

**METROPOLITAN LYNCHBURG -
MOORE COUNTY
WATER AND SEWER DEPARTMENT**

Lynchburg, Tennessee

June 30, 2015

WINNETT
Associates, PLLC

Certified Public Accountants and Consultants

INTRODUCTORY SECTION

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OFFICIALS
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2015

UTILITY BOARD

Marty Copeland – Chairman

Tommy Brown – Vice Chairman

Arvis Bobo

Coleman March

Patrick Maynard

OTHER OFFICIALS

Rick Garland - Manager

Brooke Fanning - Office Manager

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Members of Utility Board
Metropolitan Lynchburg - Moore County
Water and Sewer Department
Lynchburg, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Metropolitan Lynchburg-Moore County Water and Sewer Department which comprise the statement of net position as of June 30, 2015 and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Metropolitan Lynchburg-Moore County Water and Sewer Department 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 Matter

As discussed in Note A, the financial statements present only the Metropolitan Lynchburg - Moore County Water and Sewer Department and do not purport to, and do not, present fairly the financial position of Metropolitan Lynchburg - Moore County, Tennessee, 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of expenditures of federal awards and state financial assistance and the other information included in the introductory section and supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2015, on our consideration of Metropolitan Lynchburg-Moore County Water and Sewer Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Metropolitan Lynchburg-Moore County Water and Sewer Department's internal control over financial reporting and compliance.

Winnett Associates, PLLC

November 23, 2015

STATEMENT OF NET POSITION
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

Year ended June 30, 2015

<u>ASSETS</u>			
UTILITY PLANT:			
Utility plant in service - Notes B(2) and C	\$	17,210,410	
Less accumulated depreciation and amortization		(5,153,304)	
		12,057,106	
Construction in progress		130,431	\$ 12,187,537
CURRENT ASSETS:			
Cash and cash equivalents - Note D		501,784	
Certificates of deposit - Note D		56,731	
Accounts receivable, net of allowance for uncollectible accounts of \$1,309 - Notes B(3) and I		73,533	
Other accounts receivable		500	
Unbilled water and sewer charges		80,245	
Inventories - Note B(4)		57,386	
Prepaid Expenses		997	
Prepaid Insurance		29,976	801,152
		TOTAL CURRENT ASSETS	
OTHER ASSETS:			
Utility deposits		520	
Restricted cash - Note D		50,184	50,704
		TOTAL ASSETS	\$ 13,039,393
<u>LIABILITIES AND NET POSITION</u>			
CURRENT LIABILITIES:			
Current maturities of long-term debt	\$	117,496	
Accounts payable		74,923	
Accrued wages, payroll taxes, and withholdings		21,679	
Accrued interest		6,489	
Accrued vacation pay		17,916	
Customer advances		3,166	
Customer deposits - Note I		23,917	
		TOTAL CURRENT LIABILITIES	\$ 265,586
LONG-TERM DEBT:			
Revenue bonds - Note E		3,943,045	
Less current portion		(71,848)	
NET REVENUE BONDS		3,871,197	
Notes payable - Note F		1,369,320	
Less current portion		(45,648)	
NET NOTES PAYABLE		1,323,672	
		31	
		NET LONG-TERM DEBT	5,194,869
		TOTAL LIABILITIES	5,460,455
NET POSITION:			
Net investment in capital assets		6,875,172	
Restricted for debt retirement		50,184	
Unrestricted		653,582	
		TOTAL NET POSITION	7,578,938
		TOTAL LIABILITIES AND NET POSITION	\$ 13,039,393

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

Year ended June 30, 2015

OPERATING REVENUES: - Note E

Water sales	\$	1,442,863	
Sewer service charges		235,400	
Penalties		18,817	
Service fees		11,910	
Sanitation revenue		7,200	
Tap connection fees		27,713	
Pre-treatment income		9,952	
Credit card income		1,764	
Surcharges		6,637	
Miscellaneous		8,713	
Uncollectible accounts		<u>(1,631)</u>	
TOTAL OPERATING REVENUES	\$		1,769,338

OPERATING EXPENSES:

General and administrative		295,874	
Water operating expenses		923,783	
Sewer operating expenses		203,576	
Utility maintenance		<u>176,461</u>	
TOTAL OPERATING EXPENSES			<u>1,599,694</u>
		OPERATING INCOME	169,644

NONOPERATING REVENUES (EXPENSES):

Interest income		2,415	
Interest expense		(187,390)	
Loss on retirement of fixed assets		<u>(1,141)</u>	
TOTAL NONOPERATING REVENUES (EXPENSES), NET			<u>(186,116)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS, GRANTS, AND TRANSFERS			(16,472)

CONTRIBUTIONS, GRANTS, AND TRANSFERS:

Tap fees in excess of cost		9,167	
Contributions from developers		22,349	
Grants		-	
Transfers to Metropolitan Government		<u>(4,648)</u>	
CHANGE IN NET POSITION			10,396
TOTAL NET POSITION - BEGINNING			7,568,542
TOTAL NET POSITION- ENDING	\$		<u><u>7,578,938</u></u>

Provision for depreciation and amortization for the year totalled \$494,440.

