

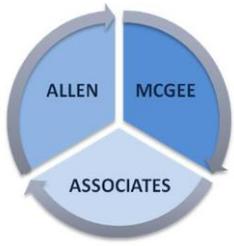
**FIRST UTILITY DISTRICT
OF CARTER COUNTY
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
OCTOBER 31, 2013**

**FIRST UTILITY DISTRICT OF CARTER COUNTY
FINANCIAL STATEMENTS
OCTOBER 31, 2013**

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Title Page	1
Table of Contents	2
FINANCIAL SECTION	3
Report of Independent Auditor	4-6
Management's Discussion and Analysis	7-13
Basic Financial Statements	
Statement of Net Position	14-15
Statement of Revenues, Expenses and Changes in Net Position	16-17
Statement of Cash Flows	18
Notes to Financial Statements	19-32
REQUIRED SUPPLEMENTARY INFORMATION SECTION	33
Schedule of Funding Progress – Pension Plan	34
SUPPLEMENTARY INFORMATION SECTION	35
Schedule of Utility Rates and Number of Customers	36
Schedule of Revenue Bond Coverage	37
Schedule of Future Debt Service Requirements to Maturity	38
Schedule of Insurance in Force	39
Schedule of Unaccounted for Water	40
COMPLIANCE SECTION	41
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 <i>Government Auditing Standards</i>	42-43
Schedule of Findings	44-49

FINANCIAL SECTION



Allen, McGee and Associates

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

March 3, 2014

To the Board of Commissioners
First Utility District of Carter County
Elizabethton, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the First Utility District of Carter County as of and for the year ended October 31, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

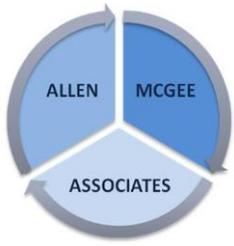
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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.

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Allen, McGee and Associates

Certified Public Accountants

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

Basis for Qualified Opinion

As further explained in Finding 13-04 Disbursements to Contractor on Water Line Replacement Project Were Not Properly Supported due to this lack of supporting documentation on these disbursements for the water line replacement project we could not determine if the proper amounts were paid in accordance with the construction contract.

Opinion

In our opinion, excepted for the effects if any of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the First Utility District of Carter County as of October 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

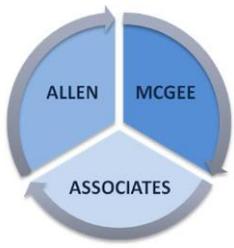
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on page 7 through 13, as well as the pension funding progress schedule on page 34 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 statement. 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 First Utility District of Carter County’s basic financial statements. The information described in the “Supplementary Information Section” in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.



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Certified Public Accountants

The information described in the “Supplementary Information Section” in the table of contents as the Schedule of Utility Rates and Number of Customers, Schedule of Revenue Bond Coverage and the Schedule of Future Debt Service Requirements to Maturity, are 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 our opinion, the information described in the Table of Contents in the “Supplementary Information Section” as the Schedule of Utility Rates and Number of Customers, Schedule of Revenue Bond Coverage and the Schedule of Future Debt Service Requirements to Maturity, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The information described in the “Supplementary Information Section” as the Schedule of Insurance in Force and the Schedule of Unaccounted for Water, 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2014 on our consideration of the First Utility District of Carter County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Allen, McGee and Associates, LLC
Certified Public Accountants

FIRST UTILITY DISTRICT OF CARTER COUNTY MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis and overview of First Utility District's financial performance during the fiscal year that ended on October 31, 2013. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Management believes the District's financial condition is strong. Performances in most areas exceed the budget and other expectations. The District has complied the financials with guidelines set by the Commissioners. The following are key financial highlights:

- The District delivered 145.2 million gallons of water.
- Total assets and other deferred outflows of resources at year-end were \$7,233,524 and exceeded liabilities in the amount of \$3,871,743 (i.e. net position). Of the total net position, \$1,478,260 was unrestricted and was available to support short term operations. Total net positions increased from fiscal year end 2012 in the amount of \$158,385.
- Operating revenues were \$1,239,185, a decrease from 2012 in the amount of \$13,359.
- Net operating income for the year was \$277,057 compared to an operating income for 2012 of \$252,804.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's planning, budget, bond resolutions and other management tools were used for this analysis.

The financial statement report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. Financial statements include a statement of net position; a statement of revenues, expenses and changes in net position, a statement of cash flow; and notes to the financial statements. The statement of net position presents the financial position of the District on a full accrual historical cost basis. While the statement of net positions provides information about the nature and amount of resources and obligations at year-end, the statement of revenues,

**FIRST UTILITY DISTRICT OF CARTER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONT.)

expenses and changes in net positions present the results of the business activities over the course of the fiscal year and information to how the net positions changed during the year. All changes in net positions are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs.

The District's rates are based on a cost of service rate study. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting standards. The primary objective of the rate model is to improve equity among customers and to ensure that capital costs are allocated on the basis of long term capacity needs, ensuring that growth pays for growth.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operation, financing and investing activities. This statement presents cash receipts and cash disbursements information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statement provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligation, commitments, contingencies and subsequent events, if any. Supplementary information comparing the budget to actual expenses, as well as important debt coverage data, is provided when available.

The financial statements were prepared by the District's staff from the detailed books and records of the District. The financial statements were audited and adjusted, if material, during the independent external audit process.

