

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

**LINCOLN COUNTY BOARD
OF
PUBLIC UTILITIES**

Fayetteville, Tennessee

June 30, 2015

WINNETT
Associates, PLLC

Certified Public Accountants and Consultants

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INTRODUCTORY SECTION

**LINCOLN COUNTY BOARD OF PUBLIC UTILITIES
ADMINISTRATION**

June 30, 2015

LINCOLN COUNTY:

Bill Newman	County Executive	8/31/2018
Phyllis Counts	County Clerk	8/31/2018
Mary Jane Porter	County Trustee	8/31/2018

BOARD:

Mike Gooding	Chairman	6/30/2016
Paul Butcher	Vice-chairman	6/30/2015
Danny Walker	Secretary	6/30/2016
Wade Williams		6/30/2015
Mark Bolden		6/30/2017

SUPERINTENDENT:

Chris Merz

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Lincoln County Board of Public Utilities
Fayetteville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Lincoln County Board of Public Utilities (the "Board"), an enterprise fund of Lincoln County, Tennessee, as of and for the year ended June 30, 2015, and the related notes to the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln County Board of Public Utilities as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note A, the financial statements present only the Lincoln County Board of Public Utilities and do not purport to, and do not, present fairly the financial position of Lincoln County, Tennessee, as of June 30, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, as described in Note L to the financial statements, in fiscal year 2015, the Lincoln County Board of Public Utilities adopted new accounting guidance, GASB Statements No. 68, *Accounting and Financial Reporting for Pensions* and No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the pension-related information on pages 28 and 29 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. 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 financial statements, and other knowledge we obtained during our audit of the 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 taken as a whole. The accompanying other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Lincoln County Board of Public Utilities. The accompanying schedule of expenditures of federal awards as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also presented for purposes of additional analysis and is not a required part of the financial statements.

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

The introductory section and the other supplementary information have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2015, on our consideration of Lincoln County Board of Public Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln County Board of Public Utilities' internal control over financial reporting and compliance.

Winnett Associates, PLLC

December 22, 2015

LINCOLN COUNTY BOARD OF PUBLIC UTILITES

STATEMENT OF NET POSITION

June 30, 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS:

Cash and cash equivalents for general use	\$	4,599,216
Accounts receivable, net of allowance for uncollectible accounts of \$2,200		240,304
Other receivables		278,277
Materials and supplies inventory		158,040
Prepaid expenses		33,028

TOTAL CURRENT ASSETS 5,308,865

WATER PLANT AND EQUIPMENT:

Water plant, buildings, and equipment		40,028,929
Construction in progress		620,365
Less accumulated depreciation		<u>(16,117,588)</u>
		24,531,706

OTHER ASSETS:

Utility deposits		750
Net pension asset		728,113
Special funds		<u>311,704</u>

TOTAL ASSETS 30,881,138

DEFERRED OUTFLOWS OF RESOURCES:

Other deferral- pension		87,393
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TOTAL ASSETS AND DEFERRED OUTFLOWS \$ 30,968,531

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

CURRENT LIABILITIES:

Current maturities of long-term debt payable from current assets	\$	341,588
Accounts payable		400,264
Advance payments from developers		25,800
Customer deposits, payable from restricted assets		34,180
Accrued interest		16,025
Accrued leave		27,555
Accrued liabilities		<u>19,862</u>

TOTAL CURRENT LIABILITIES 865,274

LONG-TERM LIABILITIES:

Bonds payable		11,538,450
Less current portion		<u>(341,588)</u>
		11,196,862

TOTAL LIABILITIES 12,062,136

DEFERRED INFLOWS OF RESOURCES:

Pension - changes in experience		137,133
Pension - changes in investment earnings		<u>154,748</u>

TOTAL DEFERRED INFLOWS OF RESOURCES 291,881

NET POSITION:

Net investment in capital assets		12,993,257
Restricted for debt service		277,524
Unrestricted		<u>5,343,733</u>

TOTAL NET POSITION 18,614,514

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION \$ 30,968,531

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

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the year ended June 30, 2015

OPERATING REVENUES:

Water sales (net of provision for bad debts of \$20,184)	\$	4,321,688
Penalties, service charges, and other		293,569
Connection fees		91,250
TOTAL OPERATING REVENUES		<u>4,706,507</u>

OPERATING EXPENSES:

Salaries and wages		976,115
Employee taxes and benefits		250,993
Water purchases		604,468
Water plant repair and maintenance		166,357
Utilities		304,062
Vehicle and equipment		88,480
Connection materials		15,723
Insurance		118,739
Professional fees		25,274
Water chemicals and testing		68,549
Office supplies		37,574
Postage		33,204
Telephone		23,948
Advertising		3,218
Miscellaneous		68,142
Provision for depreciation		882,528
TOTAL OPERATING EXPENSES		<u>3,667,374</u>
OPERATING INCOME		1,039,133

NONOPERATING REVENUES (EXPENSES):

Interest income		1,869
Interest expense		(441,511)
TOTAL NONOPERATING REVENUES (EXPENSES), NET		<u>(439,642)</u>
INCOME BEFORE CAPITAL GRANTS		599,491

CAPITAL GRANTS

		<u>1,066,467</u>
CHANGE IN NET POSITION		1,665,958
TOTAL NET POSITION - BEGINNING (RESTATED)		<u>16,948,556</u>
TOTAL NET POSITION - END OF YEAR	\$	<u><u>18,614,514</u></u>

Provision for depreciation and amortization for the year totaled \$882,528.