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

STATEMENT OF CASH FLOWS
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

For the year ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers, including other funds	\$	1,807,684	
Payments to suppliers		(609,800)	
Payments to or on behalf of employees		(545,739)	
		NET CASH PROVIDED BY OPERATIONS	\$ 652,145

CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:

Transfers to Metropolitan Government	(4,648)
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	(251,688)	
Loan proceeds	-	
Borrowings repaid	(269,261)	
Contributions, grants, and transfers in aid of construction	31,516	
Interest paid	(188,440)	
	NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(677,873)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income		2,415
	DECREASE IN CASH AND CASH EQUIVALENTS	(27,961)
	CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	529,745
	CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 501,784

RECONCILIATION OF OPERATING INCOME TO NET CASH

PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$	169,644	
Depreciation and amortization		494,440	
Changes in operating assets and liabilities:			
Accounts receivable		13,100	
Other assets		(31,483)	
Accrued revenue		(4,921)	
Inventories		(7,018)	
Accounts payable		9,025	
Accrued wages and payroll taxes		17,710	
Accrued vacation pay		757	
Customer deposits and deferred fees		(9,109)	
		NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 652,145

SCHEDULE OF CAPITAL ACTIVITIES THAT DID NOT RESULT IN CASH PAYMENTS-

Purchase of capital assets on account	\$	24,000
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The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2015

NOTE A - GENERAL

These financial statements include the accounts of Metropolitan Lynchburg - Moore County Water and Sewer Department (the Department). The Department is owned by Metropolitan Lynchburg - Moore County, Tennessee (the Primary Government) and is governed by the Metropolitan Council and a Utility Board composed of members of the Council. The Department does not represent a legal entity separate and apart from the Primary Government.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Department conform to generally accepted accounting principles as applicable to enterprise funds. The following is a summary of significant policies:

(1) Measurement Focus and Basis of Accounting

These financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Department accrues the unbilled revenue from the dates of the most recent meter readings to the balance sheet date.

(2) Utility Plant and Depreciation

Utility plant in service is reported at cost and includes improvements, with a cost in excess of \$3,000, that significantly add to utility plant or extend useful lives. Cost of maintenance and repairs are charged to expense, as are tap connection costs.

Depreciation is calculated by the straight-line method to allocate the cost of the assets over their estimated useful lives using guidelines set forth by the Utility Review Board. The estimated useful lives are as follows:

Structures	20-50 years
Utility plant other than structures and equipment	25-50 years
Equipment	5-10 years

(3) Allowance for Uncollectible Accounts

The Department provides an allowance for uncollectible accounts equal to estimated losses that will be incurred in collection of all receivables. The estimated losses are based on historical collection experience and a review of the current status of the outstanding receivables.

(4) Inventories

Inventories are stated at cost, first-in, first-out method.

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Compensated Absences

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

(6) Cash Equivalents

For purposes of the statement of cash flows, the Department considers all highly liquid investments (including restricted assets) purchased with an original maturity of three months or less to be cash equivalents.

(7) Use of Estimates

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

(8) Capitalized Interest

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

- (9) Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Department are charges to customers for sales and services. The Department also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative and maintenance expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2015