**FIRST UTILITY DISTRICT OF CARTER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)**

SUMMARY OF ORGANIZATION OF BUSINESS

The First Utility District was established in October, 1950 becoming incorporated pursuant to order of the Carter County Court and began operations in 1951. The District is located in Carter County, Tennessee.

The District provides reliable high quality supplies of potable water used for drinking, irrigation, and other purposes. The District has one water treatment facility, using Stoney Creek area as its source. The District also obtains source water from two wells, and a spring for emergency back-up.

The Commission is charged to finance, construct, operate and maintain facilities for the transmission of potable water as authorized by the Tennessee Code Annotated. A three member board governs the district. The Commissioners are elected to serve during regular elections held in the county.

FINANCIAL ANALYSIS

The most common financial question posed to the District is, "How did we do financially during 2013?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District activities in a way that will help answer this question. These two statements report the net position of the District and the changes in them. One can think of the District net position – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the District net position is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors as changes in weather (wet, cool summers), addition of new customers, economic conditions, and new or changed government legislation.

**FIRST UTILITY DISTRICT OF CARTER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)**

FINANCIAL ANALYSIS (CONT.)

**Table A-1
Condensed Statement of Net Position**

	FY 2012	FY 2013	Change	Total Percent Changed
Total current and other assets	\$1,919,937	\$1,942,210	\$22,273	1.17%
Total noncurrent assets and other deferred outflows	5,301,145	5,291,314	(9,831)	(0.19)
Total Assets and other deferred outflows	7,221,082	7,233,524	12,442	.18
Total current liabilities	222,909	200,178	(22,731)	(10.20)
Total noncurrent liabilities	3,284,594	3,161,603	(122,991)	(3.74)
Total liabilities	3,507,503	3,361,781	(145,722)	(4.15)
Invested in capital assets net of related debt	2,186,824	2,051,425	(135,399)	(6.19)
Reserved for Debt Service	280,878	342,058	61,180	21.78
Unrestricted	1,245,877	1,478,260	232,383	18.65
Total net position	<u>\$3,713,579</u>	<u>\$3,871,743</u>	<u>\$ 158,164</u>	<u>4.26%</u>

As can be seen from the above table, current assets increased by \$22,273 from 2012 while current liabilities decreased by \$22,731 and Unrestricted Net Position increased by \$232,383.

**FIRST UTILITY DISTRICT OF CARTER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)**

FINANCIAL ANALYSIS (CONT.)

**Table A-2
Condensed Statement of Revenues, Expenses, and Changes in Net Position**

	FY 2012	FY 2013	Change	Total Percent Changed
Operating revenues	\$1,252,544	\$1,239,185	\$ (13,359)	(1.07)%
Other revenues	8,686	11,553	2,867	33.01
Total revenues	1,261,230	1,250,738	(10,492)	(.83)
Depreciation and Amortization	241,899	242,741	842	.35
Other operating expense	757,841	723,076	(34,765)	(4.59)
Other Expenses	140,917	133,726	(7,191)	(5.10)
Loss on Disposal of Assets	0	1,844	1,844	0
Total expenses	1,140,657	1,101,387	(39,270)	(3.44)
Changes in net position	120,573	149,351	28,778	23.87
Prior Period Adjustment	0	8,813	8,813	0
Beginning net position	3,591,006	3,713,579	122,573	3.41
Ending net position	\$3,713,579	\$3,871,743	\$158,164	4.25

While the Statement of Net Position shows the change in financial position, the statement of Revenues, Expenses, and Changes in Net Position provide answers as to the nature and source of these changes.

**FIRST UTILITY DISTRICT OF CARTER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)**

CAPITAL ASSETS

At October 31, 2013, the District had \$5,194,925 invested in capital assets.

**Table A-3
Capital Assets**

	FY 2012	FY 2013	Change	Total Percent Change
<u>Capital assets</u>				
Land	\$ 91,785	\$ 91,785	\$ 0	0%
Right of Ways	22,481	22,481	0	0
Water System	7,959,503	8,179,551	220,048	2.76
Fence	33,119	33,119	0	0
Building	124,996	124,996	0	0
Vehicles	123,922	123,716	(206)	(0.17)
Tools and Equipment	136,334	134,534	(1,800)	(1.32)
Office Equipment	23,541	15,072	(8,469)	(35.98)
Furniture and Fixtures	13,346	13,170	(176)	(1.32)
Accumulated Depreciation	(3,312,773)	(3,543,499)	(230,726)	(6.96)
 Net Capital Assets	 \$5,216,254	 \$5,194,925	 \$(21,329)	 (.41)%

**FIRST UTILITY DISTRICT OF CARTER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)**

DEBT ADMINISTRATION

The Water Works Revenue Bond, Series 1979, was issued on July 2, 1979 in the amount of \$270,000, with annual payments of \$13,732 and annual interest rate of 4%. The balance of this bond at October 31, 2013 is \$60,405.