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

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

STATEMENT OF CASH FLOWS

For the year ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers and users	\$ 4,727,827
Payments to suppliers and others	(1,759,281)
Payments to employees	(1,205,279)
NET CASH PROVIDED BY OPERATIONS	<u>1,763,267</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	(1,000,322)
Salvage on retired assets	19,613
Borrowings repaid	(225,815)
Contributions, grants, and transfers in aid of construction	830,690
Interest paid	(441,817)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(817,651)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received	<u>1,869</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,869</u>
INCREASE IN CASH AND CASH EQUIVALENTS	<u>947,485</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,963,435</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 4,910,920</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH

PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 1,039,133
Depreciation and amortization	882,528
Changes in operating assets and liabilities:	
Accounts receivable	(639)
Other assets	(26,688)
Other deferral-pension	(87,393)
Inventories	(49,973)
Accounts payable	(37,760)
Accrued wages and payroll taxes	3,978
Accrued vacation pay	17,851
Customer deposits and deferred fees	22,230
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 1,763,267</u></u>

Schedule of non-cash capital and related financing activities:

Purchase of capital assets on account-current year	\$ 230,323
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The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

June 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Lincoln County Board of Public Utilities (the "Board") conform to generally accepted accounting principles applicable to utilities. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting standards. The GASB's *Codification of Governmental Accounting and Financial Reporting Standards* document these principles. The following is a summary of significant policies:

(1) Reporting Entity

The Board is an enterprise fund established under Tennessee Code Annotated 5-16-101 by Lincoln County, Tennessee. The Board sells drinking water to residents of Lincoln County not served by municipal systems. The Board is operated by a five member Board of commissioners appointed by the Lincoln County commission. The Board of Commissioners employs a Superintendent who is responsible for day-to-day operations of the water system including hiring its other employees. The Board is responsible for generating its own revenue and servicing its debt. The County has the authority to approve or reject budgets presented by the Board and to approve bonds issued by the Board. Some bonds issued by the Board are secured by a pledge of the taxing authority of Lincoln County, Tennessee.

The financial information of the Board is included as an enterprise fund in the Lincoln County, Tennessee Annual Financial Report. Complete financial statements of Lincoln County, Tennessee can be obtained directly from the County's administrative offices.

(2) Measurement Focus and Basis of Accounting

The Board's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and general practices of the utility industry. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

The Board is intended to be operated in a manner whereby the costs of providing water distribution services and system expansion are recovered through user charges. The Board distinguishes operating revenues and expenses from nonoperating items. Operating revenues generally result from charges to customers for the provision of water and related services. Operating expenses include the purchased cost of these services as well as costs to operate and maintain the various treatment, storage, transmission, and distribution systems plus general and administrative costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

(3) Cash and Cash Equivalents for General Use

For purposes of the Statement of Cash Flows, the Board considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS (Continued)
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

June 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(4) Allowance for Uncollectible Accounts

The Board provides an allowance for uncollectible accounts equal to estimated losses that may be incurred in collection of water sales receivables when it is probable that a customer account will be uncollectible. The current year's provision is offset against water sales revenues.

(5) Materials and Supplies Inventories

Inventories of repair and maintenance supplies and extension materials are stated at the lower of average cost or replacement value.

(6) Water Plant and Equipment

The Board's water plant assets are capitalized at cost at the time they become part of operations. Donated capital assets are recorded at estimated current cost of construction. Extensions and betterments are capitalized at cost.

Depreciation of capital cost is provided on a group straight-line basis over the estimated useful lives of the assets. Under the group depreciation method, gains and losses on asset dispositions are applied against accumulated depreciation and are not reflected as gains or losses in the statement of revenues, expenses, and changes in net position. Plant assets and buildings are depreciated over 25-50 years, while vehicles and equipment are depreciated over 6-10 years. The Board capitalizes equipment additions with a cost in excess of \$500 and plant additions in excess of \$2,000.

(7) Capitalized Interest

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

(8) Debt Issue Costs

Costs of issuance other than insurance are charged to expense in the period incurred. Premiums and discounts realized on debt issuances are deferred and amortized over the terms of the respective debt using a method which approximates the effective interest method.

