

CAGLE AND FREDONIA UTILITY DISTRICT
OF SEQUATCHIE COUNTY, TENNESSEE

AUDIT REPORT

December 31, 2013



BEAN, RHOTON & KELLEY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

300 S. Jefferson Street, Winchester, TN 37398

931.967.0611

www.brkcpa.com

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December 31, 2013**

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INTRODUCTORY SECTION - UNAUDITED

**CAGLE AND FREDONIA UTILITY DISTRICT
INTRODUCTORY SECTION - UNAUDITED
December 31, 2013**

ROSTER OF BOARD MEMBERS AND MANAGEMENT OFFICIALS

| | |
|--------------|---------------------|
| Don Walker | Chairman |
| Wayne Cox | Vice-Chairman |
| Dale Sims | Secretary/Treasurer |
| Steve Farley | Utilities Manager |
| Lora Farley | Office Manager |

See Accompanying Independent Auditors' Report.

Cagle-Fredonia Utility District

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cagle-Fredonia Utility District is presenting the following discussion and analysis in order to provide an overall review of the financial activities for the fiscal year ending December 31, 2013. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the basic financial statements to enhance their understanding of the financial performance.

FINANCIAL HIGHLIGHTS

The total assets decreased \$17,728.065 while total liabilities decreased \$11,141.13.

The operating expenses in fiscal year 2013 increase \$32,246.15.

Operating revenue increased \$37,667.05

Net assets increased \$6,759.93.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes the Management's Discussion and Analysis Report, the independent auditor's report, and the basic financial statements of the District. The financial statement also includes notes that explain in more detail some of the information in the financial statement.

REQUIRED FINANCIAL STATEMENTS

The financial statements of Cagle-Fredonia Utility District report information using accounting methods similar to those used by private sector companies. The statements offer short and long-term financial information about its activities. The statement of net assets includes all of Cagle-Fredonia Utility District assets and liabilities and provides information about the nature and amounts of investments in resources and the obligations to creditors. It also provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of Cagle-Fredonia Utility District.

All of the 2012-2013 year's revenue and expenses are accounted for in the statement of Revenue, Expenses, and Change in Net Assets. This statement measures the success of Cagle-Fredonia Utility District's operations over the past year and can be used to determine whether Cagle-Fredonia Utility District has successfully recovered all its cost through its fees and other charges, profitability and credit worth.

The final required financial statement is the statement of cash flow. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF CAGLE-FREDONIA UTILITY DISTRICT

The statement of net assets and the statement of revenues, expenses and changes in net assets report information about Cagle-Fredonia Utility District activities in a way that will help show how it did financially. These two statements report the net assets of Cagle-Fredonia Utility District and the changes in them. One way to measure the financial health is the difference between assets and liabilities, net assets. Over time, increases and decreases in Cagle-Fredonia Utility District net assets are an indicator of whether financial health is improving or deteriorating. However, one will need to consider other non-financial factors as addition of new customers, economic conditions, and new or changed government legislation.

*Parentheses indicate decrease or negative

| | <u>FY 2012</u> | <u>FY 2013</u> | <u>Change</u> | <u>Total Percent Change</u> |
|--------------------------------|---------------------|---------------------|--------------------|-----------------------------|
| Total current and other assets | \$ 594,788.65 | \$ 623,329.26 | \$28,540.61 | 4.8% |
| Total noncurrent assets | <u>2,554,428.47</u> | <u>2,508,159.80</u> | <u>(46,268.67)</u> | (1.81%) |
| Total assets | 3,149,217.12 | 3,131,489.06 | (17,726.06) | (0.06%) |
| | | | | |
| Total current liabilities | \$44,632.08 | \$50,796.34 | \$ 6,164.26 | 1.38% |
| Total noncurrent liabilities | <u>1,044,096.42</u> | <u>1,026,791.03</u> | <u>(17,305.39)</u> | (1.66%) |
| Total liabilities | 1,088,728.50 | 1,077,587.37 | (11,141.13) | (1.02%) |
| | | | | |
| Invested in capital assets | \$ 1,345,665.83 | \$ 1,310,818.94 | \$ (34,846.89) | (2.59%) |
| Unrestricted | 568,385.36 | 591,328.32 | 22,942.96 | 4.04% |
| Restricted | <u>148,109.75</u> | <u>153,253.75</u> | <u>5,144.00</u> | 3.47% |
| Total net asset | \$2,062,160.94 | \$2,055,401.01 | (\$6,759.93) | (0.33%) |

As can be seen in the above table, total assets decrease \$17,728.06 to \$3,131,489.06 in 2013 from \$3,149,217.12 in 2012. Also total liabilities decreased \$11,141.13 to \$1,077,587.37 in 2013 from \$1,088,728.50 in 2012.

| | <u>2012</u> | <u>2013</u> | <u>Change</u> |
|-------------------------|-----------------------|-----------------------|---------------------|
| Operating Revenues | \$448,423.87 | \$489,090.92 | \$ 37,667.05 |
| Non-Operating Revenues | <u>(40,185.02)</u> | <u>(41,211.71)</u> | <u>1,026.69</u> |
| Total Revenues | \$488,608.89 | \$527,302.63 | 38,693.74 |
| | | | |
| Depreciation expense | \$ 88,361.44 | \$ 89,120.01 | \$ 758.57 |
| Other operating expense | <u>331,031.55</u> | <u>362,519.13</u> | <u>\$ 31,487.58</u> |
| Total expense | \$ 419,392.99 | \$ 451,639.14 | \$ 32,246.15 |
| | | | |
| Changes in net assets | (\$11,154.14) | (\$6,759.93) | |
| | | | |
| Beginning net assets | <u>\$2,073,315.08</u> | <u>\$2,062,160.94</u> | |
| | | | |
| Ending net asset | <u>\$2,062,160.94</u> | <u>\$2,055,401.01</u> | |

While the statement of net assets shows the change in financial positions, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

CAPITAL ASSETS

At December 31, 2013, Cagle-Fredonia Utility District had \$ 2,354,906.05 invested in capital assets.

