

**CHUCKEY UTILITY DISTRICT
OF GREENE AND
WASHINGTON COUNTY, TENNESSEE**

**Financial Statements
June 30, 2013**

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
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**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
BOARD OF COMMISSIONERS AND OFFICERS
June 30, 2013**

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
John Carter	President	01/29/14
Harry Kyker	Secretary	01/29/17
Dennis Adams	Treasurer	01/29/15

The above are compensated \$100 per meeting up to \$1,200 per year.

DAVID M. ELLIS
Certified Public Accountant

*Member, American Institute of
Certified Public Accountants*

*Member, Tennessee Society of
Certified Public Accountants*

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of
Chuckey Utility District
Greeneville, Tennessee

Report on the Financial Statements

I have audited the accompanying financial statements of Chuckey Utility District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Chuckey Utility 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.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes 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, I express no such opinion. An audit 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Chuckey Utility District as of June 30, 2013, and the respective changes in financial position, and cash flows thereof for the year then ended in conformity 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 and schedule of funding progress on pages 5 through 8 and page 26-27 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 financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chuckey Utility District's basic financial statements. The supplementary information on pages 28 through 33 is presented for purposes of additional analysis and is not a required part of these financial statements.

The schedule of board of commissioners and officers on page 1 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements 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 my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated December 2, 2013, on my consideration of Chuckey Utility District's internal control over financial reporting and

on my 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 my 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 Chuckey Utility District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "David M. Ellis".

David M. Ellis, CPA
Greeneville, TN 37743
December 2, 2013

Management's Discussion and Analysis

As management of the Chuckey Utility District of Greene and Washington County (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. Please note, the District presents prior comparative financial information when available.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$4,309,707 (net position).
- As of the close of the current fiscal year, the District reported ending net position of \$4,309,707, an increase of \$345,349 in comparison with the prior year.
- The District's total debt decreased by \$159,610 (5 percent) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: (1) fund financial statements, and (2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Fund financial statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District maintains one fund, a proprietary fund, which is considered to be an enterprise fund.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 15 through 25 of this report.

Financial Analysis of the District's Funds

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Chuckey Utility District of Greene and Washington County Statement of Net Position

	2013	2012
Current and Other Assets	\$ 895,534	\$ 965,062
Capital Assets	<u>7,332,400</u>	<u>7,024,912</u>
Total Assets	<u>\$ 8,227,934</u>	<u>\$ 7,989,974</u>

Current Liabilities	\$ 236,396	\$ 244,306
Long-term Liabilities	<u>3,681,831</u>	<u>3,781,310</u>
Total Liabilities	<u>3,918,227</u>	<u>4,025,616</u>
Invested in Capital Assets, Net of Related Debt	3,585,797	3,114,329
Unrestricted Net Position	<u>723,910</u>	<u>850,029</u>
Total Net Position	<u>\$ 4,309,707</u>	<u>\$ 3,964,358</u>

The balance of unrestricted net position, \$723,910, may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District is able to report a positive balance in the net position category.

The District's net position increased by \$345,349 during the current fiscal year.

The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The following is a summary of financial activities for the District during the fiscal year ended June 30, 2013:

**Chuckey Utility District of Greene and Washington County
Statement of Revenues, Expenses, and Changes in Net Position**

	<u>2013</u>	<u>2012</u>
Revenues:		
Operating Revenues:		
Charges for services	\$ 2,043,423	\$ 1,859,574
Non-Operating Revenues:		
Capital contributions	431,812	131,082
Other	0	0
Interest income	<u>1,543</u>	<u>2,157</u>
Total Revenues	<u>2,476,778</u>	<u>1,992,813</u>
Expenses:		
Operating Expenses	1,886,418	1,656,660
Non-Operating Expenses	<u>152,315</u>	<u>129,651</u>
Total Expenses	<u>2,038,733</u>	<u>1,786,311</u>
Change in net position	<u>438,045</u>	<u>206,502</u>
Beginning net position	3,964,358	3,757,856
Prior period adjustment	<u>(92,696)</u>	<u>0</u>
Beginning net position restated	<u>3,871,662</u>	<u>3,757,856</u>

The District's total debt decreased by \$159,610 (5 percent) during the current fiscal year. Additional information on the District's long-term debt can be found in Note 4 on page 18-20 of this report.

Joint Venture

During the year, the District participated in a joint venture with Cross Anchor Utility District to provide the labor and equipment for line extensions and major repairs. The District contributed \$200,383 to the Force Account and had related expenses of \$208,840, leaving an equity interest of \$2,638 at the end of the fiscal year.

Economic Factors and Next Year's Budget and Rates

Short-term interest rates on investments for the District's operating funds decreased slightly during fiscal year 2013. These factors were considered in preparing the District's budget for fiscal year 2014.

A rate increase was not approved for fiscal year 2013.

Requests for Information

This financial report is designed to provide a general overview of the Chuckey Utility District of Greene and Washington County's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Chuckey Utility District of Greene and Washington County, 800 West Andrew Johnson Highway, Greeneville, TN 37745.

CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2013

ASSETS

Current Assets

Cash and equivalents	\$ 215,991	
Certificates of deposit	100,000	
Accounts receivable (net)	171,049	
Accounts receivable -other	25,448	
Prepaid insurance	37,843	
Prepaid tap expense	3,564	
Inventory	92,124	
Total Current Assets		\$ 646,019

Restricted Assets

Customer deposits	11,540	
Construction	3,895	
Debt service reserve	231,441	
Total Restricted Assets		246,876

Capital Assets

Land	536,185	
Distribution system	9,873,947	
Equipment	494,385	
Buildings	41,827	
Construction in progress	466,866	
Less: Accumulated depreciation	(4,080,810)	
Total Capital Assets		7,332,400

Other Assets

Investment in joint venture		2,639
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TOTAL ASSETS	8,227,934
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LIABILITIES

Current Liabilities

Accounts payable	55,892	
Accrued interest	6,708	
Accrued taxes	16,422	
Accrued payroll	18,904	
Current portion of bonds	135,470	
Prepaid tap fees	3,000	
Total Current Liabilities		236,396

Long Term Liabilities

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

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2013**

Meter deposits	\$ 11,540	
Net OPEB obligation	59,158	
Bonds payable - net of current portion and unamortized premiums	<u>3,611,133</u>	
 Total Long Term Liabilities		 <u>3,681,831</u>
 TOTAL LIABILITIES		 <u>3,918,227</u>
 NET POSITION		
Net investment in capital assets	3,585,797	
Restricted	-	
Unrestricted	<u>723,910</u>	
 TOTAL NET POSITION		 <u><u>\$4,309,707</u></u>