The Waterworks Revenue Refunding and Improvement Bonds, Series 2010 were issued October 22, 2010, in the par amount of \$3,460,000. The purpose of the issue was to redeem the District's outstanding Waterworks Revenue Bond, Series 1975, Waterworks Revenue Bond, Series 1981, Waterworks Revenue Bond, Series 1990 Waterworks Revenue Bond Series 1996 and the Waterworks Revenue Bond, Series 2002 and to provide funding for the costs of purchasing and installing automated meter reading equipment. The interest rate on the bonds range from 2.000% to 5.000%. The outstanding balance of these bonds at October 31, 2013 is \$3,150,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES

The Board and Management of the District consider many factors when setting the fiscal year 2012-2013 budget, user fees, and charges. One of the factors is making enough money to meet our indebtedness, meet all state and federal requirements, and provide our customers with safe, affordable drinking water.

UTILITY CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact Deborah Ledford at 101 Scott Lane, Elizabethton, Tennessee 37643.

First Utility District of Carter County
Statement of Net Position
For the Year Ended October 31, 2013

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,352,830
Accounts Receivable	164,681
Allowance for Bad Debts	(26,515)
Inventory	129,058
Unbilled Revenue	48,287
Prepaid Expenses	1,367
Total current assets	<u>1,669,708</u>

Restricted Assets

Cash and cash equivalents:	
Bond and Interest Sinking Fund	203,777
Restricted Funds Customer Deposits	8,287
Restricted Construction Account	60,438
Total Restricted Assets	<u>272,502</u>

Capital Assets:

Land	91,785
Right of Ways	22,481
Building	124,996
Water System	8,179,551
Furniture and Fixtures	13,170
Office Equipment	15,072
Fencing	33,119
Tools and Equipment	134,534
Vehicles	123,716
	<u>8,738,424</u>
Less Accumulated Depreciation	<u>(3,543,499)</u>
Net Capital Assets	<u>5,194,925</u>

Other Assets

Deposits	1,263
Long-term Investments	15,187
Total Other Assets	<u>16,450</u>

Total Assets	<u>7,153,585</u>
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First Utility District of Carter County
Statement of Net Position (Cont.)

DEFERRED OUTFLOWS OF RESOURCES

Deferred Bond Issuance Costs Net of Amortization	79,939
	<hr/>
Total Assets and Deferred Outflows of Resources	7,233,524
	<hr/>

LIABILITIES

Current Liabilities:

Accounts payable	\$ 5,380
Accrued Wages	1,285
Retirement Plan Expenses Payable	1,383
Interest Payable	46,883
Sales Tax Payable	9,108
Customer Deposits	6,975
Compensated Absences	6,890
Current Portion of Bond Premium	6,221
Current Portion of Bonds Payable	116,053
	<hr/>

Total current liabilities 200,178

Non-current liabilities:

Long-term debt:	
Bond Premium Payable in Excess of One Year	67,251
Bonds payable after one year	3,094,352
Total long-term debt	<hr/> 3,161,603
Total non-current liabilities	<hr/> 3,161,603

Total liabilities

3,361,781

Net Position:

Net Investment in Capital Assets	2,051,425
Restricted for Debt Service	342,058
Unrestricted	1,478,260
	<hr/>

Total Net Position

\$ 3,871,743

First Utility District of Carter County
Statement of Revenue, Expenses and Changes in Net Position
For the Year Ended October 31, 2013

Operating revenue:

Water Sales	\$ 1,154,233
Late Charges	18,894
Returned Check Fees	1,818
Service Fees	29,975
Service Connections	14,580
Service Charges	26,300
Other Sales	4,748
Bad Debt	<u>(11,363)</u>

Total Operating Revenue \$ 1,239,185

Operating Expenses:

Advertising	2,053
Truck Repairs	7,847
Radio Service	1,580
Bank Charges	9,052
Depreciation	239,052
Dues and Subscriptions	6,079
Permits	5,066
Computer Support	7,264
Miscellaneous	1,308
Insurance - Liability and Fire	22,375
Employee Health Insurance Deductables	16,595
Employee Health Insurance	113,343
Drug/Injury Medical	145
Janitorial	5,322
Uniforms	1,931
Office Supplies	8,750
Pre-paid legal	155
Legal	2,920
Accounting - Professional	21,656
Engineering Consultant	8,402
Payroll Taxes	21,265
Postage	12,531
Meter Test	217
Equipment Rental	906
Repairs to Filter Plant	7,979
Repairs to System	38,913
Gravel, Asphalt & Dirt	7,275

First Utility District of Carter County
Statement of Revenue, Expenses and Changes in Net Position(Cont.)

Operating Expenses (Cont.):	
Meters	45
Miscellaneous Labor	4,677
Mowing	4,617
General Repairs	2,103
Salaries and Wages	239,129
Retirement Plan	6,665
Maintenance Supplies	130
Supplies	101
Filter Plant Supplies	13,168
Gas Supplies	22,328
Small Tools	3,013
Taxes and Licenses	68
Telephone	18,764
Continuing Education	619
Utilities - Electric	66,897
Water Samples	4,152
Garbage	3,592
Security	882
Safety Equipment	1,197
Total operating expenses	<u>962,128</u>
Net Operating Income	277,057
Non-operating revenues (expenses)	
Interest Income	5,179
Unrealized Gain or (Loss) on Investments	6,374
Gain or (Loss) on Disposal of Assets	(1,844)
Interest Expense	(133,726)
Amortization of Bond Issuance Costs	<u>(3,689)</u>
Total non-operating revenue and expenses, net	<u>(127,706)</u>
Increase (decrease) in net position	149,351
Prior Period Adjustment	8,813
Net position at beginning of year	<u>3,713,579</u>
Net position at end of year	<u><u>\$ 3,871,743</u></u>