Table A-3

Capital Assets

| | <u>FY 2012</u> | <u>FY2013</u> | <u>Change</u> | <u>Total % Change</u> |
|--------------------------------|------------------------|------------------------|----------------------|-----------------------|
| Equipment | \$3,405,693.86 | 3,440,130.34 | 34,436.48 | 1.01% |
| Less: Accumulated Depreciation | <u>1,028,040.14</u> | <u>1,113,889.29</u> | <u>85,849.15</u> | 8.35% |
| Total District assets | <u>\$ 2,406,318.72</u> | <u>\$ 2,354,906.05</u> | <u>\$(51,412.67)</u> | (2.14%) |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Cagle-Fredonia Utility District board of directors considers many factors when setting the fiscal year 2012-2013 budget and charges. One of the factors is making enough money to meet our expenses, and meet all state and federal requirements.

TRAVEL EXPENSES

The total amount of mileage/travel expense paid to employees for the year 2013 is \$2,670.27.

The total amount pay of mileage/travel expense paid to commissioners for the year 2013 is \$186.50.

DISTRICT CONTACT INFORMATION

This financial report is designed to provide our customers and general public with a general overview of the Cagle-Fredonia Utility District finances and to demonstrate their accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact Cagle-Fredonia Utility District.

Cagle-Fredonia Utility District
P.O. Box 1191
Dunlap, TN 37327
Phone: 423-949-6660
Fax: 423-949-8576
Lora Farley, Office Manager



INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Cagle and Fredonia Utility District of Sequatchie County, Tennessee
Dunlap, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Cagle and Fredonia Utility District of Sequatchie County, Tennessee, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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 auditors consider 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 respective financial position of Cagle and Fredonia Utility District of Sequatchie County, Tennessee, as of December 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

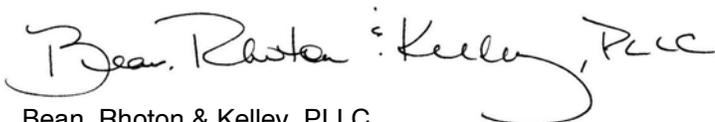
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Cagle and Fredonia Utility District of Sequatchie County, Tennessee's basic financial statements. The introductory section and schedules listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2014, on our consideration of the Cagle and Fredonia Utility District of Sequatchie County, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cagle and Fredonia Utility District of Sequatchie County, Tennessee's internal control over financial reporting and compliance.



Bean, Rhoton & Kelley, PLLC
March 21, 2014

**CAGLE AND FREDONIA UTILITY DISTRICT
STATEMENT OF NET POSITION
December 31, 2013**

ASSETS

| | |
|---|----------------------------|
| Cash and cash equivalents | \$ 554,819.28 |
| Receivables, net | 47,963.55 |
| Inventory | 15,694.00 |
| Prepaid expenses | 4,852.43 |
| Restricted cash | 153,253.75 |
| Land | 28,665.00 |
| Buildings and equipment, net accumulated depreciation | <u>2,326,241.05</u> |
| TOTAL ASSETS | <u><u>3,131,489.06</u></u> |

DEFERRED OUTFLOWS OF RESOURCES

| | |
|---|------------------------|
| Deferred bond costs | <u>1,499.32</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u><u>1,499.32</u></u> |

LIABILITIES

| | |
|---------------------------------------|----------------------------|
| Accounts payable and accrued expenses | 33,500.26 |
| Due within one year | 17,296.08 |
| Due in more than one year | <u>1,026,791.03</u> |
| TOTAL LIABILITIES | <u><u>1,077,587.37</u></u> |

NET POSITION

| | |
|----------------------------------|-------------------------------|
| Net investment in capital assets | 1,310,818.94 |
| Restricted | 153,253.75 |
| Unrestricted | <u>591,328.32</u> |
| TOTAL NET POSITION | <u><u>\$ 2,055,401.01</u></u> |

The accompanying notes are an integral part of this statement.

CAGLE AND FREDONIA UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended December 31, 2013

OPERATING REVENUES

| | |
|-------------------------|-------------------|
| Water sales | \$ 448,114.22 |
| Late fees | 14,262.41 |
| Miscellaneous income | 23,714.29 |
| TOTAL OPERATING REVENUE | <u>486,090.92</u> |

OPERATING EXPENSES

| | |
|--------------------------|-------------------|
| Water purchased | 174,408.81 |
| Wages | 56,852.88 |
| Payroll taxes | 5,589.13 |
| Employee benefits | 32,712.45 |
| Water inspections | 1,488.00 |
| Mileage reimbursement | 2,856.77 |
| Postage and freight | 3,525.53 |
| Professional services | 6,135.50 |
| Utilities | 15,885.91 |
| Telephone | 3,942.79 |
| Maintenance supplies | 19,745.98 |
| Insurance and bonds | 7,710.88 |
| Dues | 1,809.04 |
| Directors' fees | 10,500.00 |
| Contracted services | 10,940.00 |
| Office supplies | 2,822.32 |
| Advertising | 512.00 |
| Fuel | 1,933.83 |
| Licenses and permits | 30.00 |
| Employee training | 300.00 |
| Miscellaneous | 2,644.31 |
| Depreciation | 89,120.01 |
| Amortization | 173.00 |
| TOTAL OPERATING EXPENSES | <u>451,639.14</u> |
| OPERATING INCOME | <u>34,451.78</u> |

NON-OPERATING REVENUE (EXPENSE)

| | |
|---------------------------------------|--------------------|
| Interest income | 4,768.41 |
| Interest expense | (45,980.12) |
| TOTAL NON-OPERATING REVENUE (EXPENSE) | <u>(41,211.71)</u> |

| | |
|--------------------------------|------------------------|
| Changes in net position | (6,759.93) |
| Total net position - beginning | 2,062,160.94 |
| Total net position - ending | <u>\$ 2,055,401.01</u> |

The accompanying notes are an integral part of this statement.