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

CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year ended June 30, 2013

Revenues		
Water sales (net of \$19,996 bad debt expense)		\$1,710,271
Penalties charged		39,696
Connection fees		29,830
Tap fees-operating		61,100
Service charges		25,440
Miscellaneous receipts		<u>177,086</u>
Total Revenues		2,043,423
Operating Expenses		
Cost of water purchased	\$ 512,938	
Salaries and wages	554,510	
System repairs and maintenance	24,221	
Depreciation	229,567	
Utilities	26,452	
Vehicle expense	32,106	
Materials and supplies	53,340	
Retirement	44,436	
Medical insurance	135,635	
Payroll taxes	<u>38,475</u>	
Total Operating Expenses		\$ 1,651,680
General and Administrative		
Uniforms	2,779	
Commissioners' fees	3,500	
Postage and office supplies	15,214	
General insurance	50,924	
Telephone/cable/internet	3,495	
General taxes and licenses	240	
Professional services	7,400	
Dues and memberships	9,741	
Meeting expenses	112	
Travel-commissioners	835	
Travel-management	967	
Travel-other employees	653	
OPEB ARC	61,023	
Subcontract	56,355	
Miscellaneous expenses	<u>21,500</u>	

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

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year ended June 30, 2013**

Total General and Administrative	\$ 234,738	
Total Expenses		<u>1,886,418</u>
Operating Income		157,005
Other Income and Expenses		
Interest income	1,543	
Connection fees - non-operating	-	
Interest expense	<u>(152,315)</u>	
Total Other Income and Expenses		<u>(150,772)</u>
Income Before Capital Contributions		6,233
Capital contributions		<u>431,812</u>
Change in Net Position		<u>438,045</u>
Net position - June 30, 2012, as previously reported		3,964,358
Prior period adjustment		<u>(92,696)</u>
Net position - June 30, 2012, as restated		<u>3,871,662</u>
Net position - June 30, 2013		<u><u>\$4,309,707</u></u>

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

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
STATEMENT OF CASH FLOWS
For the Year ended June 30, 2013**

Cash flows from operating activities:	
Receipts from customers and users	\$ 2,076,946
Payments to suppliers	(1,076,410)
Payments to employees	<u>(554,510)</u>
Net cash provided (used) by operating activities	<u>446,026</u>
Cash flows from capital and related financing activities:	
Cash paid for equipment additions	(7,520)
Cash paid for plant additions	(529,536)
Principal paid on revenue bonds	(163,980)
Capital contributed	431,812
Connection fee revenue - nonoperating	-
Loan proceeds	-
Interest paid	<u>(152,315)</u>
Net cash provided (used) by capital and related financing activities	<u>(421,539)</u>
Cash flows from investing activities:	
Transfers (to)/from restricted assets	133,304
Transfers (to)/from certificates of deposit	(100,000)
Cash contributed to joint venture	8,457
Interest received	<u>1,543</u>
Net cash provided (used) by investing activities	<u>43,304</u>
Net increase (decrease) in cash	67,791
Cash -- beginning of year	<u>148,200</u>
Cash -- end of year	<u><u>\$ 215,991</u></u>

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

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
STATEMENT OF CASH FLOWS
For the Year ended June 30, 2013**

Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating Income	\$ 157,005
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	229,567
(Increase) decrease in accounts receivable	7,667
(Increase) decrease in other receivables	(24,574)
(Increase) decrease in prepaid expenses	(1,879)
(Increase) decrease in inventories	4,524
Provision for losses on accounts receivable	17,125
Increase (decrease) in accounts payable	16,653
Increase (decrease) in meter deposits	(18,800)
Increase (decrease) in prepaid tap fees	(2,600)
Increase in OPEB Obligation	59,158
Increase (decrease) in accrued expenses	<u>2,180</u>
 Total adjustments	 <u>289,021</u>
 Net cash provided (used) by operating activities	 <u><u>\$ 446,026</u></u>
 Supplemental Disclosures of Cash Flow Information:	
Cash received during the year for interest	\$ 1,543
Cash paid during the year for interest	\$ 152,315

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

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS**

June 30, 2013

NOTE 1 - ACCOUNTING POLICIES

A. GENERAL: The District is a non-profit public entity and is not subject to federal income tax. There are 4,310 active customers.

B. REPORTING ENTITY, MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION:

The District is the complete reporting entity with no excluded potential component units. The commissioners exercise no authority over other entities, nor do they have any responsibility to do so.

The financial statements are reported using the economic resources measurement focus and the accrual method 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 financial statements distinguish operating revenues and expenses from non-operating 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 District are charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

A proprietary activity may apply FASB pronouncements and APB opinions issued after November 30, 1989, except for those that conflict or contradict GASB pronouncements. The District has adopted as policy this application for its proprietary activities.

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

C. NET POSITION – Net position contains the various net earnings from operating and non-operating revenues, expenses, capital contributions, and special items. Net position are classified in the following three components:

Net position - restricted – This component of net assets consists of assets which have constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation.

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS**

June 30, 2013

included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Net position - unrestricted – This component of net position consists of net position that do not meet the definition of “net position – restricted” or “net investment in capital assets”.

D. NET POSITION FLOW ASSUMPTION – Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as net position – restricted and net position – unrestricted a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider net position – restricted to have been depleted before net position – unrestricted is applied.

E. DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

For the fiscal year end June 30, 2013, the District has neither a deferred inflow nor a deferred outflow of resources.

F. UTILITY PLANT, PROPERTY AND EQUIPMENT: Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,000 (amount not rounded) and an estimated useful life in excess of one year. The distribution lines and other additions are stated at cost and are being depreciated on the straight-line method over estimated useful lives of 25 to 50 years. The building is being depreciated on the straight-line method over 25 years. Land is recorded at cost. Equipment is being depreciated on the straight-line method over its estimated useful life of 5 to 10 years. Repairs are expensed as the costs are incurred. Interest paid on funds borrowed to finance system construction is capitalized where material.

G. RESTRICTED ASSETS: Certain assets are restricted for specific purposes. On the statement of net position, cash and certificates of deposit totaling \$246,876 represents meter deposits held for customers of \$11,540, construction of \$3,895, and debt service reserve, bond principal and interest reserves, of \$231,441.