NOTE C - UTILITY PLANT ADDITIONS AND RETIREMENTS

	<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	\$ 92,459			\$ 92,459
Construction in progress	<u>83,569</u>	\$ 46,862		<u>130,431</u>
Total capital assets not being depreciated or amortized	<u>176,028</u>	<u>46,862</u>		<u>222,890</u>
Other capital assets:				
General	352,255	1,040	\$ 7,528	345,767
Water	13,746,310	227,786	161,716	13,812,380
Sewer	2,630,290		2,991	2,627,299
Maintenance	146,315			146,315
Acquisition adjustment	<u>301,099</u>			<u>301,099</u>
	17,176,269	228,826	172,235	17,232,860
Less accumulated depreciation/amortization for:				
General	169,585	18,235	7,528	180,292
Water	3,470,853	378,915	160,575	3,689,193
Sewer	1,098,787	72,482	2,991	1,168,278
Maintenance	105,789	9,752		115,541
Acquisition adjustment	99,854	15,055		114,909
Total accumulated depreciation/amortization	<u>4,944,868</u>	<u>494,439</u>	<u>171,094</u>	<u>5,268,213</u>
Other capital assets, net	<u>12,231,401</u>	<u>(265,613)</u>	<u>1,141</u>	<u>11,964,647</u>
Capital assets, net	<u>\$ 12,407,429</u>	<u>\$ (218,751)</u>	<u>\$ 1,141</u>	<u>\$ 12,187,537</u>

NOTE D - CASH AND RESTRICTED FUNDS

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

	<u>Cash Equivalents</u>	<u>Certificates of</u> <u>Deposit</u>	<u>Total</u>
Cash for general use:	\$ 501,784	\$ 56,731	\$ 558,515
Restricted funds:			
Bond reserve fund	-	50,184	50,184
	<u>\$ 501,784</u>	<u>\$ 106,915</u>	<u>\$ 608,699</u>

The Bond Reserve fund is restricted for future bond and interest payments. The Department has also designated \$417,251 to be used to fund capital asset replacements.

Legal Provisions: All deposits with financial institutions must be secured by one of two methods depending on whether the financial institution participates in the bank collateral pool

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2015

NOTE D - CASH AND RESTRICTED FUNDS (Continued)

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

Types of investments authorized: State statutes authorize the entity to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; the metropolitan government's own legally issued bonds or notes; the State Treasurer's Investment Pool; and repurchase agreements. The entity has no policy that would further limit its investments.

NOTE E - REVENUE BONDS

A summary of revenue bond transactions for the year ended June 30, 2015, includes the following:

Balance - beginning of year	\$ 4,015,592
Bond payments	<u>(72,547)</u>
	3,943,045
Less current maturities	<u>(71,848)</u>
Revenue bonds, less current maturities - end of year	<u>\$ 3,871,197</u>

Details of water and sewer revenue bonds are as follows:

Series 1997 Water Revenue and Tax Bonds, 4.875%, payable \$1,459 per month including principal and interest with final maturity in 2036	\$223,653
Series 2000 Water Revenue and Tax Bonds, 4.75% payable \$1,711 per month including principal and interest with final maturity in 2038	284,301
Series 2001 Water Revenue and Tax Bonds, 4.75% payable \$1,012 per month including principal and interest with final maturity in 2040	175,202

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2015

NOTE E - REVENUE BONDS (Continued)

Series 2006 Water Revenue and Tax Bonds, 4.25% payable \$4,652 per month including principal and interest with final maturity in 2045	936,747
Series 2008 Water Revenue and Tax Bonds, 4.12% payable \$8,700 per month including principal and interest with final maturity in 2046	1,802,839
Series 2008 Water Revenue and Tax Bonds, 4.625% payable \$2,606 per month including principal and interest with final maturity in 2047	<u>520,303</u>
	<u>\$3,943,045</u>

The bonds are payable from and secured primarily by a pledge of the net revenues of the Department; in the event such revenues are insufficient, the bonds are further secured by the taxing power of the Metropolitan Government.

The annual requirements to amortize principal and interest for all revenue bonds as of June 30, 2015, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 71,848	\$ 169,749
2017	75,041	166,555
2018	78,378	163,218
2019	81,861	159,735
2020	85,503	156,093
2021-2025	488,072	719,908
2026-2030	606,734	601,246
2031-2035	751,637	456,342
2036-2040	791,635	282,165
2041-2045	820,481	112,903
2046-2047	<u>91,855</u>	<u>5,496</u>
	<u>\$3,943,045</u>	<u>\$2,993,410</u>

Under provisions of the bond agreements, the Department is required to establish and maintain various funds as follows:

(a) Revenue Fund

All revenues are to be deposited in this fund and shall be disbursed for the establishment of the other required funds.

(b) Operation and Maintenance Fund

The money transferred from the revenue fund is to be deposited to this fund for payment of current expenses. The maximum balance of this fund shall not exceed one-fourth of the amount budgeted for current expenses for the fiscal year.

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2015

NOTE E - REVENUE BONDS (Continued)

(c) Bond Funds

The next monies available are to be used to establish bond funds to be used to pay the principal and interest on the bonds as such payments are due. As part of the Bond Funds, Debt Service Reserve Accounts are also to be funded in the amount of \$17,508 for the 1997 series, \$20,532 for the 2000 series, and \$12,144 for the 2001 series. All reserve accounts were funded as required at June 30, 2015.