**CAGLE AND FREDONIA UTILITY DISTRICT
STATEMENT OF CASH FLOWS
Year Ended December 31, 2013**

| | | |
|--|---|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | | \$ 478,924.09 |
| Water purchased | | (174,408.81) |
| Wages / payroll taxes / retirement | | (105,654.46) |
| Contracted services | | (17,075.50) |
| Utilities / telephone | | (19,828.70) |
| Other receipts (payments) | | <u>(43,972.05)</u> |
| | NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>117,984.57</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisitions of capital assets | | (37,707.34) |
| Principal paid on long-term debt | | (16,565.78) |
| Interest paid on long-term debt | | <u>(45,980.12)</u> |
| | NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(100,253.24)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest income | | <u>4,768.41</u> |
| | NET CASH PROVIDED BY INVESTMENT ACTIVITIES | <u>4,768.41</u> |
| | NET INCREASE IN CASH | 22,499.74 |
| Balances - beginning of year | | |
| Unrestricted | | 537,463.54 |
| Restricted | | <u>148,109.75</u> |
| Balances - end of year | | <u>\$ 708,073.03</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating revenue | | \$ 34,451.78 |
| Adjustments to reconcile operating income to net cash: | | |
| provided by operating activities: | | |
| Depreciation expense | | 89,120.01 |
| Amortization | | 173.00 |
| Changes in assets and liabilities: | | |
| Receivables, net | | (7,119.81) |
| Inventories | | (1,985.84) |
| Prepaid expenses | | (2,079.22) |
| Accounts and accrued liabilities | | <u>5,424.65</u> |
| | NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 117,984.57</u> |

The accompanying notes are an integral part of this statement.

CAGLE AND FREDONIA UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Cagle and Fredonia Utility District of Sequatchie County, Tennessee was incorporated as a public corporation pursuant to an Order of the County Executive of Sequatchie County, Tennessee, dated October 20, 1987, all pursuant to provisions of the District Act, which provides that such an incorporated public corporation shall exist in perpetuity and possess the powers set forth in the District Act. All corporate powers of the District are vested in and exercised by the Board of Commissioners. The District Act provides that the District is empowered, among other things, to conduct, operate and maintain a system for the furnishing of water and water storage and related facilities. The District has no power to levy or collect taxes.

The District's financial statements include all funds over which the Board of Commissioners exercises oversight responsibility. Oversight responsibility includes such aspects as designation of management and the ability to significantly influence operations.

Cagle and Fredonia Utility District provides water services to the local market. Water services are the major source of income for the District.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. Basis of Accounting

The District's reports are on an accrual method of accounting. Under the accrual method of accounting, revenues are recorded as such when earned, and expenses are reported when incurred.

Operating income includes revenues and expenses related to the primary continuing operations of the District. Principal operating revenues of the District are charges to customers for sales and services. Principal operating expenses are the costs of providing water and include administrative expenses and depreciation of capital assets. Other revenues and expense are classified as non-operating on the financial statements.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first.

C. Cash Flows

For purposes of the statement of cash flows, the District considers all highly-liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Cash paid for interest expense as of December 31, 2013, was \$45,980.12.

Amounts specified as restricted cash on the balance sheet consist of investments in interest bearing accounts with an original maturity date of greater than ninety (90) days and bond reserves.

D. Utility Plant and Depreciation

Water system and property additions are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful life. Expenses for additions, improvements, replacements, and major renewals are added to the water system and property accounts while expenses for maintenance, repairs, and minor renewals are expensed currently.

CAGLE AND FREDONIA UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Utility Plant and Depreciation (continued)

Interest is capitalized in connection with the construction of major facilities. The construction period interest is recorded as part of the asset to which it related and is amortized over the asset's estimated useful life. Interest that was capitalized for the year ended December 31, 2013, was \$0.00.

E. Income Taxes

The District is a public utility and is exempt from federal and state income taxes.

F. Budgets and Budgetary Accounting

A budget is adopted on a basis consistent with accounting principals generally accepted in the United States of America. An annual appropriated budget is adopted for the Utility District and all annual appropriations lapse at fiscal year end. The District adopted their annual budget December 26, 2012, and adopted a revised budget on December 23, 2013.

NOTE 2 – NON-CURRENT ASSETS

The Waterworks Revenue Bond requires certain funds to be created. These funds are described below, and require the District to restrict the use of cash to meet the Bond's requirements.

- (1) Bond interest sinking funds – The district is making monthly payments on the bond; therefore, this fund is not required.
- (2) Debt service reserve fund – an amount equal to the maximum annual debt service on the bonds (\$29,028.00). This amount has been invested in a twelve-month certificate of deposit.
- (3) Repair and extension fund – an amount set by the District to cover extraordinary repairs and future expansion for the District. The District has set aside \$124,225.75 for this fund in a twelve-month certificate of deposit.
- (4) Bond redemption – any excess of the available cash over the above-mentioned funds and after any subordinate debt service has been paid.

Restricted cash:

| | |
|---------------------------|----------------------|
| Repair and extension fund | \$ 124,225.75 |
| Debt service fund | <u>29,028.00</u> |
| | <u>\$ 153,253.75</u> |

NOTE 3 – CASH AND DEPOSITS

At December 31, 2013, the carrying amount of the District's deposits including petty cash was \$708,073.03 and the bank balances totaled \$711,849.93. With the exception of petty cash in the amount of \$200.00, \$653,241.03 in cash deposits was covered by federal depository insurance or by collateral held by the District's custodial bank in the District's name. The District was subject to custodial credit risk of \$58,408.90.

CAGLE AND FREDONIA UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 3 – CASH AND DEPOSITS (continued)

The District is authorized to invest in the following types of securities and indebtedness, in accordance with governing statutes:

- (1) Bonds, notes, treasury bills, or similar types of indebtedness to the United States.
- (2) Non-convertible debt including Federal Home Loan Bank, National Mortgage Association, Federal Farm Credit Bank, and Student Loan Marketing Association.
- (3) Other obligations not specified above which provide guaranteed principal and interest by the United States or any of its agencies.
- (4) Repurchase agreements, which involve obligations of the United States or its agencies, provided the term of the repurchase agreement does not extend beyond the maturity date of the obligation and the market value of the security exceed the cost of the security.
- (5) Money market funds invested in any of the aforementioned securities.

NOTE 4 – ACCOUNTS RECEIVABLE

The accounts receivable are concentrated in customers in Sequatchie County, Tennessee. The District has set aside \$5,000.00 for an allowance of bad debt.