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS**

June 30, 2013

- H. INVENTORY:** Inventory consists of parts used for repairs and installation of new taps and is stated at cost, determined on a first in, first out basis.
- I. ACCOUNTS RECEIVABLE:** Accounts receivable of \$234,212 is stated at recorded amount less allowance for uncollectible accounts of \$63,163. Net estimated realizable value of \$171,049 is reported on the statement of net position.
- J. USE OF ESTIMATES:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- K. MEASUREMENT OF ACTUARIAL INFORMATION:** The District's postemployment benefits, other than retirement, has elected to calculate information of an actuarial nature using the alternative measurement method permitted by GASB Statement 43 for plans with fewer than one hundred employees.

NOTE 2 – CASH AND EQUIVALENTS

The District considers highly liquid investments (including restricted assets) with an original maturity when purchased of three months or less to be cash equivalents. The certificates of deposit, classified as investments, and funds restricted for construction are not treated as cash in the Statement of Cash Flows.

The District is allowed to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Tennessee or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Tennessee or the United States; (4) obligations of states, agencies, countries, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "AA" or its equivalent; (5) certificates of deposit issued by state and national banks, domiciled in Tennessee, that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or secured by obligations mentioned above; and (6) fully collateralized direct repurchase agreements having a defined termination date.

Custodial credit risk, in the case of deposits, is the risk that in the event of a bank failure, the District's deposits may not be returned to it. It is the District's policy for deposits to be 105% secured by collateral valued at market less the amount of the Federal Deposit Insurance Corporation insurance. As of June 30, 2013, all of the District's interest bearing deposits were insured by the Federal Deposit Insurance Corporation or collateralized by securities held by the pledging financial institution.

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Construction in Progress	\$1,590	\$529,537	\$64,261	\$466,866
Land	536,186	0	1	\$536,185
Total capital assets, not being depreciated	537,776	529,537	64,262	1,003,051
Capital assets, being depreciated:				
Distribution system	9,809,687	64,260	0	9,873,947
Equipment	486,865	7,520	0	494,385
Buildings	41,827	0	0	41,827
Total capital assets, being depreciated	10,338,379	71,780	0	10,410,159
Less accumulated depreciation for:				
Distribution system	3,387,700	207,533	0	3,595,233
Equipment	454,448	20,909	0	475,357
Buildings	9,095	1,125	0	10,220
Total accumulated depreciation	3,851,243	229,567	0	4,080,810
Total capital assets, being depreciated, net	6,487,136	(157,787)	0	6,329,349
Total capital assets, net	\$7,024,912	\$371,750	\$64,262	\$7,332,400

NOTE 4 – LONG TERM LIABILITIES

A. BONDS PAYABLE:

The District has issued revenue bonds where the District pledges income derived from the constructed assets to pay debt service. The revenue bonds were issued to finance construction projects to expand distribution facilities. Revenue bonds outstanding at year end are as follows:

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

	Wiley Bros. Issue 1	Farmers Home Issue 18	Rural Development Issue 20
Date of Issue	01/28/10	04/06/07	10/15/11
Original Amount	\$2,480,000	\$517,000	\$1,140,000
Interest Rate	2 - 5%	4.125%	4.375%
Term	22 years	38 years	38 years

The annual debt service requirements to maturity, including principal and interest, are as follows:

Year ended June 30	Principal Payments	Interest Payments
2014	135,467	153,550
2015	136,362	150,355
2016	127,295	146,960
2017	123,269	143,173
2018	124,286	139,031
2019-2023	668,308	620,045
2024-2028	831,293	441,667
2029-2033	557,153	264,682
2034-2038	262,771	180,689
2039-2043	325,472	117,988
2044-2048	309,683	46,264
2049-2053	64,399	1,641
	<u>\$3,665,758</u>	<u>\$2,406,045</u>

Unamortized premium

80,845

\$3,746,603

All property constituting the distribution system is pledged under a statutory mortgage lien in favor of the bondholder.

B. LONG TERM LIABILITIES:

Long-term liability activity for the year ended June 30, 2013, was as follows:

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Meter deposits	\$ 30,340	\$ 0	\$ 18,800	\$ 11,540	\$ 0
Bonds payable	<u>3,825,368</u>	<u>0</u>	<u>159,610</u>	<u>3,665,758</u>	<u>135,470</u>
Total	<u>\$3,855,708</u>	<u>\$ 0</u>	<u>\$ 178,410</u>	<u>\$3,677,298</u>	<u>\$ 135,470</u>

NOTE 5 – RISK MANAGEMENT

The District handles risk through commercial insurance policies designed to minimize exposure. Past experience indicates this approach is adequate.

NOTE 6 – JOINT VENTURE

The District, in conjunction with Cross Anchor Utility District, created the Chuckey Cross Anchor Force Account (FA). The FA provides labor and equipment to both Chuckey and Cross Anchor to construct line extensions and replace existing lines. Both Chuckey and Cross Anchor contributed equally to purchase FA assets and have an ongoing financial responsibility. The FA does not have audited financial statements. The District contributed \$200,383 to the FA during the year and had related expenses of \$208,840, leaving a balance of \$2,638 for the investment in the joint venture at year end.

NOTE 7 – RETIREMENT PLAN

Plan Description

Employees of the 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 (5) 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, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS**

June 30, 2013

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://treasury.state.tn.us/tcrs/PS/>.

Funding Policy

The District requires employees to contribute 5.0 percent of earnable compensation.

The District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013, was 8.10% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the District is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2013, the District's annual pension cost of \$57,567 to TCRS was equal to the 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 percent 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. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The 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 20 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

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	\$57,567	100.00%	\$0.00
June 30, 2012	\$65,916	100.00%	\$0.00
June 30, 2011	\$69,651	100.00%	\$0.00

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 48.39 percent funded. The actuarial accrued liability for benefits was \$0.79 million, and the actuarial value of assets was \$0.38 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.41 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.60 million, and the ratio of the UAAL to the covered payroll was 68.18 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.

NOTE 8 – POSTEMPLOYMENT BENEFITS

The Board of Commissioners approved the provision of medical insurance coverage to substantially all employees retiring for a period of 3 to 6 years, depending on years of service, through the District's group health insurance plan, which covers both active and retired employees. To qualify for healthcare benefits under the plan, a full time employee is required to work for the District at least 15 years and be at least 59 years of age when service with the District terminates. Employees qualify for an additional year for each five years of service after the initial 15 year requirement up to 6 years.