First Utility District of Carter County
Statement of Cash Flows
For the Year Ended October 31, 2013

Cash flows from operating activities:

Cash received from customers	\$ 1,221,694
Cash payments for goods and services	(377,910)
Cash Paid for Employees	(397,142)
Net cash provided by operating activities	<u>446,642</u>

Cash flows from capital and related financing activities:

Payments for capital acquisitions	(220,048)
Principal repayments on long-term debt	(111,337)
Interest paid	(146,373)
Net cash provided by (used in) capital and related financing activities	<u>(477,758)</u>

Cash flows from investing activities:

Receipts of interest	<u>5,179</u>
Net cash provided by (used in) investing activities	<u>5,179</u>

Net increase (decrease) in cash and cash equivalents	(25,937)
Cash and cash equivalents, beginning of year	<u>1,651,490</u>

Cash and cash equivalents, end of year	<u>\$ 1,625,553</u>
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Reconciliation of operating income/(loss) to net cash provided

by operating activities:

Operating income/(loss)	\$ 277,057
Depreciation	239,052
Changes in assets and liabilities:	
Decrease (increase) in Accounts Receivable	1,452
Decrease (increase) in Unbilled Revenue	(18,723)
Decrease (increase) in Prepaid Expenses	2,596
Decrease (increase) in Allowance for Bad Debts	(220)
Decrease (increase) in Inventory	(33,315)
Decrease (increase) in Bond Issuance Costs	3,689
Increase (decrease) in Accounts Payable	(26,552)
Increase (decrease) in Accrued Wages	587
Increase (decrease) in Sales Tax Payable	(18)
Increase (decrease) in Retirement Plan Expenses Payable	224
Increase (decrease) in Meter Deposits	(1,574)
Increase (decrease) in Compensated Absences	2,387
Net cash provided by operating activities	<u>\$ 446,642</u>

First Utility District of Carter County
Notes to Financial Statements
October 31, 2013

NOTE 1. DEFINITION OF THE REPORTING ENTITY

The First Utility District of Carter County (the “District”) was chartered as a public benefit corporation in October 1950 and operates under *Tennessee Code Annotated 7-82-201 et seq.* to provide water service to customers in a defined service area. Operations began November 1951.

The District meets the definition of a primary quasi-governmental entity under the following criteria – 1) the district is governed by a board of three elected commissioners, 2) the district has separate legal standing, and 3) the district is fiscally independent.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The District operates as an enterprise activity, and its records are maintained on the accrual basis of accounting. The District complies with Generally Accepted Accounting Principles, applicable to special purpose governments engaged solely in business type activities. The District’s reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District makes a distinction between operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with its principal ongoing operations.

The principal operating revenues of the District are water charges to customers. Operating expenses consist of salaries, utilities, and operating contracts for maintenance, insurance and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

First Utility District of Carter County Notes to Financial Statements (Cont.)

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Position. Net position (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted components.

B. Cash Equivalents

Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, certificates of deposit, and debt security investments with a maturity at purchase of three months or less.

C. Receivables

Accounts receivable are the result of ordinary transactions in the normal course of business. The District has established an allowance for doubtful accounts based on amounts determined uncollectible by analysis of all past due customers. Water revenues are recognized on the accrual basis as earned. The District board adopts and adjusts a formal rate structure for services that is designed to meet operational costs, capital improvement and replacements, debt service, and rational reserves.

D. Inventories

Inventories of materials and supplies used for new taps and repairs to the distribution system are counted annually by the district. The inventory is valued at the lower of cost or market based on a first-in, first-out basis.

E. Investments

Investments are carried at fair value (stocks, bonds, notes, options and mutual funds – generally at quoted market prices; investment partnership interests – based on quoted market prices of underlying securities. Net realized and unrealized gains and losses are recognized currently in the Statement of Revenues, Expenses and Changes in Net Position.

F. Capital Assets

Fixed assets are recorded and capitalized at the time of purchase at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

**First Utility District of Carter County
Notes to Financial Statements (Cont.)**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

F. Capital Assets (cont)

Expenditures for maintenance and repairs, which do not improve or extend the life of the asset, are charged to expenses as incurred. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. For the year under examination, interest costs of \$1,658 were capitalized.

The capital assets of the District are depreciated using the straight-line method over estimated useful lives as follows:

Buildings	10-40 Years
Water System	40-50 Years
Vehicles	5-7 Years
Furniture and Fixtures	7 Years
Machinery & Equipment	5-7 Years
Office Equipment	5-7 Years
Fencing	15 Years

G. Compensated Absences

Employee vacation accruals are listed on the balance sheet as accrued compensated absences and represent vacation hours accrued and carried over to the subsequent fiscal year. The accrued vacation is classified as a current liability as the accrued amount is likely to be utilized in full during the fiscal year ending October 31, 2014.

H. Customer Meter Deposits

A \$50.00 water meter deposit is required for initial service for all customers who rent the property for which services are being provided. These one-time deposits are fully refundable to the customer when service is discontinued and the account is paid in full.

**First Utility District of Carter County
Notes to Financial Statements (Cont.)**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

I. Bond Issuance Costs

Bond issuance costs are capitalized and amortized using the straight line method over the term of the debt issue. Bond issuance costs amortization totaled \$3,689 for 2013. Issuance costs amortization is included in the amortization expense in the statement of revenues, expenses, and change in net financial position.