NOTE 5 – CHANGES IN LONG-TERM DEBT

| | <u>Balance</u> <u>January 1, 2013</u> | <u>Additions</u> | <u>(Retirements)</u> | <u>Balance</u> <u>December 31, 2013</u> |
|---|--|------------------|-----------------------|--|
| Rural Development Bond: Issued April 10, 2003 Interest rate: 4.5% | \$ 462,866.09 | \$ 0.00 | \$ (8,371.05) | \$ 454,495.04 |
| Rural Development Loan: Issued September 18, 2008 Interest rate: 4.375% | 512,916.22 | 0.00 | (6,869.35) | 506,046.87 |
| Rural Development Loan: Issued September 18, 2008 Interest rate: 3.625% | <u>84,870.58</u> | <u>0.00</u> | <u>(1,325.38)</u> | <u>83,545.20</u> |
| Total | <u>\$ 1,060,652.89</u> | <u>\$ 0.00</u> | <u>\$ (16,565.78)</u> | <u>\$ 1,044,087.11</u> |

CAGLE AND FREDONIA UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 5 – CHANGES IN LONG-TERM DEBT (continued)

The annual requirements to amortize loan debt as of December 31, 2013, are as follows:

2003 Rural Development Bond

| <u>Year ending December 31</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|----------------------|----------------------|----------------------|
| 2014 | \$ 8,747.93 | \$ 20,280.77 | \$ 29,028.00 |
| 2015 | 9,149.80 | 19,878.20 | 29,028.00 |
| 2016 | 9,570.15 | 19,457.85 | 29,028.00 |
| 2017 | 10,009.79 | 19,018.21 | 29,028.00 |
| 2018 | 10,469.64 | 18,558.36 | 29,028.00 |
| 2019-2021 | 60,020.20 | 85,119.80 | 145,140.00 |
| 2022-2028 | 75,133.07 | 70,006.93 | 145,140.00 |
| 2029-2033 | 94,051.24 | 51,088.76 | 145,140.00 |
| 2034-2038 | 117,732.97 | 27,407.03 | 145,140.00 |
| 2039-2046 | <u>59,610.25</u> | <u>3,069.83</u> | <u>62,680.08</u> |
| Total | <u>\$ 454,495.04</u> | <u>\$ 333,885.04</u> | <u>\$ 788,380.08</u> |

2008 Rural Development Loan

| <u>Year ending December 31</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|----------------------|----------------------|----------------------|
| 2014 | \$ 7,174.11 | \$ 21,997.89 | \$ 29,172.00 |
| 2015 | 7,494.34 | 21,677.66 | 29,172.00 |
| 2016 | 7,828.89 | 21,343.11 | 29,172.00 |
| 2017 | 8,178.34 | 20,993.66 | 29,172.00 |
| 2018 | 8,543.41 | 20,628.59 | 29,172.00 |
| 2019-2021 | 48,789.50 | 97,070.50 | 145,860.00 |
| 2022-2028 | 60,695.36 | 85,164.64 | 145,860.00 |
| 2029-2033 | 75,506.53 | 70,353.47 | 145,860.00 |
| 2034-2038 | 93,932.08 | 51,927.92 | 145,860.00 |
| 2039-2046 | <u>187,904.31</u> | <u>35,263.21</u> | <u>223,167.52</u> |
| Total | <u>\$ 506,046.87</u> | <u>\$ 446,420.65</u> | <u>\$ 952,467.52</u> |

2008 Rural Development Loan

| <u>Year ending December 31</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|---------------------|---------------------|----------------------|
| 2014 | \$ 1,374.04 | \$ 3,005.96 | \$ 4,380.00 |
| 2015 | 1,424.70 | 2,955.30 | 4,380.00 |
| 2016 | 1,477.21 | 2,902.79 | 4,380.00 |
| 2017 | 1,531.66 | 2,848.34 | 4,380.00 |
| 2018 | 1,588.13 | 2,791.87 | 4,380.00 |
| 2019-2021 | 8,862.97 | 13,037.03 | 21,900.00 |
| 2022-2028 | 10,621.26 | 11,278.74 | 21,900.00 |
| 2029-2033 | 12,728.35 | 9,171.65 | 21,900.00 |
| 2034-2038 | 15,253.52 | 6,646.48 | 21,900.00 |
| 2039-2046 | <u>28,683.36</u> | <u>4,513.14</u> | <u>33,196.50</u> |
| Total | <u>\$ 83,545.20</u> | <u>\$ 59,151.30</u> | <u>\$ 142,696.50</u> |

CAGLE AND FREDONIA UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 6 – WATER PURCHASE CONTRACT

On September 25, 2008, Cagle and Fredonia Utility District entered into a forty-year contract to purchase water from Big Creek Utility District. Cagle and Fredonia shall pay Big Creek \$3.50 per 1,000 gallons with \$3.50 being the minimum rate per month and 5,000,000 gallons being the maximum amount of water to be purchased per month at that rate. Amounts in excess of 5,000,000 gallons are purchased at the rate of \$3.90 per 1,000 gallons. The contract is updated and renewed only if the rate changes, which Big Creek may change at the end of each year if so desired.

NOTE 7 – UTILITY PLANT IN SERVICE

A summary of changes in the utility plant in service is as follows:

| | <u>Balance</u> <u>January 1, 2013</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>December 31, 2013</u> |
|---------------------------------|--|-----------------------|------------------|--|
| Capital assets not depreciated: | | | | |
| Land | \$ 28,665.00 | \$ 0.00 | \$ 0.00 | \$ 28,665.00 |
| Other capital assets: | | | | |
| Water distribution system | 3,100,444.96 | 36,442.34 | 0.00 | 3,136,887.30 |
| Building | 49,177.00 | 0.00 | 0.00 | 49,177.00 |
| Equipment | 253,105.23 | 1,265.00 | (3,270.86) | 251,099.37 |
| Furniture and fixtures | <u>2,966.67</u> | <u>0.00</u> | <u>0.00</u> | <u>2,966.67</u> |
| Total | 3,405,693.86 | 37,707.34 | (3,270.86) | 3,440,130.34 |
| Less: accumulated depreciation | <u>(1,028,040.14)</u> | <u>(89,120.01)</u> | <u>3,270.86</u> | <u>(1,113,889.29)</u> |
| Other capital assets, net | <u>2,377,653.72</u> | <u>(51,412.67)</u> | <u>0.00</u> | <u>2,326,241.05</u> |
| Total capital assets | <u>\$ 2,406,318.72</u> | <u>\$ (51,412.67)</u> | <u>\$ 0.00</u> | <u>\$ 2,354,906.05</u> |

NOTE 8 – RISK MANAGEMENT

The District manages risk through the purchase of commercial insurance. Cagle and Fredonia has insurance coverage to reduce their risk of loss. Cagle and Fredonia has insurance on the following: building, pump station, water tank, general liability, hired non-owned automobiles, and employee fidelity bond. Settlement claims have not exceeded insurance coverage for the past four years.