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

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Revenue	\$ 556,600	\$ 584,561
Operation and Maintenance	1,915	1,915
Bond	50,184	50,184

Principal and interest payments for these revenue bonds as a percentage of pledged revenue totaled 14% for the year.

NOTE F - NOTES PAYABLE

Metropolitan Lynchburg-Moore County, Tennessee (the Primary Government) has borrowed under the State's revolving loan program for the Department's construction projects. The principal and interest payments required under the terms of the first loan, which is secured by the Department's revenues and has a stated interest rate of 2.95%, are as follows:

	<u>Principal</u>	<u>Interest</u>
2016	\$ 45,648	\$ 13,800
2017	47,013	12,435
2018	48,419	11,029
2019	49,867	9,581
2020	51,368	8,090
2021-2025	<u>246,830</u>	<u>16,727</u>
Total	<u>\$489,145</u>	<u>\$ 71,662</u>

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

The Department has borrowed \$880,175 on a second loan to finance sewer system improvements. As the project is still in process, the repayment schedule has not been finalized, but the obligation will be non-interest bearing.

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2015

NOTE F - NOTES PAYABLE (Continued)

Notes payable activity for the year ended June 30, 2015, is as follows:

<u>Balance</u> <u>June 30, 2014</u>	<u>Draws</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2015</u>
\$1,566,034	-	\$196,714	\$1,369,320

The Department incurred \$187,390 in interest costs during the current year, none of which was capitalized.

NOTE G - RISK MANAGEMENT

The Department is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The Department obtains insurance coverage covering the above risks of loss through a public risk entity pool, Tennessee Risk Management Trust (TRMT), which is a public entity risk pool created under the auspices of the Tennessee Governmental Tort Liability Act to provide governmental insurance coverage. The creation of the TRMT provides for it to be self-sustaining through member premiums.

Settled claims in the past three years have not exceeded the coverage.

NOTE H - INCOME TAXES

As a governmental entity, the Department is exempt from federal, state and local income taxes.

NOTE I - SIGNIFICANT CONCENTRATIONS

The Department operates principally to distribute water to residents of Moore County, Tennessee. The Department grants credit to its customers, which at June 30, 2015, totaled \$74,842. Deposits from these customers, totaling \$23,917 at June 30, 2015, are held as security for these accounts receivable.

Water and sewer revenues from Jack Daniel Distillery account for approximately twenty-one percent of the Department's total water and sewer revenues.

NOTE J - ENVIRONMENTAL CONTINGENCY

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

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2015

NOTE K - SEWER SYSTEM IMPROVEMENTS

The Department has been approved for funding in the amount of \$1,615,000 from the State Revolving Loan Fund for sewer system improvements. As of June 30, 2015, the Department has used \$1,100,219 of this funding.

The Department has been awarded loan/grant funding from United States Department of Agriculture-Rural Development in the amount of \$2,200,000. The loan portion of the award is \$1,436,000, with an interest rate of 2.75% and a term of 38 years. The remaining amount of \$764,000 will be a grant. No draws of this funding have been made as of June 30, 2015.

In October 2015, the Utility Board awarded a contract for the project in the amount of \$3,056,000 to J. Cumby Construction, Inc.

NOTE L - TRANSFERS

In prior years the Metropolitan government provided funding to the Department to complete a water service expansion project. Surcharges to customers benefiting from the expansion were collected by the Department and transferred to the Metropolitan government until the surcharges were discontinued in fiscal year 2015. The amount transferred during fiscal year 2015 prior to the discontinuance totaled \$4,648.

SUPPLEMENTARY INFORMATION

SCHEDULE OF INCOME - BUDGET AND ACTUAL
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