Retirees may elect to purchase health insurance for their spouse while participating in the plan. Retirees would be required to pay 100% of the cost of their spouse's healthcare insurance premiums. The District provides a maximum benefit equal to 90% of the cost of the monthly premium of a full-time employee which, during fiscal year ended June 30, 2013, was \$691.04 per month. The cost is funded and expensed as the coverage is provided. One retiree was covered for medical insurance at June 30, 2013.

This plan is a single-employer defined benefit healthcare plan. The plan is funded on a pay-as-you-go basis with expense calculated under the provisions of GASB 45 as described below. The plan does not issue stand-alone financial reports.

In July 2004, the GASB issued GASB No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." GASB No. 45 requires employers that participate in single-employer or agent multiple-employer defined other postemployment benefit (OPEB) plans to measure and disclose an amount for annual OPEB cost on the accrual basis of accounting.

As of June 30, 2013, the actuarial accrued liability (AAL) for benefits was \$377,908, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS**

June 30, 2013

\$377,908 and a funded ratio of 0.00%. The covered payroll (annual payroll of active employees covered by the plan) was \$664,800, and the ratio of the UAAL to the covered payroll was 56.9%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees – Active full time plan members were assumed to retire at age 59, which is the historical average age of retirement for employees of this employer. If an employee would not qualify for benefits at age 59, the employee is assumed to work until the year in which she/he becomes eligible, at which time the employee is assumed to retire. Active full time employees age 59 or older who have qualified for postemployment benefits under the plan are assumed to retire in the first projected year. Retirees are assumed to not elect coverage for their spouses while on the plan.

Mortality – N/A in this case since benefits end at Medicare eligible age.

Marital status – N/A in this case since retirees are assumed to not elect coverage for their spouses.

Turnover – The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific-age based turnover data provided in Table 1 in paragraph 35b of Statement 45. In addition, the expected future working lifetimes of employees were determined using Table 2 in paragraph 35c of Statement 45.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums is based on the most recent projections as of the calculation date made by the Office of the Actuary

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

at the Centers for Medicare & Medicaid Services, as published in National Health Care Expenditures Projections: 2010-2020, Table 3: National Health Care Expenditures, Aggregate & Per Capita Amounts, Percent Distribution, and Average Annual Percent Change by Sources of Funds: Selected Calendar Years 2010-2020. (www.cms.hhs.gov)

Healthcare insurance premiums are expected to increase as follows:

For year ended 6/30	Increase from previous year
2013	5.9%
2014	6.0%
2015	5.6%
2016	6.2%
2017	6.4%
2018	6.5%
2019	6.7%
2020	6.8%

Health insurance premiums – Because the terms of the plan cover the cost of healthcare insurance premiums for retired premiums and premiums are not currently assessed separately for the retiree group, the amount of current healthcare insurance premiums has been used as a basis for calculating the present value of benefits to be paid. For the year ended June 30, 2013, health insurance premiums were \$6,888.36. The employer pays premiums monthly. However, for purposes of the calculations, it is assumed that the contributions are made at the end of the year.

Discount rate – Because the District finances OPEB using a pay-as-you-go approach, the discount rate is based on the historical (and expected future) returns of its short-term investment portfolio. The District expects to earn an average of 1.0 percent on these investments in the future.

Other economic assumptions – The expected long-term inflation assumption of 3.6 percent is based on projected changes in the Consumer Price Index for Urban Wage Earners & Clerical Workers (CPI-W) in the 2011 Annual average indexes. The payroll growth is assumed to equal the long-term inflation assumption.

Actuarial cost method – The ARC is determined using the entry age actuarial cost method.

Actuarial value of plan assets – The District does not accumulate assets in a dedicated trust, or equivalent arrangement, for purposes of funding its retiree healthcare obligation. Therefore, the actuarial value of plan assets is zero.

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

Annual required contributions of the employer – The unfunded actuarial accrued liability is amortized on an open basis over the average expected future working lifetime at entry age or thirty years, whichever is shorter.

NOTE 9 – LINE OF CREDIT

During the year, the District entered into a line of credit agreement with Heritage Community Bank. The agreement bears interest at a rate of 7.0% and matures on March 20, 2016. There was no balance on the line of credit at year end. The line of credit was closed in October 2013.

NOTE 10 – PRIOR PERIOD ADJUSTMENT

As a result of implementing GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Per the new statement, debt issuance costs are recorded as an expense in the period incurred. Therefore, the District has restated the beginning net position in the Statement of Net Position, effectively decreasing net position as of June 30, 2013 by \$92,696. The decrease results from no longer deferring and amortizing bond issuance costs.

NOTE 11 – COMMITMENTS

The District entered into a contract with the formal general manager totaling \$182,335 for consulting services regarding construction and design services of the District's waterlines over a two year period. As of year-end, \$22,792 had been expended on this contract.

NOTE 12 – SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 02, 2013, the date the financial statements were available to be issued.

After year end, the District entered into an agreement with Payment Services Network (PSN) to begin offering customers the opportunity to electronically pay their bills. The anticipated implementation date is November 19, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
SCHEDULE OF FUNDING PROGRESS – TCRS RETIREMENT PLAN
June 30, 2013**

(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)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	\$384	\$793	\$409	48.39%	\$600	68.18%
July 1, 2009	\$181	\$759	\$578	23.82%	\$549	105.28%
July 1, 2007	\$0	\$0	\$0	0.00%	\$0	0.00%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into effect during the year of the 2007 actuarial valuation; therefore, only the three most recent evaluations are presented.

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
SCHEDULE OF FUNDING PROGRESS – OPEB PLAN
June 30, 2013**

(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Plan Asset: (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)
April 30, 2013	\$0	\$378	\$378	0.00%	\$665	0.00%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The plan went into effect during the year of the 2013 actuarial valuation; therefore, only the most recent evaluation is presented.