NOTE 9 – INVENTORY

Inventory is stated at actual cost and consists of maintenance supplies.

**CAGLE AND FREDONIA UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013**

NOTE 10 – PENSION PLAN

Plan Description

Employees of Cagle and Fredonia Utility District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Cagle and Fredonia Utility District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230, or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy

Cagle and Fredonia Utility District requires employees to contribute 5.0 percent of earnable compensation.

Cagle and Fredonia Utility District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013, was 0.00% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Cagle and Fredonia Utility District is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2013, Cagle and Fredonia Utility District's annual pension cost of \$0 to TCRS was equal to Cagle and Fredonia Utility District's required and actual contributions. The required contribution was determined as part of the July 1, 2011, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Cagle and Fredonia Utility District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011, was 18 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

CAGLE AND FREDONIA UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 10 – PENSION PLAN (continued)

Trend Information

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost(APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|---------------------------|---------------------------------|--------------------------------------|-------------------------------|
| June 30, 2013 | \$ 0 | 100.00% | \$ 0.00 |
| June 30, 2012 | \$ 4,394 | 100.00% | \$ 0.00 |
| June 30, 2011 | \$ 4,403 | 100.00% | \$ 0.00 |

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 100.00 percent funded. The actuarial accrued liability for benefits was \$0.13 million, and the actuarial value of assets was \$0.13 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.00 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.4 million, and the ratio of the UAAL to the covered payroll was 0.00 percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

(Dollar amounts in thousands)

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Plan Assets (a)</u> | <u>Actuarial Liability (AAL) -Entry Age (b)</u> | <u>Unfunded AAL (UAAL) (b)-(a)</u> | <u>Funded Ratio (a/b)</u> | <u>Covered Payroll (c)</u> | <u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u> |
|---------------------------------|---|---|------------------------------------|---------------------------|----------------------------|--|
| July 1, 2011 | \$134 | \$134 | \$0 | 100.00% | \$37 | 0.00% |

NOTE 11 – RELATED PARTIES

In the ordinary course of business, the District has and expects to continue to have transactions with its employees and elected officials. In the opinion of management, such transactions were on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with other persons and did not involve more than a normal risk of collectability or present any other unfavorable features to the District.

REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED

**CAGLE AND FREDONIA UTILITY DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED
 December 31, 2013**

SCHEDULE OF FUNDING PROGRESS FOR CAGLE AND FREDONIA UTILITY DISTRICT

(Dollar amounts in thousands)

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) -Entry Age (b) | Unfunded AAL (UAAL) (b)-(a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|---|---|--------------------------------------|--------------------------|-------------------------------------|---|
| July 1, 2011 | \$134 | \$134 | \$0 | 100.00% | \$37 | 0.00% |
| July 1, 2009 | \$99 | \$99 | \$0 | 100.00% | \$72 | 0.00% |
| July 1, 2007 | \$0 | \$0 | \$0 | 0.00% | \$0 | 0.00% |

See Accompanying Independent Auditors' Report.

OTHER SUPPLEMENTARY INFORMATION

**CAGLE AND FREDONIA UTILITY DISTRICT
OTHER SUPPLEMENTARY INFORMATION
December 31, 2013**

INFORMATION REQUIRED BY BOND RESOLUTION

Cagle and Fredonia Utility District of Sequatchie County, Tennessee, is exempt from federal income tax on its profits.

Members of the Board of Commissioners are:

| | |
|------------|---------------------|
| Don Walker | Chairman |
| Wayne Cox | Vice-Chairman |
| Dale Sims | Secretary/Treasurer |

Each board member was paid \$200.00 for the meeting attended in January. Beginning February 2013, the rate increased to \$300.00 per meeting.

Total compensation for each board member is as follows:

| | |
|------------|---------------------|
| Don Walker | \$ 3,500.00 |
| Wayne Cox | 3,500.00 |
| Dale Sims | <u>3,500.00</u> |
| Total | <u>\$ 10,500.00</u> |

SCHEDULE OF CURRENT UTILITY RATES

The water rates from January to December 2013 are:

| | |
|---------------------------------------|---|
| 0 to 1,000 gallons of water | \$23.70 residential & \$30.70 commercial minimum bill |
| Over 1,000 gallons of water to 10,000 | \$ 8.06 per 1,000 gallons |
| Over 10,000 gallons of water | \$ 8.56 per 1,000 gallons |

Service is discontinued when accounts become over thirty days past due.

The District had 873 metered water customers at December 31, 2013.

**CAGLE AND FREDONIA UTILITY DISTRICT
OTHER SUPPLEMENTARY INFORMATION
December 31, 2013**

SCHEDULE OF INSURANCE IN FORCE

A description of the District's insurance coverage at December 31, 2013, follows:

| <u>Type of Coverage</u> | <u>Amount</u> | <u>Policy Expiration Date</u> |
|------------------------------------|---|-----------------------------------|
| Automobile | | |
| Combined Liability | \$ 500,000 (each occurrence) | February 26, 2014 |
| Uninsured Motorist Bodily Injury | \$ 500,000 (each person/each occurrence) | February 26, 2014 |
| Uninsured Motorist Property Damage | \$ 500,000 (each occurrence/\$200 deductible) | February 26, 2014 |
| Medical Payments | \$ 5,000 (each person) | February 26, 2014 |
| Comprehensive | A.C.V (\$500 deductible) | February 26, 2014 |
| Collision | A.C.V (\$500 deductible) | February 26, 2014 |
| Road Trouble Service | \$ 100 (each occurrence) | February 26, 2014 |
| Terrorism Coverage | \$ 500,000 (each occurrence) | February 26, 2014 |
| Building | \$ 1,097,096 | February 16, 2014 |
| Position Schedule Bond | | |
| Chairman | \$ 35,000 | January 26, 2014 |
| Vice Chairman | \$ 35,000 | January 26, 2014 |
| Secretary/Treasurer | \$ 35,000 | January 26, 2014 |
| Office Manager | \$ 35,000 | January 26, 2014 |
| Utility Manager | \$ 35,000 | January 26, 2014 |
| Maintenance Supervisor | \$ 35,000 | January 26, 2014 |
| Workers' Compensation | | |
| Bodily Injury by Accident | \$ 100,000 (each accident) | July 1, 2014 |
| Bodily Injury by Disease | \$ 500,000 (policy limit) | July 1, 2014 |
| Bodily Injury by Disease | \$ 100,000 (each employee) | July 1, 2014 |

See Accompanying Independent Auditors' Report.

