,020,087</u>	<u>\$ 815,237</u>	<u>\$ 8,835,324</u>

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 SCHEDULE OF INSURANCE IN FORCE AND BONDS ON PRINCIPAL OFFICIALS
 June 30, 2015 and 2014

<u>Type</u>	<u>Company</u>	<u>Policy No.</u>	<u>Period</u>		<u>Coverage</u>
			<u>From</u>	<u>To</u>	
Workmen's Compensation	Tennessee Risk Management Trust	TNRMT	07-01-14	07-01-15	Statutory - \$1,000,000
Crime	Tennessee Risk Management Trust	TNRMT	07-01-14	07-01-15	Employee /Officers/Trustees Dishonesty Coverage - \$150,000
Comprehensive General Liability Insurance	Tennessee Risk Management Trust	TNRMT	07-01-14	07-01-15	Comprehensive General Liability Insurance Bodily Injury and Property Damage Combined: Coverage: General total limit \$2,000,000 Products limit \$2,000,000 Personal injury \$1,000,000 Each occurrence \$1,000,000 Fire damage \$ 100,000 Medical expense \$ 5,000 Property \$5,000,000
Property	Tennessee Risk Management Trust	TNRMT	07-01-14	07-01-15	\$1,000,000 per Occurrence; \$100,000 per Building
Business Auto Policy	Tennessee Risk Management Trust	TNRMT	07-01-14	07-01-15	Liability - \$1,000,000 Maximum - Each Occurrence; Uninsured Motorists - \$1,000,000 Each Accident

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF WATER AND SEWER RATES IN FORCE,
AND NUMBER OF CUSTOMERS
June 30, 2015 and 2014

Retail Water Rates as of June 30:

2,000 gallons (Minimum) – \$16.92 (3/4 inch meter)
All over 2,000 gallons – \$4.04/thousand

Wholesale Water Rates as of June 30, 2015:

First 500,000 gallons – \$2.73/thousand
Next 1,000,000 gallons – \$2.56/thousand
Next 1,500,000 gallons – \$2.21/thousand
All over 3,000,000 gallons – \$1.85/thousand

As of 6-30-15:

Number of Water Customers:	
Retail	4,111
Wholesale	5

Retail Sewer Rates as of June 30, 2015:

2,000 gallons (minimum) - \$22.28
All over 2,000 gallons - 6.48/thousand

Wholesale Sewer Rates as of June 30, 2015:

\$4.64/thousand gallons

As of 6-30-15:

Number of Sewer Customers:	
Retail	580
Wholesale	2

See accompanying independent auditors’ report and notes.

TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee
June 30, 2015 and 2014

WAS v5.0
 American Water Works Association
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AWWA Free Water Audit Software: Reporting Worksheet

Water Audit Report for: **Tellico Area Services System (0000726)**
 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.

WATER SUPPLIED

	←----- Enter grading in column 'E' and 'J' -----→	
Volume from own sources: + ? 9	1,420.130	MG/Yr
Water imported: + ? 10	6.148	MG/Yr
Water exported: + ? 9	770.487	MG/Yr
WATER SUPPLIED: 655.782 MG/Yr		

Master Meter and Supply Error Adjustments

Pcnt:	0.14%	Value:		MG/Yr
Enter negative % or value for under-registration Enter positive % or value for over-registration				

AUTHORIZED CONSUMPTION

Billed metered: + ? 10	389.807	MG/Yr
Billed unmetered: + ? 10	0.000	MG/Yr
Unbilled metered: + ? 10	48.190	MG/Yr
Unbilled unmetered: + ?	8.197	MG/Yr
Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed		
AUTHORIZED CONSUMPTION: 446.194 MG/Yr		

Click here: ? for help using option buttons below

Pcnt: 1.25% Value: MG/Yr

Use buttons to select percentage of water supplied OR value

WATER LOSSES (Water Supplied - Authorized Consumption)

209.588 MG/Yr

Apparent Losses

Unauthorized consumption: + ?	1.639	MG/Yr
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed		
Customer metering inaccuracies: + ? 10	4.424	MG/Yr
Systematic data handling errors: + ?	0.975	MG/Yr
Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed		
Apparent Losses: 7.038 MG/Yr		

Pcnt: 0.25% Value: MG/Yr

1.00% Value: MG/Yr

0.25% Value: MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: ?

202.550 MG/Yr

WATER LOSSES: 209.588 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 265.975 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains: + ? 10	260.0	miles
Number of active AND inactive service connections: + ? 10	4,566	
Service connection density: ?	18	conn./mile main

Are customer meters typically located at the curbside or property line? Yes

Average length of customer service line: + ? 8 10.0 ft (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: + ? 10 100.0 psi

COST DATA

Total annual cost of operating water system: + ? 10	\$2,828,846	\$/Year
Customer retail unit cost (applied to Apparent Losses): + ? 10	\$4.04	\$/1000 gallons (US)
Variable production cost (applied to Real Losses): + ? 10	\$351.13	\$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 91 out of 100 *****

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

PRIORITY AREAS FOR ATTENTION:

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

- 1: Unauthorized consumption
- 2: Systematic data handling errors
- 3: Volume from own sources

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee
June 30, 2015 and 2014



AWWA Free Water Audit Software: System Attributes and Performance Indicators

WAS v5.0

American Water Works Association.
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Water Audit Report for:
Reporting Year:

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 91 out of 100 ***

System Attributes:

Apparent Losses:	7.038	MG/Yr
+	Real Losses:	202.550
=	Water Losses:	209.588

? 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

TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee

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

June 30, 2015 and 2014



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Board of Commissioners
Tellico Area Services Systems
Vonore, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Tellico Area Services Systems, as of and for the year ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Utility basic financial statements and have issued our report thereon dated November 17, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Ingram, Overholt & Bean, P.C.

Alcoa, Tennessee
November 17, 2015