SUPPLEMENTAL INFORMATION

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
SCHEDULE OF BOND DUE DATES
JUNE 30, 2013**

	BOND 1		BOND 18		BOND 20		TOTALS	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	115,000	85,325	7,438	19,550	13,029	48,675	\$ 135,467	\$ 153,550
2015	115,000	83,025	7,751	19,237	13,611	48,093	\$ 136,362	\$ 150,355
2016	105,000	80,563	8,077	18,911	14,218	47,486	\$ 127,295	\$ 146,960
2017	100,000	77,750	8,416	18,572	14,853	46,851	\$ 123,269	\$ 143,173
2018	100,000	74,625	8,770	18,218	15,516	46,188	\$ 124,286	\$ 139,031
2019	100,000	71,250	9,139	17,849	16,209	45,495	\$ 125,348	\$ 134,594
2020	100,000	67,625	9,523	17,465	16,932	44,772	\$ 126,455	\$ 129,862
2021	100,000	63,750	9,923	17,065	17,688	44,016	\$ 127,611	\$ 124,831
2022	110,000	59,000	10,340	16,648	18,477	43,227	\$ 138,817	\$ 118,875
2023	120,000	53,250	10,775	16,231	19,302	42,402	\$ 150,077	\$ 111,883
2024	125,000	47,125	11,228	15,760	20,164	41,540	\$ 156,392	\$ 104,425
2025	130,000	40,750	11,700	15,288	21,064	40,640	\$ 162,764	\$ 96,678
2026	135,000	34,125	12,192	14,796	22,004	39,700	\$ 169,196	\$ 88,621
2027	145,000	27,125	12,704	14,284	22,986	38,718	\$ 180,690	\$ 80,127
2028	125,000	20,375	13,238	13,750	24,013	37,691	\$ 162,251	\$ 71,816
2029	90,000	15,000	13,795	13,193	25,084	36,620	\$ 128,879	\$ 64,813
2030	95,000	10,375	14,375	12,613	26,204	35,500	\$ 135,579	\$ 58,488
2031	80,000	6,000	14,979	12,009	27,374	34,330	\$ 122,353	\$ 52,339
2032	80,000	2,000	15,609	11,379	28,596	33,108	\$ 124,205	\$ 46,487
2033	-	-	16,265	10,723	29,872	31,832	\$ 46,137	\$ 42,555
2034	-	-	16,949	10,039	31,206	30,498	\$ 48,155	\$ 40,537
2035	-	-	17,661	9,327	32,599	29,105	\$ 50,260	\$ 38,432
2036	-	-	18,404	8,584	34,054	27,650	\$ 52,458	\$ 36,234
2037	-	-	19,178	7,810	35,574	26,130	\$ 54,752	\$ 33,940
2038	-	-	19,984	7,004	37,162	24,542	\$ 57,146	\$ 31,546
2039	-	-	20,824	6,164	38,821	22,883	\$ 59,645	\$ 29,047
2040	-	-	21,699	5,289	40,553	21,151	\$ 62,252	\$ 26,440
2041	-	-	22,611	4,377	42,364	19,340	\$ 64,975	\$ 23,717
2042	-	-	23,562	3,426	44,255	17,449	\$ 67,817	\$ 20,875
2043	-	-	24,553	2,435	46,230	15,474	\$ 70,783	\$ 17,909
2044	-	-	25,585	1,403	48,294	13,410	\$ 73,879	\$ 14,813
2045	-	-	20,088	350	50,449	11,255	\$ 70,537	\$ 11,605
2046	-	-	-	-	52,702	9,003	\$ 52,702	\$ 9,003
2047	-	-	-	-	55,054	6,650	\$ 55,054	\$ 6,650
2048	-	-	-	-	57,511	4,193	\$ 57,511	\$ 4,193
2049	-	-	-	-	60,079	1,625	\$ 60,079	\$ 1,625
	-	-	-	-	4,320	16	\$ 4,320	\$ 16
	<u>\$ 2,070,000</u>	<u>\$ 919,038</u>	<u>\$ 477,335</u>	<u>\$ 379,749</u>	<u>1,118,423</u>	<u>1,107,258</u>	<u>\$ 3,665,758</u>	<u>\$ 2,406,045</u>

CHUCKEY UTILITY DISTRICT SCHEDULE OF UNACCOUNTED FOR WATER

AWWA WICC Free Water Audit Software Reporting Worksheet

[Back to Instructions](#)

Water Audit Report for: **Chuckey Utility District**
 Reporting Year: **2013** / **7/2013 - 6/2013**

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'

Volume from own sources:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	Million gallons (US) /yr (MG/Yr)
Master meter error adjustment (enter positive value):	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
Water imported:	<input type="text" value="9"/>	<input type="text" value="345.519"/>	MG/Yr
Water exported:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
WATER SUPPLIED:		345.519	MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	<input type="text" value="8"/>	<input type="text" value="194.500"/>	MG/Yr
Billed unmetered:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
Unbilled metered:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
Unbilled unmetered:	<input type="text" value="10"/>	<input type="text" value="2.067"/>	MG/Yr
AUTHORIZED CONSUMPTION:		196.567	MG/Yr

Click here: for help using option buttons below

Pent: Value:

Use buttons to select percentage of water supplied OR value

WATER LOSSES (Water Supplied - Authorized Consumption) MG/Yr

Apparent Losses

Unauthorized consumption:	<input type="text" value="5"/>	<input type="text" value="0.864"/>	MG/Yr
Customer metering inaccuracies:	<input type="text" value="7"/>	<input type="text" value="4.987"/>	MG/Yr
Systematic data handling errors:	<input type="text" value="4"/>	<input type="text" value="2.833"/>	MG/Yr
Apparent Losses:		8.684	

Pent: Value:

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

Choose this option to enter a percentage of billed metered consumption. This is NOT a default value

Real Losses (Current Annual Real Losses or CARL)

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

WATER LOSSES: MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: MG/Yr

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	<input type="text" value="6"/>	<input type="text" value="205.0"/>	miles
Number of active AND inactive service connections:	<input type="text" value="9"/>	<input type="text" value="4,310"/>	
Connection density:		<input type="text" value="21"/>	conn./mile main
Average length of customer service line:	<input type="text" value="8"/>	<input type="text" value="0.0"/>	ft (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	<input type="text" value="6"/>	<input type="text" value="70.0"/>	psi

COST DATA

Total annual cost of operating water system:	<input type="text" value="10"/>	<input type="text" value="\$2,063,483"/>	\$/Year
Customer retail unit cost (applied to Apparent Losses):	<input type="text" value="6"/>	<input type="text" value="\$5.50"/>	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	<input type="text" value="10"/>	<input type="text" value="\$1,561.10"/>	\$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	<input type="text" value="43.78"/>
Non-revenue water as percent by cost of operating system:	<input type="text" value="13.18"/>
Annual cost of Apparent Losses:	<input type="text" value="\$47,761"/>
Annual cost of Real Losses:	<input type="text" value="\$218,973"/>