CAGLE AND FREDONIA UTILITY DISTRICT OTHER SUPPLEMENTARY INFORMATION December 31, 2013

REPORTING WORKSHEET - UNAUDITED

| AWWA WLCC Free Water Audit Software: Reporting Worksheet | | | | Back to | |
|--|---|-----|---------------|---------------------------------|--|
| Copyright © 2010, American Water Works Association. All Rights Reserved. | | | | WASv4.2 | |
| Water Audit Report for: Cagle-Fredonia Utility District | | | | | |
| Reporting Year: 2013 1/2013 - 12/2013 | | | | | |
| Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades | | | | | |
| All volumes to be entered as: MILLION GALLONS (US) PER YEAR | | | | | |
| WATER SUPPLIED | | | | | |
| << Enter grading in column 'E' | | | | | |
| Master meter error adjustment (enter positive value): | ? | N/A | 0.000 | Million gallons (US)/yr (MG/Yr) | |
| Water imported: | ? | 7 | 42.239 | MG/Yr | |
| Water exported: | ? | | 0.000 | MG/Yr | |
| WATER SUPPLIED: | | | 42.239 | MG/Yr | |
| AUTHORIZED CONSUMPTION | | | | | |
| Billed metered: | ? | 10 | 34.042 | MG/Yr | |
| Billed unmetered: | ? | 10 | 0.000 | MG/Yr | |
| Unbilled metered: | ? | 5 | 0.000 | MG/Yr | |
| Unbilled unmetered: | ? | 7 | 2.591 | MG/Yr | |
| AUTHORIZED CONSUMPTION: | | | 36.638 | MG/Yr | |
| WATER LOSSES (Water Supplied - Authorized Consumption) | | | | | |
| 5.601 MG/Yr | | | | | |
| Apparent Losses | | | | | |
| Unauthorized consumption: | ? | | 0.106 | MG/Yr | |
| Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed | | | | | |
| Customer metering inaccuracies: | ? | 10 | 0.344 | MG/Yr | |
| Systematic data handling errors: | ? | 10 | | MG/Yr | |
| Systematic data handling errors are likely, please enter a non-zero value; otherwise grade = 5 | | | | | |
| Apparent Losses: | | | 0.450 | | |
| Real Losses (Current Annual Real Losses or CARL) | | | | | |
| Real Losses = Water Losses - Apparent Losses: | ? | | 5.151 | MG/Yr | |
| WATER LOSSES: | | | 5.601 | MG/Yr | |
| NON-REVENUE WATER | | | | | |
| NON-REVENUE WATER: | ? | | 8.197 | MG/Yr | |
| = Total Water Loss + Unbilled Metered + Unbilled Unmetered | | | | | |
| SYSTEM DATA | | | | | |
| Length of mains: | ? | 5 | 135.0 | miles | |
| Number of active AND inactive service connections: | ? | 7 | 874 | | |
| Connection density: | | | 4 | conn./mile main | |
| Average length of customer service line: | ? | 10 | 0.0 | ft | (pipe length between curbstop and customer meter or property boundary) |
| Average operating pressure: | ? | 5 | 85.0 | psi | |
| COST DATA | | | | | |
| Total annual cost of operating water system: | ? | 10 | \$486,090 | \$/Year | |
| Customer retail unit cost (applied to Apparent Losses): | ? | 10 | \$16.00 | \$/1000 gallons (US) | |
| Variable production cost (applied to Real Losses): | ? | 10 | \$3,131.48 | \$/Million gallons | |
| PERFORMANCE INDICATORS | | | | | |
| Financial Indicators | | | | | |
| Non-revenue water as percent by volume of Water Supplied: | | | 19.4% | | |
| Non-revenue water as percent by cost of operating system: | | | 6.5% | | |
| Annual cost of Apparent Losses: | | | \$7,192 | | |
| Annual cost of Real Losses: | | | \$16,132 | | |
| Operational Efficiency Indicators | | | | | |
| Apparent Losses per service connection per day: | | | 1.41 | gallons/connection/day | |
| Real Losses per service connection per day*: | | | N/A | gallons/connection/day | |
| Real Losses per length of main per day*: | | | 72.38 | gallons/mile/day | |
| Real Losses per service connection per day per psi pressure: | | | | gallons/connection/day/psi | |
| Unavoidable Annual Real Losses (UARL): | ? | | 36.80 | million gallons/year | |
| From Above, Real Losses = Current Annual Real Losses (CARL): | | | 5.15 | million gallons/year | |
| Infrastructure Leakage Index (ILI) [CARL/UARL]: | ? | | 0.14 | | |
| * only the most applicable of these two indicators will be calculated | | | | | |
| WATER AUDIT DATA VALIDITY SCORE: | | | | | |
| *** YOUR SCORE IS: 80 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. Water imported | | | | | |
| 2. Unbilled metered | | | | | |
| 3. Unauthorized consumption | | | | | |
| For more information, click here to see the Grading Matrix worksheet | | | | | |

See Accompanying Independent Auditors' Report.