J. Management Estimates

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

K. Contributed Capital

Contributions are recognized in the Statement of Revenues, Expenses, and Changes in Net Position when earned. Contributions include capital grants, tap fees in excess of tap connection expense, and customer contributions from system expansion projects.

Water lines are recorded as capital contributions when they pass inspection by the District. The estimated costs, which approximate fair value, are capitalized as cost of plant in service.

L. Net Position

The District classifies net position into three components: (1) net investment in capital assets, (2) restricted, and (3) unrestricted. These classifications are defined as follows:

- 1) Net investment in capital assets - This component of net position consists of capital assets, including restricted 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

**First Utility District of Carter County
Notes to Financial Statements (Cont.)**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

L. Net Position (Cont.)

unspent proceeds is not included in the calculation for invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- 2) Restricted - This component of net position consists of constraints placed on net position use through external 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 provisions or enabling legislation.
- 3) Unrestricted net position - This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets”.

M. Revenues and Expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

N. Net Position Flow Assumption

Sometimes the utility district will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position a flow assumption must be made about the order in which the resources are considered to be applied.

It is the utility district’s policy to consider restricted net financial position to have been depleted before unrestricted net position is applied.

First Utility District of Carter County Notes to Financial Statements (Cont.)

O. Deferred outflows/inflows of resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then.

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

For the year ended October 31, 2013, the District had deferred outflows of resources for bond issuance costs and no deferred inflows of resources.

P. Statements of Cash Flows

For purposes of the Statements of Cash Flows, the District considers all currency, demand deposits, money market accounts and certificates of deposit with banks or other financial institutions to be cash equivalents.

NOTE 3. BUDGETS

The District's board of commissioners reviews and adopts an annual operating budget prepared by management. The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America and that basis is consistent with the basis used in preparing the district's financial statements.

NOTE 4. MAJOR CUSTOMERS

Sales to no single customer exceeded 10% of total operating revenues.

NOTE 5. DEPOSITS AND INVESTMENTS

The Utility District is authorized to invest funds in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; deposits at state and federal chartered banks and savings and loan associations; bonds of any state or political subdivision rated A or higher by any

**First Utility District of Carter County
Notes to Financial Statements (Cont.)**

NOTE 5. DEPOSITS AND INVESTMENTS (CONT.)

nationally recognized rating service; nonconvertible debt securities of certain federal government sponsored enterprises; in the State Treasurer's Investment Pool. During the year, the Utility District had invested funds in capital stock of a private company in the amount of \$15,187 with a market value of \$15,187. This investment is unsecured and open to risks of the market.

All funds with the exception of the above noted investment were held in demand deposit, savings accounts and certificates of deposit accounts at local institutions. Deposits in financial institutions are required by State Statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and be deposited in an escrow account in a second bank for the benefit of the Utility District and must total a minimum of 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. The District has a deposit policy that addresses custodial credit risk. As of October 31, 2013 the District's deposits with the local financial institutions were fully insured or collateralized in compliance with State Statutes.

NOTE 6. RISK MANAGEMENT

The District is exposed to various risks of loss relating to, theft, and damage to, and destruction of assets. Furthermore, there is exposure to risks of loss relating to natural disasters, errors and omissions, and torts. To insure against casualty risks, the District purchases insurance coverage through an independent insurance agency.

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

NOTE 7. CONTINGENT LIABILITIES

As of the date of this report no contingent liabilities exist for the District.

NOTE 8. LONG-TERM DEBT

The Water Works Revenue Bond, Series 1979, was issued on July 2, 1979 in the amount of \$270,000, with annual payments of \$13,732 and annual interest rate of 4%. The balance of this bond at October 31, 2013 is \$60,405.

The Waterworks Revenue Refunding and Improvement Bonds, Series 2010 were issued October 22, 2010, in the par amount of \$3,460,000. The purpose of the issue

**First Utility District of Carter County
Notes to Financial Statements (Cont.)**

NOTE 8. LONG-TERM DEBT (CONT.)

was to redeem the District's outstanding Waterworks Revenue Bond, Series 1975, Waterworks Revenue Bond, Series 1981, Waterworks Revenue Bond, Series 1990 Waterworks Revenue Bond Series 1996 and the Waterworks Revenue Bond, Series 2002 and to provide funding for the costs of purchasing and installing automated meter reading equipment. The interest rate on the bonds range from 2.000% to 5.000%. The outstanding balance of these bonds at October 31, 2013 is \$3,150,000.

A summary of long-term debt as of October 31, 2013 is as follows:

Obligation	Principal Balance 11/1/2012	Additions	Retirements	Principal Balance 10/31/2013
Waterworks Revenue Bonds, Series 1979	\$ 71,742	\$ 0	\$ 11,337	\$ 60,405
Waterworks Revenue Bonds, Series 2010	3,250,000	0	100,000	3,150,000
Total	\$ 3,321,742	\$ 0	\$ 111,337	\$ 3,210,405

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

Year Ending December 31,	Principal	Interest	Total
2014	\$ 116,053	\$ 143,329	\$ 259,382
2015	116,540	140,742	257,282
2016	122,010	137,647	259,657
2017	122,499	134,408	256,907
2018	128,008	130,599	258,607
2019 through 2023	725,295	563,301	1,288,596
2024 through 2028	930,000	362,375	1,292,375
2029 through 2033	735,000	129,088	864,088
2034 through 2035	215,000	13,812	228,812
Total	\$ 3,210,405	\$ 1,755,301	\$ 4,965,706

First Utility District of Carter County Notes to Financial Statements (Cont.)