Operational Efficiency Indicators

Apparent Losses per service connection per day:	<input type="text" value="5.52"/>	gallons/connection/day
Real Losses per service connection per day*:	<input type="text" value="N/A"/>	gallons/connection/day
Real Losses per length of main per day*:	<input type="text" value="1,874.62"/>	gallons/mile/day
Real Losses per service connection per day per psi pressure:	<input type="text" value="0.000"/>	gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):	<input type="text" value="44.85"/>	million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	<input type="text" value="140.27"/>	million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]:	<input type="text" value="3.13"/>	

* only the most applicable of these two indicators will be calculated

WATER AUDIT DATA VALIDITY SCORE:

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:

For more information, click here to see the Grading Matrix worksheet

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
June 30, 2013**

WATER RATES

Effective March 1, 2012

Residential

First 1,000 gallons per month (minimum bill)	\$17.77
Over 1,000 gallons per month (per 1,000 gallons)	\$5.50

Corporate

First 1,000 gallons per month (minimum bill)	\$60.00
Over 1,000 gallons per month (per 1,000 gallons)	\$5.50

NUMBER OF CUSTOMERS

The District has 4,310 active customers.

**CHUCKEY UTILITY DISTRICT OF GREENE
AND WASHINGTON COUNTIES, TENNESSEE
CUSTOMERS AND CONSUMPTION
JUNE 30, 2013**

Number of Customers

Residential	4,296
Commercial	14
Total	4,310

Ten Largest Customers

Customer	Annual consumption (MG)	Total revenues
KDM Inc.	2.60	\$14,930.35
Chuckey School	2.41	\$13,899.65
Freshour Park	2.18	\$12,667.65
Tennessee Dept of Environment	1.01	\$6,211.20
Daniel Tyson Restaurant	0.66	\$3,800.89
State of Tennessee	0.63	\$4,126.15
Profile Tennessee	0.60	\$3,963.90
South Central School	0.59	\$3,892.40
Charles Love	0.52	\$3,004.49
Gibson's Apartments	0.46	\$3,179.60
Total	11.66	\$69,676.28

Water Consumption and Billing

The following sets forth the number of gallons (in MG) of water sold and the annual water billings (prior to sales adjustments) of the District during the fiscal year.

Residential	Commercial	Total
185.4	11.11	196.51
\$1,685,704	\$70,310	\$1,756,014

Uncollected Amounts

\$19,996 was uncollected during the fiscal year.

**CHUCKEY UTILITY DISTRICT OF GREENE
AND WASHINGTON COUNTIES, TENNESSEE
DEBT SERVICE COVERAGE ANALYSIS
JUNE 30, 2013**

		2013
Operating Revenues		
Water Sales	\$	1,710,271
Other Operating Revenues		333,152
Interest Earned		1,543
 Total Operating Revenues	 \$	 2,044,966
 Operating Expenses, excluding depreciation	 \$	 1,656,851
 Net Revenue Available for Debt Service	 \$	 388,115
 Maximum Annual Debt Service	 \$	 289,017
 Debt Service Coverage (based on Maximum Annual Debt Service)		 1.34

**CHUCKEY UTILITY DISTRICT
OF GREENE AND WASHINGTON COUNTY, TENNESSEE
SCHEDULE OF EQUITY INTEREST IN JOINT VENTURE
June 30, 2013**

	<u>Chuckey Utility District</u>	<u>Cross Anchor Utility District</u>	<u>Total</u>
Accrued Invoices	\$ -	\$ -	\$ -
Project Related Labor	98,483	70,327	168,810
Equipment Purchased During Year	23,610	31,338	54,948
Other Payments	<u>78,290</u>	<u>90,903</u>	<u>169,193</u>
Cash Contributed During Year	200,383	192,568	392,951
Distributions to Utility	-	-	-
Expenses Paid by Joint Venture Related to District	<u>208,840</u>	<u>159,183</u>	<u>368,023</u>
Total Expenses	<u>208,840</u>	<u>159,183</u>	<u>368,023</u>
Net	(8,457)	33,385	24,928
Equity Invested in Joint Venture at Beginning of Year	<u>11,095</u>	<u>47,285</u>	<u>58,380</u>
Equity Invested in Joint Venture at Year End	<u><u>\$ 2,638</u></u>	<u><u>\$ 80,670</u></u>	<u><u>\$ 83,308</u></u>

DAVID M. ELLIS
Certified Public Accountant

*Member, American Institute of
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**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**

To the Board of Directors of
Chuckey Utility District
Greeneville, Tennessee

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Chuckey Utility District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Chuckey Utility District's basic financial statements, and have issued my report thereon dated December 2, 2013.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered Chuckey Utility District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Chuckey Utility District's internal control. Accordingly, I do not express an opinion on the effectiveness of Chuckey Utility District'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. I consider the deficiencies described in the accompanying schedule of findings and recommendations as 13-01, 13-02, 13-05, 13-06, 13-07, 13-08, 13-09, 13-10, and 13-11 to be material weaknesses.

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. I consider the deficiency described in the accompanying schedule of findings and recommendations as 13-12, 13-13, 13-15, 13-16, and 13-17 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chuckey Utility District's financial statements are free from material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed certain 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 recommendations as items 13-01, 13-03, 13-04, 13-06, 13-08, 13-09, 13-11, 13-13, and 13-14.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.



David M. Ellis, CPA
Greeneville, TN
December 2, 2013

CHUCKEY UTILITY DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
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Financial Statement Findings

Prior Year Finding

12-01 Deposits not properly collateralized:

Condition: Deposits are not properly collateralized at year end.

Criteria: The Internal Control and Compliance Manual for Tennessee Utility Districts Title 5 Chapter 7 Section 11 require collateralization of 105 percent on all deposits above the FDIC insured amounts.

Cause: Deposits were higher due to project not completing before year end.

Effect: In the unlikely event of a bank closure, the Districts uncollateralized deposits could be lost.

Recommendation: The District should follow the guidance in the Internal Control and Compliance Manual for Tennessee Utility Districts.

Management's Comments: Management agrees with the finding.

This finding no longer continues to apply.

Current Year Findings

13-01 Unauthorized Bonuses

Condition: The manager effected a holiday and longevity bonus check for the former manager, as well as bonuses for herself and selected others without apparent authority or approval from the Board.