**CAGLE AND FREDONIA UTILITY DISTRICT
OTHER SUPPLEMENTARY INFORMATION
Year Ended December 31, 2013**

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - BUDGET AND ACTUAL

| | Budgetary Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--------------------------|-------------------|---------------|-------------------|---|
| | Original | Final | | |
| OPERATING REVENUE | | | | |
| Water sales | \$ 462,000.00 | \$ 450,000.00 | \$ 448,114.22 | \$ (1,885.78) |
| Late charges | 13,500.00 | 14,500.00 | 14,262.41 | (237.59) |
| Fees | 43,000.00 | 43,000.00 | 23,667.27 | (19,332.73) |
| Miscellaneous | 0.00 | 0.00 | 47.02 | 47.02 |
| TOTAL OPERATING REVENUE | 518,500.00 | 507,500.00 | 486,090.92 | (21,409.08) |
| EXPENSES | | | | |
| Water purchased | 175,000.00 | 168,800.00 | 174,408.81 | (5,608.81) |
| Bad debts | 7,500.00 | 5,580.00 | 0.00 | 5,580.00 |
| Wages | 41,000.00 | 39,500.00 | 56,852.88 | (17,352.88) |
| Payroll taxes | 12,300.00 | 14,600.00 | 5,589.13 | 9,010.87 |
| Employee Benefits | 38,000.00 | 40,385.00 | 32,712.45 | 7,672.55 |
| Retirement | 4,800.00 | 2,850.00 | 0.00 | 2,850.00 |
| Water inspections | 2,980.00 | 2,915.00 | 1,488.00 | 1,427.00 |
| Postage and freight | 3,200.00 | 6,526.00 | 3,525.53 | 3,000.47 |
| Utilities | 16,300.00 | 15,900.00 | 15,885.91 | 14.09 |
| Telephone | 3,750.00 | 3,750.00 | 3,942.79 | (192.79) |
| Repairs | 1,625.00 | 210.00 | 920.48 | (710.48) |
| Insurance and bonds | 7,797.00 | 7,666.00 | 7,710.88 | (44.88) |
| Dues | 1,750.00 | 1,810.00 | 1,809.04 | 0.96 |
| Directors' fees | 4,000.00 | 7,900.00 | 10,500.00 | (2,600.00) |
| Contracted services | 22,000.00 | 11,000.00 | 10,940.00 | 60.00 |
| Professional services | 4,100.00 | 6,136.00 | 6,135.50 | 0.50 |
| Office expense | 731.00 | 777.00 | 2,822.32 | (2,045.32) |
| Office supplies | 3,012.00 | 2,050.00 | 0.00 | 2,050.00 |
| Advertising | 780.00 | 728.00 | 512.00 | 216.00 |
| Mileage reimbursement | 2,600.00 | 2,860.00 | 2,856.77 | 3.23 |
| Maintenance supplies | 8,000.00 | 14,850.00 | 18,825.50 | (3,975.50) |
| Fuel | 2,000.00 | 1,800.00 | 1,933.83 | (133.83) |
| Training | 0.00 | 0.00 | 300.00 | (300.00) |
| Licenses and permits | 30.00 | 30.00 | 30.00 | 0.00 |
| Miscellaneous | 1,407.00 | 1,420.00 | 1,117.45 | 302.55 |
| Depreciation | 69,600.00 | 69,600.00 | 89,120.01 | (19,520.01) |
| Bond amortization | 0.00 | 0.00 | 173.00 | (173.00) |
| Returned checks | 1,780.00 | 1,530.00 | 1,526.86 | 3.14 |
| Leak adjustment | 1,050.00 | 2,310.00 | 0.00 | 2,310.00 |
| Tank and pump monitoring | 840.00 | 840.00 | 0.00 | 840.00 |
| TOTAL EXPENSE | 437,932.00 | 434,323.00 | 451,639.14 | (17,316.14) |
| OPERATING INCOME | 80,568.00 | 73,177.00 | 34,451.78 | (38,725.22) |

(continued)

**CAGLE AND FREDONIA UTILITY DISTRICT
OTHER SUPPLEMENTARY INFORMATION
Year Ended December 31, 2013**

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (continued)

| | Budgetary Amounts | | Actual Amounts | Variance with Final Budget |
|--|------------------------|------------------------|------------------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| NON-OPERATING REVENUES (EXPENSES) | | | | |
| Interest income | 7,000.00 | 5,000.00 | 4,768.41 | (231.59) |
| Interest expense | (62,580.00) | (62,580.00) | (45,980.12) | 16,599.88 |
| TOTAL NON-OPERATING REVENUES (EXPENSE) | <u>(55,580.00)</u> | <u>(57,580.00)</u> | <u>(41,211.71)</u> | <u>16,368.29</u> |
| Changes in net position | <u>24,988.00</u> | <u>15,597.00</u> | <u>(6,759.93)</u> | <u>(22,356.93)</u> |
| Total net position - beginning | 2,062,160.94 | 2,062,160.94 | 2,062,160.94 | 0.00 |
| Total net position - ending | <u>\$ 2,087,148.94</u> | <u>\$ 2,077,757.94</u> | <u>\$ 2,055,401.01</u> | <u>\$ (22,356.93)</u> |

See Accompanying Independent Auditors' Report.

**CAGLE AND FREDONIA UTILITY DISTRICT
OTHER SUPPLEMENTARY INFORMATION
December 31, 2013**

RECONCILIATION TO GAAP BASED BUDGET

| | |
|---|-------------------------------|
| Total Net Position - Schedule of Revenues, Expenditures, and Changes in Net Position - Budget and Actual | \$ 2,055,401.01 |
| There are no differences from Budget to GAAP | <u>0.00</u> |
| Total Net Position - Statement of Revenues, Expenditures, and Changes in Net Position | <u><u>\$ 2,055,401.01</u></u> |

See Accompanying Independent Auditors' Report.

INTERNAL CONTROL AND COMPLIANCE SECTION



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

To the Board of Commissioners
Cagle and Fredonia Utility District of Sequatchie County, 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 Cagle and Fredonia Utility District of Sequatchie County, Tennessee, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Cagle and Fredonia Utility District of Sequatchie County, Tennessee's basic financial statements and have issued our report thereon dated March 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cagle and Fredonia Utility District of Sequatchie County, Tennessee'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cagle and Fredonia Utility District of Sequatchie County, Tennessee's internal control. Accordingly, we do not express an opinion on the effectiveness of Cagle and Fredonia Utility District of Sequatchie County, Tennessee's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies [08-01, 08-02, 11-01, and 11-02].

Compliance and Other Matters

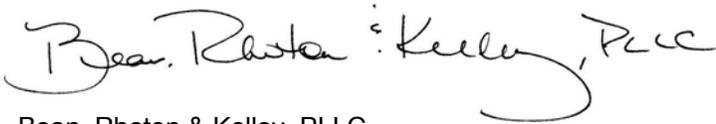
As part of obtaining reasonable assurance about whether Cagle and Fredonia Utility District of Sequatchie County, Tennessee's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items [09-01, 12-01, 12-02, and 13-01].