(9) Compensated Absences

The costs of vacation benefits are recorded as expense when earned. Employees accrue vacation leave of from one to three weeks annually based on years of service. Vacation leave not used is lost if not taken by each employee's employment anniversary date. Sick leave benefits are recorded as expense when used. Employees accrue twelve days sick leave each year with no accumulation limit. Sick leave does not vest, and no liability for unused sick leave is recorded in the financial statements.

NOTES TO FINANCIAL STATEMENTS (Continued)
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

June 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position 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 and so will not be recognized as an outflow of resources (expense) until then. The Board has one item reported in this category—contributions to the pension plan made subsequent to the measurement date of June 30, 2015.

In addition to liabilities, the statement of financial position 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 and so will not be recognized as an inflow of resources (revenue) until that time. The Board includes the following items in this category—the difference between expected and actual experience in the calculation of the total pension liability of \$137,133 and the difference between projected and actual earnings on plan investments of \$154,748. Investment gains or losses are amortized over five years, while experience gains or losses are amortized over the average working lifetime of all participants.

(11) Pensions

For purposes of measuring the net pension liability/asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense/income, information about the fiduciary net position of the Board's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the Board'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.

(12) Net Position

Net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets represent capital assets reduced by accumulated depreciation and by any outstanding debt related to the acquisition, construction, or improvement of those assets as well as any deferred outflows or inflows of resources attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted assets occur when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributions, laws, regulations, etc. Unrestricted net position is the 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 component of net position. The debt service reserve is presented as a restricted component of net position. The reserve amount is in compliance with the required amount.

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

NOTES TO FINANCIAL STATEMENTS (Continued)
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

June 30, 2015

(13) Revenues

Revenues from water sales are recognized based on meter reading dates. No asset is recorded for water delivered between the last meter reading in the period and the end of the period. Revenues from connection fees and developer charges are recognized when service is activated.

(14) Contributions in aid of construction

Connection fees charged to customers (including developers) in excess of the actual cost of installation of new services are reflected as non-operating revenues in the period of new service installation. Amounts received as contributions or grants related to new line construction are reflected as capital contributions or grants.

(15) Income taxes and Tax Equivalents

The Board is an instrumentality of Lincoln County, Tennessee; therefore, it is exempt from payment of federal and state income taxes.

(16) Management Estimates

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

(17) Budgets

State law requires the Board to adopt a budget for submission to the Lincoln County Board of Commissioners prior to the start of each fiscal year. The Board adopts its budget considering all cash receipts and disbursements.

NOTE B - CASH AND RESTRICTED FUNDS

The following is a summary of cash and restricted funds at June 30, 2015:

Cash and cash equivalents for general use:	\$ 4,599,160
Special funds - restricted	
Externally restricted	277,524
Internally restricted	<u>34,180</u>
	<u>\$ 4,910,864</u>

Board cash consists of deposits in financial institutions with bank balances of \$4,849,078 and carrying amounts of \$4,910,364. Of the amounts on deposit, all is fully insured by the Federal Deposit Insurance Corporation (FDIC) or Tennessee Bank Collateral Pool. The remaining \$500 is cash on hand.

NOTES TO FINANCIAL STATEMENTS (Continued)
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

June 30, 2015

NOTE B - CASH AND RESTRICTED FUNDS (Continued)

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

Types of investments authorized: State statutes authorize the entity to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; the government's own legally issued bonds or notes; the State Treasurer's Investment Pool; and repurchase agreements. The Board has not adopted policies that would further limit its investments.

Restricted Assets: Cash is held in sinking fund reserve funds which are to be accumulated up to the maximum annual debt service and used for bond payments in the event funds are not otherwise available. These funds are mandated by bond covenants for bonds not secured by property taxes of Lincoln County. The Board pays scheduled bond payments from unrestricted funds leaving bond reserve funds intact. Restricted assets also include amounts held for payment of customer deposits. Balances in the restricted funds at June 30, 2015, were:

Sinking fund reserve fund – 1996 Bond	\$ 173,880
Sinking fund reserve fund – 1998 Bond	42,756
Sinking fund reserve fund – 2000 Bond	60,888
Customer deposits	<u>11,950</u>
	\$ 289,474

NOTES TO FINANCIAL STATEMENTS (Continued)
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