Criteria: Tennessee Code section 7-82-309(a) (7) states in part:

"The Board of Commissioners of any District shall have the power and authority to..... fix the salaries.....of employees....."

Effect: Payment of unauthorized bonuses violates state law.

Recommendation: The Board should specifically approve all bonuses, rates of pay and raises, review implementation of the decisions, and document the actions appropriately.

Management's Comments: Management concurs.

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13-02 Defectively Executed Consulting Contract

Condition: A consulting contract between the district and the former manager was apparently signed by the Board president, although he does not recall signing it. The Board secretary did not attest the contract. Further, the minutes approving the contract appear to have been altered after signature by the Board President (See finding 13-04).

Criteria: The *By-Laws of the Board of Commissioners of Chuckey Utility District* Article IV Section II Item 1 states in part:

All contracts.....shall be signed by the President.....and attested
by the Secretary.....

Effect: Uncertainty arises regarding the intent of the parties and the validity and enforceability of the document.

Recommendation: Contracts of any nature should be signed and attested according to the requirements of the By-Laws, and appropriately recorded in the minutes of the meeting where such contract was approved.

Management's Comments: Management concurs.

13-03 Duty Requirements Unrelated to District Business

Condition: Several employees were required at various times to perform duties at the managers' discretion which were unrelated to District business, but wages were paid from District funds.

Criteria: Tennessee Code Section 7-82-113 states:

"Expenditures must be made for a lawful district purpose."

Effect: The District is in violation of State law.

Recommendation: Employees should not be required to perform tasks unrelated to district purposes.

Management's Comments: Management concurs.

13-04 Meeting Minutes Unreliable or Incomplete

Condition: Minutes of meetings were maintained by the manager. Some actions remembered by the Board were absent from the record, while one instance of alteration was apparent and the ensuing entries were not familiar to board members.

CHUCKEY UTILITY DISTRICT
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Criteria: Tennessee Code Section 7-82-308(c) states:

“The Secretary shall keep a record of all proceedings of the commission, which shall be available for inspection as other public records, and shall be custodian of all official records of the district.”

Effect: Without a reliable record of each meeting’s proceedings, actions taken and discussed in those meetings bear no evidence of approval by the Board and violate State law.

Recommendation: The Commission Secretary should take complete minutes in accordance with State law, and should read those minutes at the next regular meeting (in accordance with the By-Laws) for approval or additions and corrections.

Management’s Comments: Management concurs.

13-05 OPEB Plan not Properly Authorized

Condition: The Board entered into an Other Post-Employment Benefits contract and Trust agreement, but documents did not bear the Board Secretary’s attestation. Subsequent revisions to the documents bear the Board president’s signature but he denies that he signed them.

Criteria: See the reference for findings 13-02 (contract attestation) above.

Effect: The District is bound by a plan that was not executed according to the provisions of the By-Laws.

Recommendation: Commissioners should carefully evaluate all significant matters to come before it, and prior to any independent action by management employees. All applicable law and controlling regulations should be adhered to.

Management’s Comments: Management concurs.

13-06 Unauthorized Fuel Purchases

Condition: An employee was paid mileage for reading the master water meters. However, he had a Fuelman credit card on which he regularly purchased gasoline. He does not drive a company vehicle. Diesel purchases from a local market were also charged to the card, which was issued through the force (joint venture) account, but force account employees purchase diesel at the local Co-Op which does not accept Fuelman cards. Chuckey employees do not purchase diesel at the local Co-Op, but there are separate Fuelman cards for each piece of off-road equipment.

Criteria: Tennessee Code Section 7-82-113 states:

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“Expenditures must be for a lawful district purpose.”

Effect: The District is in violation of State law and fails to safeguard its resources.

Recommendation: Management should establish adequate controls over the use of credit cards and reimbursements.

Management's Comments: Management concurs.

13-07 Improper Signatures

Condition: Several documents examined displayed the signature of the Board president but he has repeatedly denied they are his.

Criteria: The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 1, states:

“The board should have processes in place to identify potential risks due to changing circumstances. Technological developments, employee turnover, new programs...The board should review all operations periodically and reassess the risks related to entity-wide and activity-level objectives.”

Effect: Lack of adequate oversight elevates the potential for fraud, waste and abuse in the organization.

Recommendation: Management should adopt a plan to assess the risks of changing circumstances and periodically review operations in varying levels of detail in an increased effort to safeguard entity resources.

Management's Comments: Management concurs.

13-08 Undocumented Expense Reimbursements

Condition: Several employees receive fixed annual reimbursement amounts for business use of their personal cell phones. They are not required to justify or account for the business usage nor must they request the reimbursement. Board members were unaware the amounts were being paid and no approval was evident in the minutes.

Criteria: The “*Chuckey Utility District Reimbursement of Expenses for Utility District Personnel*” policy guide, Item 3 states:

“Expenses eligible for reimbursement must be actual, ordinary and necessary in the conduct of district business.”

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Effect: Because there is no objective method of accounting for actual business usage, the district is violating its own policy and could be overspending for a service for which bids could be taken and meaningful comparisons made.

Recommendation: Consider alternatives to the current reimbursement program.

Management's Comments: Management concurs.

13-09 Inadequate Purchasing Policy

Condition: While the District has adopted a purchasing policy that is compliant with Tennessee Code Section 7-82-801, it is not detailed enough to define discretionary purchase authority/limits applicable to management; amounts above which Board approval is required. The utility manager held a retirement party for the retiring manager at a total cost of approximately \$ 7,600. The Board's input regarding appropriate cost was not sought. As a result, the Board had no opportunity to evaluate whether the cost was in compliance with applicable law.

Criteria: Tennessee Code Section 7-82-113 states:

"Expenditures must be for a lawful district purpose."

Add'l Criteria: Tennessee Code Section 7-82-403 states:

"...the board of commissioners is to collect reasonable rates to provide for the operation and maintenance of the system. It is the board of commissioners' responsibility to ensure that district staff uses ratepayer funds prudently. "

Effect: The cost of the occasion could not meet the commissioners' determination of "prudent" since it was not consulted, and so failed to safeguard district assets.

Recommendation: The adopted purchasing policy should be amended to clearly define discretionary spending authority by employees other than commissioners.

Management's Comments: Management concurs.

13-10 Failure to Communicate Information

Condition: The manager was routinely provided essential financial information (financial statements and bank reconciliations) by the District accountant to present at the regular Board meetings. The manager did not deliver the documents for the Board's consideration.