Year ended June 30, 2015

	Budget	Actual	Favorable (Unfavorable)
REVENUES			
Water sales	\$ 1,460,831	\$ 1,442,863	\$ (17,968)
Sewer service charges	278,853	235,400	(43,453)
Surcharges	9,500	6,637	(2,863)
Penalties	20,000	18,817	(1,183)
Pre-treatment income	10,000	9,952	(48)
Credit card revenue	1,800	1,764	(36)
Miscellaneous	4,000	8,713	4,713
Service fees	8,500	11,910	3,410
Sanitation revenue	7,200	7,200	-
Tap connection fees	26,000	27,713	1,713
Uncollectible accounts	-	(1,631)	(1,631)
TOTAL REVENUES	<u>1,826,684</u>	<u>1,769,338</u>	<u>(57,346)</u>
OPERATING EXPENSES			
General and administrative	294,335	295,874	(1,539)
Water operating expenses	835,916	923,783	(87,867)
Sewer operating expenses	197,482	203,576	(6,094)
Utility maintenance expenses	203,951	176,461	27,490
TOTAL OPERATING EXPENSES	<u>1,531,684</u>	<u>1,599,694</u>	<u>(68,010)</u>
Operating income	295,000	169,644	(125,356)
NONOPERATING INCOME (EXPENSE)			
Interest income	3,500	2,415	(1,085)
Interest expense	(186,372)	(187,390)	(1,018)
Loss on retirement of fixed assets	-	(1,141)	(1,141)
Total nonoperating income (expense), net	<u>(182,872)</u>	<u>(186,116)</u>	<u>(3,244)</u>
NET INCOME (LOSS) BEFORE			
CONTRIBUTIONS, GRANTS, AND TRANSFERS			
CONTRIBUTIONS, GRANTS, AND TRANSFERS	112,128	(16,472)	(128,600)
Tap fees in excess of cost	-	9,167	9,167
Contributions from developers	-	22,349	22,349
Transfers to Metropolitan Government	(5,000)	(4,648)	352
	<u>\$ 107,128</u>	<u>\$ 10,396</u>	<u>\$ (96,732)</u>

SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

Year ended June 30, 2015

	Budget	Actual	Favorable (Unfavorable)
GENERAL AND ADMINISTRATIVE:			
Salaries and wages	\$ 147,753	\$ 150,260	\$ (2,507)
Payroll taxes and employee benefits	43,000	48,331	(5,331)
Telephone	5,000	4,875	125
Utilities	4,500	3,899	601
Depreciation and amortization	33,282	33,290	(8)
Insurance	1,500	1,360	140
Postage	9,000	11,361	(2,361)
Advertising	300	1,111	(811)
Office equipment service contract	5,800	-	5,800
Surety bond	750	750	-
Legal and professional fees	9,250	8,700	550
Education	600	410	190
Maintenance and repair	4,300	169	4,131
Fuel	4,500	4,162	338
Supplies	17,000	17,935	(935)
General services	2,000	2,532	(532)
Vehicle maintenance and repair	1,200	1,549	(349)
Dues and subscriptions	3,000	2,787	213
Credit card expense	1,600	2,393	(793)
GENERAL AND ADMINISTRATIVE	<u>294,335</u>	<u>295,874</u>	<u>(1,539)</u>
WATER:			
Plant operations:			
Salaries and wages	121,000	118,407	2,593
Payroll taxes and employee benefits	20,980	21,108	(128)
Telephone	2,500	2,962	(462)
Electricity	70,000	98,502	(28,502)
Treated water	46,000	57,249	(11,249)
Education	1,000	780	220
Chemicals	100,000	124,848	(24,848)
Engineering fee	1,000	-	1,000
Depreciation	370,236	378,915	(8,679)
Maintenance and repair	13,000	5,182	7,818
Raw water	1,000	979	21
Postage	300	279	21
Advertising	1,100	-	1,100
Insurance	14,700	12,806	1,894
Lab expense	2,000	2,634	(634)
State fees	2,000	2,350	(350)
Miscellaneous supplies	3,000	3,534	(534)
	1,000	1,085	(85)
	<u>770,816</u>	<u>831,620</u>	<u>(60,804)</u>
Distribution:			
Electricity	18,000	30,125	(12,125)
Meters and parts	19,000	8,816	10,184
Maintenance and repair	17,000	16,834	166
Tap connection and construction expense	6,000	27,713	(21,713)
Engineering fee	1,000	4,469	(3,469)
State permit fees	1,500	-	1,500
Miscellaneous supplies	1,600	2,346	(746)
Lab fees	1,000	1,860	(860)
	<u>65,100</u>	<u>92,163</u>	<u>(27,063)</u>
WATER OPERATING EXPENSES	<u>835,916</u>	<u>923,783</u>	<u>(87,867)</u>

See independent auditor's report.

SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL (Continued)

METROPOLITAN LYNCHBURG - MOORE COUNTY

WATER AND SEWER DEPARTMENT

Year Ended June 30, 2015

	Budget	Actual	Favorable (Unfavorable)
SEWER:			
Plant Operations:			
Salaries and wages	38,330	40,223	(1,893)
Payroll taxes and employee benefits	13,345	14,431	(1,086)
Telephone	1,500	1,443	57
Electricity	20,000	29,178	(9,178)
Education	400	179	221
Maintenance and repair	1,000	1,667	(667)
Vehicle maintenance and repair	500	671	(171)
Insurance	4,500	4,026	474
Postage	75	50	25
Miscellaneous supplies	3,000	3,273	(273)
Fuel	500	401	99
State fees	5,100	4,753	347
Pre-treatment expense	3,000	3,554	(554)
Lab fees	500	-	500
Engineering fee	300	511	(211)
Depreciation	72,482	72,482	-
Chemicals	7,000	10,518	(3,518)
	<u>171,532</u>	<u>187,360</u>	<u>(15,828)</u>
Collection:			
Electricity	23,600	12,670	10,930
Tap connectins	750	-	750
Miscellaneous supplies	-	-	-
Lab fees	-	317	(317)
Maintenance and repair	1,600	3,229	(1,629)
	<u>25,950</u>	<u>16,216</u>	<u>9,734</u>
SEWER OPERATING EXPENSES	<u>197,482</u>	<u>203,576</u>	<u>(6,094)</u>
UTILITY MAINTENANCE			
Salaries and wages	121,899	116,976	4,923
Payroll taxes and employee benefits	48,950	54,470	(5,520)
Electricity	600	490	110
Insurance	3,200	2,657	543
Maintenance and repair	1,500	1,719	(219)
Education	200	173	27
Vehicle maintenance and repair	2,500	4,379	(1,879)
Depreciation	9,752	9,752	-
Fuel	8,350	8,059	291
Miscellaneous supplies	5,000	5,154	(154)
Subscriptions and dues	-	45	(45)
Utility maintenance tools	2,000	326	1,674
Allocable expenses	-	(27,739)	27,739
UTILITY MAINTENANCE EXPENSES	<u>203,951</u>	<u>176,461</u>	<u>27,490</u>
TOTAL OPERATING EXPENSES	<u>\$ 1,531,684</u>	<u>\$ 1,599,694</u>	<u>\$ (68,010)</u>

See independent auditor's report.

SCHEDULE OF REVENUE BOND PRINCIPAL AND INTEREST REQUIREMENTS

METROPOLITAN LYNCHBURG - MOORE COUNTY

WATER AND SEWER DEPARTMENT

Year ended June 30, 2015

Year Ending June 30,	Series 1997		Series 2000		Series 2001	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 6,714	\$ 10,794	\$ 7,115	\$ 13,418	\$ 3,866	\$ 8,278
2017	7,048	10,460	7,460	13,072	4,054	8,090
2018	7,400	10,108	7,822	12,710	4,251	7,893
2019	7,768	9,740	8,202	12,330	4,457	7,687
2020	8,156	9,352	8,600	11,932	4,674	7,470
2021	8,562	8,946	9,017	11,515	4,901	7,243
2022	8,989	8,519	9,455	11,077	5,138	7,006
2023	9,437	8,071	9,914	10,618	5,388	6,756
2024	9,908	7,600	10,395	10,137	5,649	6,495
2025	10,402	7,106	10,900	9,632	5,924	6,220
2026	10,920	6,588	11,429	9,103	6,211	5,933
2027	11,465	6,043	11,984	8,548	6,513	5,631
2028	12,036	5,472	12,566	7,966	6,829	5,315
2029	12,636	4,872	13,176	7,356	7,161	4,983
2030	13,266	4,242	13,816	6,716	7,508	4,636
2031	13,928	3,580	14,486	6,046	7,873	4,271
2032	14,622	2,886	15,189	5,342	8,255	3,889
2033	15,351	2,157	15,927	4,605	8,656	3,488
2034	16,116	1,392	16,700	3,832	9,076	3,068
2035	16,920	588	17,511	3,021	9,517	2,627
2036	2,009	11	18,361	2,171	9,979	2,165
2037			19,252	1,280	10,463	1,681
2038			15,024	331	10,971	1,173
2039					11,504	540
2040					6,384	108
2041						
2042						
2043						
2044						
2045						
2046						
2047						
	\$ 223,653	\$ 128,527	\$ 284,301	\$ 182,758	\$ 175,202	\$ 122,646

See independent auditor's report.