June 30, 2015

NOTE C – CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended June 30, 2015:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions &</u> <u>Reclassifications</u>	<u>Retirements &</u> <u>Reclassifications</u>	<u>Balance</u> <u>June 30, 2015</u>
Capital assets not being depreciated or amortized:				
Land and land rights	\$ 527,695			\$ 527,695
Construction in progress	<u>2,456,072</u>	<u>\$ 1,101,291</u>	<u>\$ 2,936,998</u>	<u>620,365</u>
Total capital assets not being depreciated or amortized	<u>2,983,767</u>	<u>1,101,291</u>	<u>2,936,998</u>	<u>1,148,060</u>
Depreciable capital assets:				
Distribution lines and tanks	29,827,383	3,025,733	474,185	32,378,931
Wells and treatment plant	4,590,887	3,802	-	4,594,689
Buildings and equipment	<u>2,514,373</u>	<u>36,817</u>	<u>23,576</u>	<u>2,527,614</u>
	36,932,643	3,066,352	497,761	39,501,234
Less accumulated depreciation/amortization for:				
Distribution lines and tanks	12,107,732	688,285	474,185	12,321,832
Wells and treatment plant	1,537,642	107,297	-	1,644,939
Buildings and equipment	2,067,834	86,946	3,963	2,150,817
Total accumulated depreciation/amortization	<u>15,713,208</u>	<u>882,528</u>	<u>478,148</u>	<u>16,117,588</u>
Other capital assets, net	<u>21,219,435</u>	<u>2,183,824</u>	<u>19,613</u>	<u>23,383,646</u>
Capital assets, net	<u>\$ 24,203,202</u>	<u>\$ 3,285,115</u>	<u>\$ 2,956,611</u>	<u>\$ 24,531,706</u>

NOTE D - LONG-TERM DEBT

Bonds are payable from revenues of the Board and also secured by Lincoln County property taxes for the Series 2002, 2004, 2007, and 2010 debt issues. All debt may be prepaid. Parity bonds may be issued if net revenues of the Board are at least 120% of scheduled bond payments.

The Board had bonds outstanding at June 30, 2015 as follows:

Water Revenue and Tax Bonds, Series 2010, issued March 6, 2014 due monthly to USDA in annual principal and interest amounts of \$205,056 through the 2052 fiscal year at 2.75%	\$ 4,735,429
Water Revenue and Tax Bonds, Series 2007, issued April 23, 2008, due monthly to USDA in annual principal and interest amounts of \$90,360 through the 2046 fiscal year at 4.125%	1,573,311
Water Revenue and Tax Bonds, Series 2004, issued September 22, 2005 due monthly to USDA in annual principal and interest amounts of \$73,308 through the 2044 fiscal year at 4.25%	1,201,641

NOTES TO FINANCIAL STATEMENTS (Continued)
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

June 30, 2015

NOTE D - LONG-TERM DEBT (Continued)

Water Revenue and Tax Bonds, Series 2002, issued March 27, 2003 due monthly to USDA in annual principal and interest amounts of \$21,384 through the 2041 fiscal year at 4.75%	315,878
Water Revenue Bond, Series 2000, issued October 18, 2001 due monthly to USDA in annual principal and interest amounts of \$60,888 through the 2040 fiscal year at 4.375%	907,216
Water Revenue Bond, Series 1998, issued January 13, 2000 due monthly to USDA in annual principal and interest amounts of \$42,756 through the 2038 fiscal year at 4.75%	588,156
Water Revenue Bond, Series 1996, issued August 22, 1997, due monthly to USDA in annual principal and interest amounts of \$173,880 through the 2035 fiscal year at 4.875%	<u>2,216,819</u>
Total	11,538,450
Less current portion of long-term debt	<u>341,588</u>
	<u><u>\$ 11,196,862</u></u>

Changes in principal balances during the year ended June 30, 2015 are summarized as follows:

Beginning balance	\$ 11,764,265
Payments	<u>225,815</u>
Ending balance	<u><u>\$ 11,538,450</u></u>

The annual requirements to amortize principal and interest for revenue bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 341,588	\$ 259,929
2017	307,893	329,225
2018	315,062	320,155
2019	327,292	310,875
2020	334,583	301,234
2021-2025	1,864,591	1,323,995
2026-2030	2,182,252	1,004,938
2031-2035	2,504,875	680,551
2036-2040	1,108,925	345,880
2041-2045	796,086	229,194
2046-2050	913,287	111,993
2051-2052	<u>339,801</u>	<u>8,389</u>
	<u>\$11,336,235</u>	<u>\$ 5,226,358</u>
Attributable to premium*	<u>202,215</u>	
	<u><u>\$11,538,450</u></u>	

NOTES TO FINANCIAL STATEMENTS (Continued)
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

June 30, 2015

NOTE D - REVENUE BONDS (Continued)

*Subsequent to June 30, 2015, the Board paid off six revenue bonds with the proceeds of new debt. The new debt was issued at a premium, part of which is shown above to reconcile the principal requirements on the new debt with the debt outstanding at June 30, 2015.

Principal and interest payments for these revenue bonds as a percentage of pledged revenue totaled 14% for the year. Interest totaled \$441,511 for the year, none of which was capitalized.

Certain of the Board's bonds require establishment of sinking funds (as described in Note C) and compliance with various covenants. The Board is in compliance with these requirements.

NOTE E - PLEDGED REVENUES

The Board has pledged its revenues to secure its revenue bonds described in Note D. The current year revenues, debt service, and future pledge commitment are as follows:

	Current Year Principal and Interest Paid on <u>Revenue Bonds</u>	Percent of Current <u>Revenue</u>	Remaining Pledge based on future Principal and Interest <u>Requirements</u>	Commitment Period through <u>Fiscal Year</u>
<u>Operating Revenues</u>	\$4,706,507	14.2%	\$16,531,107	2052

NOTE F - PENSION PLAN

General Information about the Pension Plan

Plan Description

Employees of Lincoln County Board of Public Utilities 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.