NOTE 9. RETIREMENT COMMITMENTS

Employees of First Utility District of Carter County 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 First 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

First Utility District of Carter County requires employees to contribute 5.0 percent of earnable compensation.

First Utility District of Carter County is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 2.99% of annual covered payroll. The contribution requirement of plan members is set by

**First Utility District of Carter County
Notes to Financial Statements (Cont.)**

NOTE 9. RETIREMENT COMMITMENTS (CONT.)

Funding Policy (Cont.)

state statute. The contribution requirement for First Utility District of Carter County is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2013, First Utility District of Carter County's annual pension cost of \$6,176 to TCRS was equal to First Utility District of Carter County'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, 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 five-year period. First Utility District of Carter County'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.

Trend Information

Fiscal Year <u>Ending</u>	Annual Pension Cost(APC)	Percentage of AFC Contributed	Net Pension Obligation
June 30, 2013	\$6,176	100.00%	\$0.00
June 30, 2012	\$5,114	100.00%	\$0.00
June 30, 2011	\$4,912	100.00%	\$0.00

**First Utility District of Carter County
Notes to Financial Statements (Cont.)**

NOTE 9. RETIREMENT COMMITMENTS (CONT.)

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 92.06% percent funded. The actuarial accrued liability for benefits was \$0.42 million, and the actuarial value of assets was \$0.38 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.03 million. The covered payroll (annual payroll of active employees covered by the plan) was \$.15 million, and the ratio of the UAAL to the covered payroll was 21.94% percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year 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)

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	\$417	\$33	92.06%	\$151	21.94%

**First Utility District of Carter County
Notes to Financial Statements (Cont.)**

NOTE 10. CAPITAL ASSETS

A summary of capital asset activity and changes in accumulated depreciation for the year ended October 31, 2013 follows:

	Balance 11/1/2012	Additions	Deductions	Balance 10/31/2013
<u>Capital assets not being depreciated</u>				
Land	\$ 91,785	\$ 0	\$ 0	\$ 91,785
Right of Ways	22,481	0	0	22,481
Total Capital Assets Not Being Depreciated	114,266	0	0	114,266
<u>Capital assets being depreciated</u>				
Water System	7,959,503	220,048	0	8,179,551
Buildings	124,996	0	0	124,996
Fence	33,119	0	0	33,119
Furniture & Fixtures	13,346	0	176	13,170
Vehicles	123,922	0	206	123,716
Tools and Equipment	136,334	0	1,800	134,534
Office Equipment	23,541	0	8,469	15,072
Total Capital Assets Being Depreciated	8,414,761	220,048	10,651	8,624,158
<u>Accumulated Depreciation</u>				
Water System	2,992,724	220,142	0	3,212,866
Buildings	47,556	3,727	0	51,283
Fence	29,433	1,039	0	30,472
Furniture & Fixtures	11,338	1,018	176	12,180
Vehicles	94,854	5,937	0	100,791
Tools and Equipment	120,157	5,897	1,671	124,383
Office Equipment	16,711	1,292	6,479	11,524
Total Accumulated Depreciation	3,312,773	239,052	8,326	3,543,499
Net Capital Assets Being Depreciated	5,101,988	(19,004)	2,325	5,080,659
Net Capital Assets	\$5,216,254	(\$19,004)	\$2,325	\$ 5,194,925

Depreciation expense incurred during the year amounted to \$239,052.

**First Utility District of Carter County
Notes to Financial Statements (Cont.)**

NOTE 11. RESTRICTED ASSETS

Restricted for Bond and Interest Sinking Fund and Bond Reserve Fund

The Waterworks Revenue Refunding and Improvement Bonds, Series 2010 require that 1/6th of the next interest required to be paid and 1/12th of the next principal payment be deposited monthly into a Bond Series 2010 sinking fund for payment on the next principal and interest requirements of these bonds. This bond also requires that the district maintain a 2010 Debt Reserve Fund of \$260,175. The following is a summary of activity of these restricted funds:

	Series 2010 Bond Sinking Fund	Series 2010 Bond Reserve Fund	Total Restricted Assets
Beginning Balance	\$ 280,878	\$ 0	\$ 280,878
Deposits	165,549	0	165,549
Debt Service Payments	242,650	0	242,650
Ending Restricted Assets	203,777	0	203,777
Required By Series 2010 Bond Issue	81,883	260,175	342,058
Over (Under) Funded Restriction	\$ 121,894	\$ (260,175)	\$ (138,281)

Restricted for Construction Account

This amount represents unspent bond proceeds required to be expended on capital projects. The following is a summary of the activity of this account.

	2010 Series Bond Construction
Beginning Balance	\$ 282,158
Interest Earnings	704
Payments for:	
Unaka HS Tank Repainting and Repairs	(136,659)
Lick Skillet Water Line Replacement	(60,998)
Satellite Controls for Water Tanks	(21,340)
Purchases of Meters for Inventory	(3,414)
Purchases of Checks for Construction Account	(13)
Ending Balance	\$ 60,438

**First Utility District of Carter County
Notes to Financial Statements (Cont.)**

NOTE 11. RESTRICTED ASSETS (CONT.)