<u>Series 2006</u>		<u>Series 2008</u>		<u>Totals</u>	
Principal	Interest	Principal	Interest	Principal	Interest
\$ 16,203	\$ 39,621	\$ 37,950	\$ 97,638	\$ 71,848	\$ 169,749
16,905	38,919	39,574	96,014	75,041	166,555
17,638	38,186	41,267	94,321	78,378	163,218
18,402	37,422	43,032	92,556	81,861	159,735
19,200	36,624	44,873	90,715	85,503	156,093
20,032	35,792	46,793	88,795	89,305	152,291
20,900	34,924	48,796	86,792	93,278	148,318
21,806	34,018	50,884	84,704	97,429	144,167
22,751	33,073	53,062	82,526	101,765	139,831
23,737	32,087	55,332	80,256	106,295	135,301
24,766	31,058	57,701	77,887	111,027	130,569
25,839	29,985	60,170	75,418	115,971	125,625
26,959	28,865	62,745	72,843	121,135	120,461
28,127	27,697	65,432	70,156	126,532	115,064
29,346	26,478	68,133	67,455	132,069	109,527
30,618	25,206	71,154	64,434	138,059	103,537
31,945	23,879	71,200	64,388	141,211	100,384
33,329	22,495	77,376	58,212	150,639	90,957
34,774	21,050	80,689	54,899	157,355	84,241
36,281	19,543	84,144	51,444	164,373	77,223
37,853	17,971	87,747	47,841	155,949	70,159
39,493	16,331	91,505	44,083	160,713	63,375
41,205	14,619	95,424	40,164	162,624	56,287
42,991	12,833	99,511	36,077	154,006	49,450
44,854	10,970	103,772	31,816	155,010	42,894
46,797	9,027	108,217	27,371	155,014	36,398
48,826	6,998	112,852	22,736	161,678	29,734
50,942	1,882	117,686	17,902	168,628	19,784
53,149	2,675	122,727	12,861	175,876	15,536
31,079	848	127,985	7,603	159,064	8,451
		65,963	2,960	65,963	2,960
		29,446	1,354	29,446	1,354
\$ 936,747	\$ 711,076	\$ 2,323,142	\$ 1,844,221	\$ 3,943,045	\$ 2,989,228



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: Metropolitan Lynchburg Moore County Utility Department
Reporting Year: **2014** / 7/2014 - 6/2015

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

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

Master Meter and Supply Error Adjustments

WATER SUPPLIED

----- Enter grading in column 'E' and 'J' ----->

Volume from own sources:	+ ?	9	204.749	MG/Yr
Water imported:	+ ?	7	20.063	MG/Yr
Water exported:	+ ?	n/a	0.000	MG/Yr

Pcnt:	Value:	MG/Yr
+ ? 9	0.00%	0.000
+ ? 9	0.00%	0.000
+ ?		

WATER SUPPLIED: 224.812 MG/Yr

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

AUTHORIZED CONSUMPTION

Billed metered:	+ ?	8	138.833	MG/Yr
Billed unmetered:	+ ?	n/a	0.000	MG/Yr
Unbilled metered:	+ ?	10	2.214	MG/Yr
Unbilled unmetered:	+ ?		2.810	MG/Yr

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

AUTHORIZED CONSUMPTION: 143.857 MG/Yr

Click here: ?
for help using option buttons below

Pcnt:	Value:	MG/Yr
1.25%		

Use buttons to select percentage of water supplied OR value

Pcnt:	Value:	MG/Yr
0.25%		

Pcnt:	Value:	MG/Yr
0.25%		

WATER LOSSES (Water Supplied - Authorized Consumption)

80.955 MG/Yr

Apparent Losses

Unauthorized consumption: + ? 0.562 MG/Yr

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

Customer metering inaccuracies:	+ ?	7	0.000	MG/Yr
Systematic data handling errors:	+ ?		0.347	MG/Yr

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

Apparent Losses: 0.909 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: ? **80.046** MG/Yr

WATER LOSSES: 80.955 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 85.979 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	+ ?	7	232.0	miles
Number of active AND inactive service connections:	+ ?	9	2,350	
Service connection density:	?		10	conn./mile main

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

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: + ? 8 70.0 psi

COST DATA

Total annual cost of operating water system:	+ ?	10	\$1,768,800	\$/Year
Customer retail unit cost (applied to Apparent Losses):	+ ?	5	\$10.39	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	+ ?	4	\$1,387.00	\$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 77 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: Variable production cost (applied to Real Losses)

2: Customer retail unit cost (applied to Apparent Losses)

3: Volume from own sources



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: **Metropolitan Lynchburg Moore County Utility Department**
 Reporting Year: **2014** **7/2014 - 6/2015**

***** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 77 out of 100 *****

System Attributes:

	Apparent Losses:	0.909	MG/Yr
+	Real Losses:	80.046	MG/Yr
=	Water Losses:	80.955	MG/Yr

? Unavoidable Annual Real Losses (UARL): 41.07 MG/Yr

Annual cost of Apparent Losses: \$9,446

Annual cost of Real Losses: \$111,023 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:	38.2%	
		Non-revenue water as percent by cost of operating system:	7.2%	Real Losses valued at Variable Production Cost

Operational Efficiency:	{	Apparent Losses per service connection per day:	1.06	gallons/connection/day
		Real Losses per service connection per day:	N/A	gallons/connection/day
		Real Losses per length of main per day*:	945.27	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): 80.05 million gallons/year

? Infrastructure Leakage Index (ILI) [CARL/UARL]: 1.95

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

SCHEDULE OF RATES AND NUMBER OF CUSTOMERS
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

Year ended June 30, 2015

WATER RATES

First 2,000 gallons	\$ 23.13
All over 2,000 gallons	\$ 8.15 per 1000 gallons

SEWER RATES

First 2,000 gallons	\$ 15.99
All over 2,000 gallons	\$ 7.99 per 1000 gallons

Number of customers at June 30, 2015:

Water	2,357
Sewer	307

See independent auditor's report.

SCHEDULE OF INSURANCE
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2015

Property	\$11,547,890
General Liability:	
Per occurrence for loss not limited by the tort liability act	1,000,000
Workman's Compensation	Statutory
Employers' Liability	1,000,000
Commercial Crime:	
Employee fidelity, money and securities, forgery or alteration	150,000
Business Auto:	
Liability - per occurrence for loss limited by the tort liability act	1,000,000
Physical damage	ACV
Public Official Liability (Errors or Omissions)	1,000,000
Boiler and Machinery	5,000,000

See independent auditor's report.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
METROPOLITAN LYNCHBURG-MOORE COUNTY WATER AND SEWER DEPARTMENT**

Year ended June 30, 2015

Grantor Agency	CFDA Number	Contract Number	Beginning Accrued	Cash Receipts	Expenditures	Ending Accrued
<u>FEDERAL AWARDS</u>						
			-	-	-	-
		TOTAL FEDERAL AWARDS	\$ -	\$ -	\$ -	\$ -
<u>STATE FINANCIAL ASSISTANCE</u>						
		TOTAL STATE FINANCIAL ASSISTANCE	-	-	-	-
		TOTAL FEDERAL AND STATE AWARDS	\$ -	\$ -	\$ -	\$ -

30

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

Loans outstanding:

At June 30, 2015 there was an outstanding balance of \$489,531 on a loan obtained in a previous year through the State Revolving Loan Fund. Payments during the current fiscal year totaled \$44,322

The balance of the loan for the current project is \$880,175.

SCHEDULE OF DISPOSTION OF PRIOR YEAR FINDINGS
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT
Year ended June 30, 2015

Financial Statement Findings

Finding Number	Finding Title	Status
2015-001	External Financial Reporting (original finding # 2014-001) ¹	Repeated

¹ In accordance with transition guidance

See independent auditor's report.

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

Members of Utility Board
Metropolitan Lynchburg - Moore County
Water and Sewer Department
Lynchburg, Tennessee

We have audited in accordance with 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 Metropolitan Lynchburg - Moore County Water and Sewer Department (the Department) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Department's financial statements, and have issued our report thereon dated November 23, 2015.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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.

We consider the following deficiency described in the accompanying schedule of findings to be a material weakness in internal control: 2015-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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 as item 2015-0002.

Department's Response to Finding

Metropolitan Lynchburg - Moore County Water and Sewer Department's response to the findings identified in our audit is described in the accompanying schedule of findings. Metropolitan Lynchburg - Moore County Water and Sewer Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This 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

November 23, 2015

SCHEDULE OF FINDINGS
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2015

2014-01 Condition, Criteria, Cause and Effect: The Department does not employ anyone with training in preparing financial statements for external reporting in accordance with generally accepted accounting principles.

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

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

2015-002 Condition, Criteria, Cause and Effect: Current expenses exceeded the amounts in the amended budget approved by the governing board. The Department's bond agreements require that the Department not expend any amounts or incur any obligations in excess of the amounts provided for current expenses and capital expenditures in the budget except upon resolution by its governing body. The amended budget as approved did not cover the total current expenses for the year.

Recommendation: Management of the Department should project expenses through year-end when presenting an amended budget to the governing body for approval.

Management Response: In the future we will monitor the need for increases in budgeted expenses and submit such increases to the governing body timely.