NOTES TO FINANCIAL STATEMENTS (Continued)
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

June 30, 2015

NOTE F - PENSION PLAN (Continued)

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 (COLAs) 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.

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	5
Active employees	<u>23</u>
	<u>32</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 Board 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 Board were 87,393 based on a rate of 8.7 percent of covered payroll. By law, employer contributions are required to be paid. 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 Board'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.

NOTES TO FINANCIAL STATEMENTS (Continued)
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

June 30, 2015

NOTE F - PENSION PLAN (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:

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.

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%	1%
		<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 percent based on a blending of the three factors described above.

NOTES TO FINANCIAL STATEMENTS (Continued)
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

June 30, 2015

NOTE F - PENSION PLAN (Continued)

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 the Board 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.

Changes in the Net Pension Liability (Asset)

	Increase(Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) – (b)
Balance at 06/30/13	\$ 1,838,265	\$ 2,128,288	\$ (290,023)
Changes for the year:			
Service cost	74,745	-	74,745
Interest	138,371	-	138,371
Differences between expected and actual experience	(156,724)	-	(156,724)
Contributions-employer	-	89,791	(89,791)
Contributions-employees	-	52,509	(52,509)
Net investment income	-	353,248	(353,248)
Benefit payments, including refunds of employee contributions	(136,129)	(136,129)	-
Administrative expense	-	(1,066)	1,066
Net changes	<u>(79,737)</u>	<u>358,353</u>	<u>(438,090)</u>
Balance at 06/30/14	<u>\$ 1,758,528</u>	<u>\$ 2,486,641</u>	<u>\$ (728,113)</u>

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

The following presents the net pension liability (asset) of the Board 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Lincoln County Board of Public Utilities' net pension liability (asset)	\$ (497,691)	\$ (728,113)	\$ (919,452)

NOTES TO FINANCIAL STATEMENTS (Continued)
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

June 30, 2015

NOTE F - PENSION PLAN (Continued)

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, the Board recognized pension income of \$56,418.

Deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2015, the Board 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>
Difference between expected and actual experience	\$ -	\$ 137,133
Net difference between projected and actual earnings on pension plan investments	-	154,748
Contributions subsequent to the measurement date of June 30, 2014	<u>87,393</u>	
Total	<u>\$ 87,393</u>	<u>\$ 291,881</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	
06/30/16	\$ (58,278)
06/30/17	(58,278)
06/30/18	(58,278)
06/30/19	(58,278)
06/30/20	(19,591)
Thereafter	(39,182)

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 Board reported a payable of \$13,698 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

NOTES TO FINANCIAL STATEMENTS (Continued)
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

June 30, 2015

NOTE G - RISK MANAGEMENT

The Board 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. During 2015 the Board participated in a public entity risk pool for coverage of general liability, property, and workers' compensation losses. The Board participated in the Local Government Fund, a public entity risk pool established by an association of Tennessee local governments. The Board pays an annual premium to the pool for the insurance coverage. The pool is created to be self-sustaining through member premiums.

The Board is self-insured for employee health claims between \$250 and \$5,000 per year per covered individual. Employees are responsible for the first \$250 of covered claims, with commercial insurance responsible for amounts over \$5,000. The plan liability at year-end is determined based on subsequent payments. The change in liability for medical benefits for the year ended June 30, 2015, is as follows:

Balance, beginning of year	\$ 1,234
Payments made	21,181
Incurred claims	<u>24,886</u>
Balance, end of year	<u>\$ 4,939</u>

The Board continues to carry commercial insurance for other risks of loss, including employee bonds and employee health and accident losses above the \$5,000 level. Settled claims in the past three years have not exceeded the coverage.

NOTE H - WATER SOURCES

The Board's primary sources of water are the Taft and Flintville well fields with additional sources being the Elora well field and the City of Fayetteville, Tennessee. The City of Fayetteville is the sole supplier of water to 9% of the Board's customers and is a supplemental and primary backup source of water for the remaining customers.

NOTE I RELATED PARTY TRANSACTIONS

The Board provides water to Lincoln County, Tennessee related entities at the same billing rate as other customers. For the year ended June 30, 2015, these sales totaled \$33,213 and accounts receivable related to these sales were \$2,124 at June 30, 2015.

NOTES TO FINANCIAL STATEMENTS (Continued)
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

June 30, 2015

NOTE J CURRENT AND PLANNED PROJECTS

The Board is requesting permits from the State of Tennessee that would allow for the construction of a water treatment plant on the Elk River. The plant would enhance the water available from the Board's current wells that are the primary source of water to 91% of the Board's customers. At June 30, 2015, the Board had purchased land for \$202,000 and had recorded construction in progress cost of \$195,633 related to roadway, other site development costs, and engineering and permitting costs. The estimated cost of the treatment plant and related distribution lines is \$18,000,000. No significant costs are anticipated to be incurred in the near-term and actual plant construction is not expected to begin within the next three years.