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Criteria: "By-Laws of the Board of Commissioners" Article III Item 5 states in part:

"The accounting system shall at all times be subject to the supervision and control of the Board."

Effect: Commissioners must rely on informative monthly reports for insight into the District finances regarding revenues and expenses. Failure of the manager to provide the Board with the prepared documents prevents the Board members from accomplishing their fiduciary and oversight duties.

Recommendation: The Board should review and question (if warranted) various financial reports prepared monthly by the District accountant.

Management's Comments: Management concurs.

13-11 Inadequate Control of Credit Card Purchases

Condition: A MacBook Pro computer was purchased on a District credit card by the manager, however the unit could not be found on District property or in District vehicles. Further, all District technology operates on the Microsoft platform. A significant charge to the Olive Garden restaurant was made, but no details regarding business purpose were available.

Criteria: Tennessee Code Section 7-82-113 states:

"Expenditures must be for a lawful district purpose."

Additional Criteria: *The Internal Control and Compliance Manual for Tennessee Utility Districts' Title 5 Chapter 13 Section 6* states in part:

"The district purchasing policy should clearly define the types of purchases permitted to be made using credit cards....."

Effect: District resources may have been expended in violation of State law and were made without Board knowledge or approval.

Recommendation: The Board should review existing policies, revise them as needed, and implement a plan to monitor purchases on credit cards.

Management's Comments: Management concurs.

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13-12 Vacation Policy Inconsistently Applied

Condition: The manager effected pay for unused vacation for herself and selected others while promulgating the belief among remaining employees that vacation days were to be used or lost, and a payment option was not offered.

Criteria: The “*Chuckey Utility District General Policy*” manual states:

“Vacation time may not be accumulated and carried forward to the next year.”

Effect: Stated intentions by the Board of Commissioners to treat all employees fairly and equitably may have been circumvented.

Recommendation: The Board should clarify the policy statement to eliminate uncertainty in the future.

Management's Comments: Management concurs.

13-13 Improper Reporting to the Tennessee Consolidated Retirement System

Condition: The former manager was paid bonuses which were not approved by the Board of Commissioners, and which were reported to TCRS as earnable compensation.

Criteria: Tennessee Code Section 8-34-101(14) defines earnable compensation as the compensation payable to a member for services rendered to an employer. Earnable compensation can include bonuses as long as certain conditions are met. These conditions are:

1. Payment is authorized by resolution legally adopted and approved by the chief governing body of the entity;
2. The resolution provides the payment shall be included as earnable compensation for retirement purposes; and
3. The payment is not made for the purpose of increasing a member's retirement benefit or inducing a member to retire.

Effect: The unapproved bonuses paid to management do not meet the criteria for earnable compensation and should not have been reported to the Tennessee Consolidated Retirement System as such.

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Recommendation: Management should take appropriate steps to immediately correct the record with TCRS, and should abide the above referenced state law in future bonus declarations.

Management's Comments: Management concurs.

13-14 Missing Records

Condition: Numerous receipts for credit card purchases, fuel purchases and check stubs/receipts for payroll payments to managers could not be found in the office or other District owned locations.

Criteria: *The Internal Control and Compliance Manual for Tennessee Utility Districts' Title 5 Chapter 14 Section 6* states in part:

“NOTE: All disbursements, regardless of the accounting procedures, must be supported by invoices, cash tickets, or other adequate supporting documentation. The documentation should be sufficient to determine that the expenditure was for a district purpose. (Statements are not adequate supporting documentation.)”

Effect: District resources may have been expended in violation of State law and were made without Board knowledge or approval.

Recommendation: The Board should review existing policies, revise them as needed, and implement a plan to monitor purchases.

Management's Comments: Management concurs.

13-15 Improper Employment Practices

Condition: Management (non-Board) fostered an employment environment that exposed the District to legal challenges in the areas of whistleblower policies, retaliatory discharge, and wage and hour violations. This occurred through direct threats to several employees for their continued employment if they were guilty of upstream information transfers. They were also pressed for duty unrelated to District business and mandated duty without appropriate pay.

Criteria: The “*Chuckey Utility District General Policy*” manual states under *Division of Responsibility*:

“The Manager of the utility shall be responsible for the administration of these Personnel Policies.”

Under “*Authority*” which preambles the above statement, the policy states:

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“These rules are intended to comply with the authority provided by, and to be consistent with, all applicable laws of the United States, the State of

Tennessee and all applicable rules and regulations of administrative agencies having jurisdiction over Utilities.”

Effect: Employment practices and individual treatment expose the District to undue risk and liability from violation of well-established law.

Recommendation: The Board should take appropriate steps to empower a qualified human resources officer to manage employment issues and minimize exposure to legal action from inappropriate practices. Management and supervisors should be trained to recognize and respond to potential issues.

Management's Comments: Management concurs.

13-16 Unauthorized Loans

Condition: The manager of Chuckey Utility District (and also Cross Anchor Utility District) caused the Cross Anchor Utility District to write a check for a Chuckey debt (a tank painting invoice in the approximate amount of \$ 53,000) from the Cross Anchor money market account because cash flow was such that Chuckey could not pay the bill when due. The effect of this transaction was to create a debt to another (Cross Anchor) District.

Criteria: Chuckey Utility Debt Management Policy-Debt Management Strategies Section C Number 3 states:

“All debt shall be approved by resolution of the Governing Body.”

Effect: Borrowing funds without Board approval violates Debt Management Policy and requirements promulgated by the Tennessee State Funding Board (2010), which gave rise to those policies.

Recommendation: Funds transferred between Districts should never be commingled without both Board's direction and oversight.

Management's Comments: Management concurs.

13-17 Purchasing Policy not Followed

Condition: The District has adopted a purchasing policy that is compliant with Tennessee Code Section 7-82-801, however the manager failed to acquire bids and document compliance with procedures for equipment purchases in excess of \$ 10,000 per item in accordance with that code section and policy section.

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Criteria: Tennessee Code Section 7-82-801, states:

“purchases in excess of \$ 10,000 not otherwise excepted...shall be solicited from vendors on such (TAUD) list if public advertisement is not used.”

Add'l Criteria: Chuckey Utility District purchasing policy:

“...the district shall not be required to seek competitive bids on items...costing less than \$ 2,000”

Effect: The purchases violate both state law and the District's purchasing policy.

Recommendation: The adopted purchasing policy should be followed to avoid misuse of District funds.

Management's Comments: Management concurs.