Restricted for Customer Deposits

This amount represents customer deposits required to be reimbursed to customers upon termination of services. The following is a summary of activity of this account:

	Customer Deposits
Beginning Balance	\$ 17,203
Payments for:	
Refunds to Customers	(262)
Transfers to Operations Account	(8,654)
Ending Balance	\$ 8,287
Required Restricted Assets	6,975
Over (Under) Funded Restriction	\$ 1,312

NOTE 12. PRIOR PERIOD ADJUSTMENT

This amount represents the value of the investments in common stock not recorded on the accounting records as of 11/1/2012.

NOTE 13. SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about the conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the district through March 3, 2014 (the date the financial statements were available to be issued) and concluded that no events should be disclosed as a subsequent event.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

First Utility District of Carter Cou
Schedule of Funding Progress - Pension Plan
For the Year Ended October 31, 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 ©	UAAL Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	\$ 384	\$ 417	\$ 33	92.06%	\$ 151	21.94%
July 1, 2009	\$ 354	\$ 389	\$ 35	91.04%	\$ 261	13.35%
July 1, 2007	\$ 319	\$ 338	\$ 19	94.38%	\$ 223	8.52%

SUPPLEMENTARY INFORMATION SECTION

First Utility District of Carter County
Schedule of Utility Rates and Number of Customers
For the Year Ended October 31, 2013

	2012-2013	2011-2012	2010-2011	2009-2010
Water Rates:				
First two thousand five hundred gallons	\$ 24.96	\$ 24.96	\$ 24.96	\$ 24.96
Per 100 gallons	0.24	0.24	0.24	0.24
Number of metered taps at year-end	3,175	3,199	3,195	3,189
Fee Schedule:				
Service Connection	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00
Service Fee	50.00	50.00	50.00	50.00
Renter's Deposit	50.00	50.00	50.00	50.00
Cut off Charge Before Closing	25.00	25.00	25.00	25.00
Cut off Charge After Closing	50.00	50.00	50.00	50.00
Tampering With Meter Charge (plus repairs)	25.00	25.00	25.00	25.00
Returned Check fee	30.00	30.00	30.00	30.00

First Utility District of Carter County
Schedule of Revenue Bond Coverage
For the Year Ended October 31, 2013

	2013	2012	2011	2010
Net Income Available for Debt Service:				
Increase (Decrease) in Net Position	\$ 149,572	\$ 120,573	\$ 206,815	\$ 151,625
Depreciation Expense	239,052	238,263	210,141	197,555
Interest Expense	133,726	140,917	143,014	135,719
Amortization of Bond Issuance Costs	3,689	3,636	3,571	-
Net Income Available for Debt Service	\$ 526,039	\$ 503,389	\$ 563,541	\$ 484,899
Debt Service Requirement for Fiscal Year	\$ 256,382	\$ 258,382	\$ 225,303	\$ 243,120
Ratio of Net Income Available to Current Year's Debt Service Requirement	2.0518	1.9482	2.5013	1.9945

First Utility District of Carter County
Schedule of Future Debt Service Requirements to Maturity
For the Year Ended October 31, 2013

Year Ending	<u>Series 2010 Waterworks Revenue Bond</u>		<u>Series 1979 Waterworks Revenue Bond</u>		<u>Total Bonds</u>		Total Bond Requirements
	Principal	Interest	Principal	Interest	Principal	Interest	
2014	\$ 105,000	\$ 140,650	\$ 11,053	\$ 2,679	\$ 116,053	\$ 143,329	\$ 259,382
2015	105,000	138,550	11,540	2,192	116,540	140,742	257,282
2016	110,000	135,925	12,010	1,722	122,010	137,647	259,657
2017	110,000	133,175	12,499	1,233	122,499	134,408	256,907
2018	115,000	129,875	13,008	724	128,008	130,599	258,607
2019	130,000	126,425	295	176	130,295	126,601	256,896
2020	140,000	119,925	-	-	140,000	119,925	259,925
2021	145,000	112,925	-	-	145,000	112,925	257,925
2022	150,000	105,675	-	-	150,000	105,675	255,675
2023	160,000	98,175	-	-	160,000	98,175	258,175
2024	170,000	90,175	-	-	170,000	90,175	260,175
2025	175,000	81,675	-	-	175,000	81,675	256,675
2026	185,000	72,925	-	-	185,000	72,925	257,925
2027	195,000	63,675	-	-	195,000	63,675	258,675
2028	205,000	53,925	-	-	205,000	53,925	258,925
2029	215,000	43,675	-	-	215,000	43,675	258,675
2030	225,000	32,925	-	-	225,000	32,925	257,925
2031	100,000	21,675	-	-	100,000	21,675	121,675
2032	95,000	17,425	-	-	95,000	17,425	112,425
2033	100,000	13,388	-	-	100,000	13,388	113,388
2034	105,000	9,137	-	-	105,000	9,137	114,137
2035	110,000	4,675	-	-	110,000	4,675	114,675
Total	\$ 3,150,000	\$ 1,746,575	\$ 60,405	\$ 8,726	\$ 3,210,405	\$ 1,755,301	\$ 4,965,706

First Utility District of Carter County
Schedule of Insurance In Force
For the Year Ended October 31, 2013