During June 30, 2015, the Board incurred costs of \$1,066,467 on the waterline replacement (Phase VI) project. Project costs incurred in fiscal year 2015 were funded by a Rural Utility Services grant. The total grant was for \$1,811,000, with \$684,401 being earned in fiscal year 2014 and \$1,066,467 earned in fiscal year 2015. The Board is required to make monthly additions of \$29,000 to an asset management reserve to fund short-lived equipment and system costs when both (V and VI) projects are completed.

NOTE K CONTINGENCY

During the year ended June 30, 2014, the Tennessee Comptroller issued a report that concluded that unauthorized pension contributions were made for both active and currently retired employees. No further communication has been received by the Board concerning what action, if any, will be required due to the unauthorized pension contributions.

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

NOTE L - RESTATEMENT OF NET POSITION

Effective for the fiscal year ending June 30, 2015, the Board implemented the provisions of GASBS 68, *Accounting and Financial Reporting for Pensions* and GASBS 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements' primary objective is to improve accounting and financial reporting for pensions. Among the requirements of GASBS 68 are the recognition of a net pension liability or asset. The net pension liability or asset is measured as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service, net of the pension plan's fiduciary net position. Accounting changes adopted to conform to the provisions of these statements are to be applied retroactively by restating financial statements.

NOTES TO FINANCIAL STATEMENTS (Continued)
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

June 30, 2015

NOTE L - RESTATEMENT OF NET POSITION (Continued)

The effect of implementing GASBS 68 has been the restatement of beginning net position as follows:

Net position June 30, 2014 as previously reported	\$ 16,568,742
Net pension liability at July 1, 2013	290,023
Deferred outflows for employer contributions made during fiscal year June 30, 2014	<u>89,791</u>
Net position June 30, 2014 as restated	<u>\$ 16,948,556</u>

The effect of adopting these statements on the change in net position for the year ended June 30, 2015, was to increase the change \$143,811. Because the total pension liability has not previously been actuarially calculated, pro forma amounts for the year ending June 30, 2014, are not readily determinable.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES
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 ending June 30,

	2014
Total pension liability	
Service cost	\$ 74,745
Interest	138,371
Changes in benefit terms	-
Differences between actual & expected experience	(156,724)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(136,129)
Net change in total pension liability	(79,737)
Total pension liability - beginning	1,838,265
Total pension liability - ending (a)	\$ 1,758,528
Plan fiduciary net position	
Contributions - employer	\$ 89,791
Contributions - employee	52,509
Net investment income	353,248
Benefit payments, including refunds of employee contributions	(136,129)
Administrative expense	(1,066)
Net change in plan fiduciary net position	358,353
Plan fiduciary net position - beginning	2,128,288
Plan fiduciary net position - ending (b)	\$ 2,486,641
Net Pension Liability (Asset) - ending (a) - (b)	\$ (728,113)
Plan fiduciary net position as a percentage of total pension liability	141.40%
Covered-employee payroll	\$ 1,050,185
Net pension liability (asset) as a percentage of covered-employee payroll	69.33%

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.

**REQUIRED SUPPLEMENTARY INFORMATION
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES
SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION IN THE PUBLIC
EMPLOYEE PENSION PLAN OF TCRS
Last fiscal year ending June 30,**

	2014	2015
Actuarially determined contribution	\$ 89,791	\$ 87,393
Contributions in relation to the actuarially determined contribution	89,791	87,393
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	1,050,185	1,004,524
Contribution as a percentage of covered-employee payroll	8.55%	8.70%

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.

Notes to the Schedule

Valuation date : Actuarial 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 within 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

OTHER SUPPLEMENTAL INFORMATION

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES
SCHEDULE OF RATES AND NUMBER OF CUSTOMERS

June 30, 2015

<u>METER TYPE</u>	<u>CUSTOMERS</u>	<u>GALLONS</u>	<u>RATES IN EFFECT</u> <u>RATE/1000</u>
Residential and Commercial	8,968	First 1,000	\$ 24.99
		Next 4,000	4.14
		Over 5,000	4.17
Multi-user (Total of 431 units; rates are based on usage for each unit.)	431	First 1,000	\$ 21.44
		Next 4,000	4.14
		Over 5,000	4.17
Total	<u>9,399</u>		

OTHER CHARGES

Tap Fee -individual lot - 3/4 inch tap	\$ 1,300
-individual lot - 1 inch tap	1,550
per subdivision lot	1,200
Service initiation -individual lot	100
-subdivision lot	200

See independent auditor's report.