Cagle and Fredonia Utility District of Sequatchie County, Tennessee's Responses to Findings

Cagle and Fredonia Utility District of Sequatchie County, Tennessee's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Cagle and Fredonia Utility District of Sequatchie County, Tennessee's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

A handwritten signature in black ink that reads "Bean, Rhoton & Kelley, PLLC". The signature is written in a cursive, flowing style.

Bean, Rhoton & Kelley, PLLC
March 21, 2014

**CAGLE AND FREDONIA UTILITY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2013**

I. Summary of Auditors' Results

- A. The December 31, 2013, Auditors' Report on the Financial Statements was unqualified.
- B. Significant deficiencies in internal control were disclosed by the audit and are discussed below in findings 08-01, 08-02, 11-01, and 11-02.
- C. Instances of noncompliance were disclosed by the audit and are discussed below in findings 09-01, 12-01, 12-02, and 13-01.

II. Findings Related to the Financial Statements, which are required to be reported in accordance with *Government Auditing Standards*.

(08-01) Segregation of Duties

Since the District has only one employee in the office, that individual is responsible for collecting, depositing, disbursing, and recording funds.

With the existence of related parties, more stringent review and monitoring of controls is necessary.

Recommendation:

The Uniform Accounting Manual for Tennessee Utility Districts, Section 2-6, requires that an internal control system designed to minimize errors, fraud, and waste be installed, including safeguards to prevent abuse of District property. It states, "Ideally, the same individual should not be responsible for authorizing transactions, recording transactions, and maintaining custody of assets. Establish workflow so that an employee's work is automatically verified by another employee working independently. Such procedures will help eliminate errors in accounting records and limit the possibility of fraud." To guard against undetected errors or irregularities, the commissioners should exercise more control over daily transactions.

Commissioners' Response:

Steve Farley is reconciling checking accounts and initialing daily receipts.

Disposition:

As of December 31, 2013, this problem still exists.

(08-02) Receipt Records

In our review of receipts, we found that some receipts were not being filled out completely. Test results showed that some receipts had been altered.

Recommendation:

The Internal Control and Compliance Manual for Tennessee Municipalities states "pre-numbered receipts be issued for each revenue source as required by Section 9-2-103, *Tennessee Code Annotated*." Pre-receipts should be in duplicate form and remain in the original bound book so the copies are retained for auditors during the auditing process. Receipts should be filled out completely with name, date, description of fee or service, amount and signed by individual receiving money. All unused or voided receipts should be accounted for. All receipts, utility bills, and pre-numbered receipts should be reconciled to the respective reports and kept intact (in the form and amount in which they were collected).

**CAGLE AND FREDONIA UTILITY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (continued)
December 31, 2013**

(08-02) Receipt Records (continued)

Commissioners' Response:

We are working to understand and correct mistakes made in the previous year.

Disposition:

As of December 31, 2013, this problem still exists.

(09-01) Three-day banking law

In our review of receipts and bank deposits, we found money being held longer than three days before a deposit was made to the bank.

Recommendation:

Section 6-56-111, Tennessee Code Annotated requires municipal officials to deposit funds within three days after collection. The Uniform Accounting Manual for Tennessee Utility Districts, Section 3-1, states, "Receipts should be deposited promptly and intact..." In order to safeguard public monies, we recommend that all money collected be deposited promptly.

Commissioners' Response:

The office manager goes to the bank on Monday, Wednesday, and Friday of every week.

Disposition:

As of December 31, 2013, this problem still exists.

(11-01) Posting to Accounting Software

Testing revealed a lack of controls in the posting process of the accounting software, including checks posted incorrectly and assigned to the wrong distribution account.

Recommendation:

The District should ensure that all activity is completely and accurately posted to the accounting records.

Commissioners' Response:

We are working to correct this problem.

Disposition:

As of December 31, 2013, this problem still exists.

(11-02) Purchase Orders

In our review of disbursements, we found that purchase orders are not being utilized.

Recommendation:

The Internal Control and Compliance Manual for Tennessee Municipalities, page 61, states that municipalities should adopt a written purchasing policy that includes designating persons authorized to make purchases, requiring the use of pre-numbered purchase orders, requiring approval by the finance officer, outlining procedures for emergency and small-item purchases without prior approval, and requiring bids for purchases over a stated amount.

**CAGLE AND FREDONIA UTILITY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (continued)
December 31, 2013**

(11-02) Purchase Orders (continued)

Commissioners' Response:

In 2012, purchase orders are required for purchases exceeding \$200.00.

Disposition:

As of December 31, 2013, this problem still exists.

(11-03) Journal Entries

Testing revealed a lack of controls over the journal entry process. Supporting documentation was not made available during testing. Additionally, there was no indication of approval prior to posting.

Disposition:

As of December 31, 2013, this problem no longer exists.

(12-01) Expenditures Exceed Budget

We noted that actual expenditures exceeded the amount appropriated in the budget.

Recommendation:

This practice is contrary to state statutes, which require all expenditures to be authorized by the governing body. All expenditures should be authorized either in the original budget or an amendment to that budget or in a supplemental appropriation.

Commissioners' Response:

We are working to understand and correct this problem.

Disposition:

As of December 31, 2013, this problem still exists.

(12-02) Collateralization of Deposits

Confirmation of federal depository insurance coverage and collateral pledged revealed that the District did not adequately secure deposits during the fiscal year.

Recommendation:

To reduce the risk of a loss as a result of a bank default on deposits, the District should comply with state statutes governing collateralization of deposits. The State of Tennessee's statutes generally require collateralization of 105% on all deposits above the FDIC/FSLIC insured amounts.

Commissioner's Response:

We will monitor this situation more closely in the future.

Disposition:

As of December 31, 2013, this problem still exists.

**CAGLE AND FREDONIA UTILITY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (continued)
December 31, 2013**

(13-01) Negative Change in Net Position

The District has had a negative change in net position for two consecutive years.

Recommendation:

Tennessee Code Annotated 68-221-1010 dictates that utility districts cannot have a negative change in net assets for two consecutive years. The Board may want to review revenues and expenses to determine the changes necessary to ensure that this does not occur in the future. Possible solutions include increasing rates, decreasing expenses, or a combination of both.

Commissioner's Response:

We will strive to correct this problem.