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES
SCHEDULE OF INSURANCE IN EFFECT - UNAUDITED
June 30, 2015

		<u>COVERAGE</u>	<u>EXPIRATION</u>
Coverage obtained through Lincoln County:			
Local Government Property and Casualty Fund *	Buildings and tanks	\$ 22,657,300	7/1/2015
	Equipment and vehicles	1,256,058	7/1/2015
	General and vehicle liability	1,000,000	7/1/2015
	Errors and omissions	1,000,000	7/1/2015
	Employee blanket bond	150,000	7/1/2015
Local Government Workers' Compensation Fund*	Workers' Compensation	Statutory	7/1/2015
Other coverage:			
RLI Insurance Company	Employee dishonesty bond Superintendent	\$ 675,000	Effective until cancelled by either party

* Renewed 7/1/2015



AWWA Free Water Audit Software: Reporting Worksheet

WAS v5.0
American Water Works Association
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? Click to access definition
+ Click to add a comment

Water Audit Report for: Lincoln County Board of Public Utilities (TN0000884 & TN0000764)
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:	<input type="button" value="+"/>	<input type="button" value="?"/>	<input type="text" value="9"/>	<input type="text" value="732.613"/>	MG/Yr
Water imported:	<input type="button" value="+"/>	<input type="button" value="?"/>	<input type="text" value="9"/>	<input type="text" value="134.985"/>	MG/Yr
Water exported:	<input type="button" value="+"/>	<input type="button" value="?"/>	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr

Master Meter and Supply Error Adjustments

<input type="button" value="+"/>	<input type="button" value="?"/>	<input type="text" value="2"/>	<input type="text" value="0.00%"/>	<input type="radio"/>	<input type="radio"/>	<input type="text" value=""/>	MG/Yr
<input type="button" value="+"/>	<input type="button" value="?"/>	<input type="text" value="3"/>	<input type="text" value="0.00%"/>	<input type="radio"/>	<input type="radio"/>	<input type="text" value=""/>	MG/Yr
<input type="button" value="+"/>	<input type="button" value="?"/>	<input type="text" value=""/>	<input type="text" value=""/>	<input type="radio"/>	<input type="radio"/>	<input type="text" value=""/>	MG/Yr

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

WATER SUPPLIED: 867.598 MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	<input type="button" value="+"/>	<input type="button" value="?"/>	<input type="text" value="6"/>	<input type="text" value="446.684"/>	MG/Yr
Billed unmetered:	<input type="button" value="+"/>	<input type="button" value="?"/>	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
Unbilled metered:	<input type="button" value="+"/>	<input type="button" value="?"/>	<input type="text" value="10"/>	<input type="text" value="2.768"/>	MG/Yr
Unbilled unmetered:	<input type="button" value="+"/>	<input type="button" value="?"/>	<input type="text" value=""/>	<input type="text" value="10.845"/>	MG/Yr

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

AUTHORIZED CONSUMPTION: 460.297 MG/Yr

Click here: for help using option buttons below

<input type="text" value="1.25%"/>	<input type="radio"/>	<input type="radio"/>	<input type="text" value=""/>	MG/Yr
------------------------------------	-----------------------	-----------------------	-------------------------------	-------

Use buttons to select percentage of water supplied OR value

<input type="text" value="0.25%"/>	<input type="radio"/>	<input type="radio"/>	<input type="text" value=""/>	MG/Yr
------------------------------------	-----------------------	-----------------------	-------------------------------	-------

<input type="text" value="9.00%"/>	<input type="radio"/>	<input type="radio"/>	<input type="text" value=""/>	MG/Yr
<input type="text" value="0.25%"/>	<input type="radio"/>	<input type="radio"/>	<input type="text" value=""/>	MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption)

407.300 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="button" value="+"/>	<input type="button" value="?"/>	<input type="text" value="3"/>	<input type="text" value="44.451"/>	MG/Yr
Systematic data handling errors:	<input type="button" value="+"/>	<input type="button" value="?"/>	<input type="text" value=""/>	<input type="text" value="1.117"/>	MG/Yr

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

Apparent Losses: 47.737 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: 359.563 MG/Yr

WATER LOSSES: 407.300 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 420.913 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	<input type="button" value="+"/>	<input type="button" value="?"/>	<input type="text" value="7"/>	<input type="text" value="736.0"/>	miles
Number of active AND inactive service connections:	<input type="button" value="+"/>	<input type="button" value="?"/>	<input type="text" value="8"/>	<input type="text" value="8,887"/>	
Service connection density:	<input type="button" value="?"/>	<input type="text" value=""/>	<input type="text" value="12"/>	conn./mile main	

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

Average length of customer service 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="button" value="+"/>	<input type="button" value="?"/>	<input type="text" value="10"/>	<input type="text" value="\$4,407,167"/>	\$/Year
Customer retail unit cost (applied to Apparent Losses):	<input type="button" value="+"/>	<input type="button" value="?"/>	<input type="text" value="8"/>	<input type="text" value="\$4.28"/>	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	<input type="button" value="+"/>	<input type="button" value="?"/>	<input type="text" value="6"/>	<input type="text" value="\$1,700.00"/>	\$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 75 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: Customer metering inaccuracies

2: Billed metered

3: Variable production cost (applied to Real Losses)



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: Lincoln County Board of Public Utilities (TN0000884 & TN0000764)
 Reporting Year: 2015 7/2014 - 6/2015

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 75 out of 100 ***

System Attributes:

	Apparent Losses:	47.737	MG/Yr
+	Real Losses:	359.563	MG/Yr
=	Water Losses:	407.300	MG/Yr

? Unavoidable Annual Real Losses (UARL): 145.49 MG/Yr

Annual cost of Apparent Losses: \$204,315

Annual cost of Real Losses: \$611,258 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:	48.5%	
		Non-revenue water as percent by cost of operating system:	19.0%	Real Losses valued at Variable Production Cost

Operational Efficiency:	{	Apparent Losses per service connection per day:	14.72	gallons/connection/day
		Real Losses per service connection per day:	N/A	gallons/connection/day
		Real Losses per length of main per day*:	1,338.46	gallons/mile/day
		Real Losses per service connection per day per psi pressure:	N/A	gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): 359.56 million gallons/year

? Infrastructure Leakage Index (ILI) [CARL/UARL]: 2.47

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

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

Lincoln County Board of Public Utilities
Fayetteville, Tennessee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lincoln County Board of Public Utilities (the "Board") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Board's financial statements, and have issued our report thereon dated December 22, 2015.

Internal Control Over Financial Reporting

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

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: 2015-001

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board'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 audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2015-002

Board's Response to Finding

Lincoln County Board of Public Utilities' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This 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.

Winnett Associates, PLLC

December 22, 2015

SINGLE AUDIT

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year ended June 30, 2015

Grantor Agency	CFDA Number	Contract Number	Beginning (Accrued)	Cash Receipts	Expenditures	Ending (Accrued)
<u>FEDERAL AWARDS</u>						
U. S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.781ARRA	Phase VI Contract-112 Grant	\$ -	\$ 788,190	\$ 1,066,467	\$ (278,277)
	TOTAL FEDERAL AWARDS		<u>-</u>	<u>788,190</u>	<u>1,066,467</u>	<u>(278,277)</u>
<u>STATE FINANCIAL ASSISTANCE</u>						
			-	-	-	-
			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	TOTAL FEDERAL AND STATE AWARDS		<u>\$ -</u>	<u>\$ 788,190</u>	<u>\$ 1,066,467</u>	<u>\$ (278,277)</u>

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

Note 2: At June 30, 2015, there was an outstanding balance of \$11,538,450 on loans obtained in previous years through the U.S. Department of Agriculture (USDA). Principal payments during the year totaled \$225,815.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Lincoln County Board of Public Utilities
Fayetteville, Tennessee

Report on Compliance for each Major Federal Program

We have audited the Lincoln County Board of Public Utilities' (the Board's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Board's major federal program for the year ended June 30, 2015. The Board's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Board's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Board's compliance.

Opinion on the Major Federal Program

In our opinion, the Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Winnett Associates, PLLC

December 22, 2015

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES**

June 30, 2015

Section I - Summary of auditors' results

1 - Type of auditors' report issued on the financial statements - unmodified

2 - Internal control over financial reporting:

Material weaknesses identified?	yes
Significant deficiencies identified?	none reported

3 - Noncompliance material to the financial statements noted no

4 - Compliance and internal control over compliance for each major program:

Material weaknesses identified?	none reported
Significant deficiencies identified?	none reported

5 - Type of report issued on compliance and internal control over compliance for major programs - unmodified

6 - Audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? none reported

7 - Programs tested as major programs:

Water and Waste Disposal Systems for Rural Communities – ARRA, CFDA No. 10.781

8 - Threshold for distinguishing Type A and B programs - \$300,000.

9 - The Lincoln County Board of Public Utilities did not qualify as a low-risk auditee.

Section II - Findings - Financial Statements Audit

Finding 2015-001:

Condition, Criteria, Cause and Effect: The law governing the Board requires that the Board's purchases be made through the Lincoln County Finance Department. However, as purchases continue to be made by the Board's employees who are independent of the Lincoln County Finance Department, the Board is not in compliance with this law.

Recommendation: Procedures should be changed to comply with the law related to purchasing.

Management Response: The Board is seeking a resolution by the State of Tennessee to grant the Board power to do its own purchasing.

Current Year Findings

Finding 2015-002

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

June 30, 2015

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

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

Section III – Findings and Questioned Costs – Major Federal Award Programs Audit

None

**LINCOLN COUNTY BOARD OF PUBLIC UTILITIES
SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS**

Year ended June 30, 2015

Financial Statement Findings

Finding Number	Finding Title	Status
2015-001	Purchasing Procedures (original finding # 2013-001)	Repeated

See independent auditor's report.