Insurer	Policy Period	Property Covered	Risk Covered	Amount of Insurance
The Cincinnati Insurance Company	5/21/2011 to 5/21/2014	Commercial Crime	Employee Dishonesty Theft, Destruction or Disappearance on Premises Theft, Destruction or Disappearance off Premises	\$ 450,000 25,000 20,000
The Cincinnati Insurance Company	5/21/2011 to 5/21/2014	Building and Personal Property	Buildings Contents	2,017,809 65,000
The Cincinnati Insurance Company	5/21/2011 to 5/21/2014	General liability	General Aggregate Limit Products/completed Operations Personal & Advertising Injury Each Occurrence Limit Damage to Premises Rented Medical Expense	3,000,000 3,000,000 1,000,000 1,000,000 100,000 10,000
The Cincinnati Insurance Company	5/21/2011 to 5/21/2014	Contractors Equipment	Equipment	149,915
The Cincinnati Insurance Company	5/21/2011 to 5/21/2014	Mobile Property	Tools and Small Equipment	3,500
The Cincinnati Insurance Company	5/21/2011 to 5/21/2014	Business Auto	Liability Medical Payments Uninsured Motorist/Underinsured Motorist	1,000,000 1,000 1,000,000
Mount Vernon Fire Insurance Company	5/21/2011 to 5/21/2014	Public Officials Liability	Limit of Liability Each Policy Year	1,000,000
Mount Vernon Fire Insurance Company	5/21/2011 to 5/21/2014	Employment Practices	Each Claim Aggregate	1,000,000 1,000,000
Benchmark Insurance Companies	2/20/2013 to 2/20/2014	Workers Compensation	Employee Injury	Statutory Limits

[Click to access definition](#)

Water Audit Report for: **First UD of Carter County**
 Reporting Year: **2013** **11/2012 - 10/2013**

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 |

WATER SUPPLIED

<< Enter grading in column 'E'

Volume from own sources:	<input type="text" value="6"/>	<input type="text" value="307.512"/>	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	<input type="text" value="9"/>	<input type="text" value="3.020"/>	<input type="text" value="under-registered"/> MG/Yr
Water imported:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
Water exported:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
WATER SUPPLIED:		<input type="text" value="310.532"/>	MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	<input type="text" value="10"/>	<input type="text" value="145.221"/>	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=""/>	<input type="text" value="3.882"/>	MG/Yr

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

AUTHORIZED CONSUMPTION: MG/Yr

Click here: [?](#)
for help using option buttons below

Pcnt: Value:
 Use buttons to select percentage of water supplied OR value

WATER LOSSES (Water Supplied - Authorized Consumption)

MG/Yr

Apparent Losses

Unauthorized consumption: MG/Yr

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

Customer metering inaccuracies:	<input type="text" value="9"/>	<input type="text" value="1.467"/>	MG/Yr
Systematic data handling errors:	<input type="text" value="10"/>	<input type="text" value="1.953"/>	MG/Yr

Apparent Losses:

Pcnt: Value:

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="5"/>	<input type="text" value="137.0"/>	miles
Number of active AND inactive service connections:	<input type="text" value="10"/>	<input type="text" value="3,500"/>	(pipe length between curbstop and customer)
Connection density:	<input type="text" value=""/>	<input type="text" value="26"/>	conn./mile mainmeter or property boundary
Average length of customer service line:	<input type="text" value="10"/>	<input type="text" value="0.0"/>	ft
Average operating pressure:	<input type="text" value="6"/>	<input type="text" value="125.0"/>	psi

COST DATA

Total annual cost of operating water system:	<input type="text" value="10"/>	<input type="text" value="\$1,089,724"/>	\$/Year
Customer retail unit cost (applied to Apparent Losses):	<input type="text" value="10"/>	<input type="text" value="\$2.40"/>	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	<input type="text" value="10"/>	<input type="text" value="\$283.13"/>	\$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	<input type="text" value="53.2%"/>
Non-revenue water as percent by cost of operating system:	<input type="text" value="4.8%"/>
Annual cost of Apparent Losses:	<input type="text" value="\$9,961"/>
Annual cost of Real Losses:	<input type="text" value="\$44,518"/>

Operational Efficiency Indicators

Apparent Losses per service connection per day:	<input type="text" value="3.28"/>	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="3,144.35"/>	gallons/mile/day
Real Losses per service connection per day per psi pressure:	<input type="text" value=""/>	gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):	<input type="text" value="57.77"/>	million gallons/year

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

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

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

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 93 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

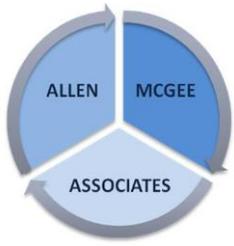
[For more information, click here to see the Grading Matrix worksheet](#)

1: Unauthorized consumption

2: Master meter error adjustment

3: Customer metering inaccuracies

COMPLIANCE SECTION



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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*

March 3, 2014

To the Board of Commissioners
First Utility District of Carter County
Elizabethton, Tennessee

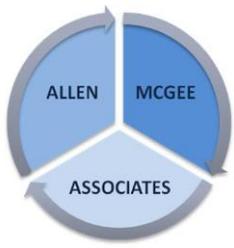
We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of First Utility District of Carter County, as of and for the year ended October 31, 2013 and the related notes to the financial statements and have issued our report thereon dated March 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered First Utility District of Carter County'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 First Utility District of Carter County's internal control. Accordingly, we do not express an opinion on the effectiveness of First Utility District's internal control.

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

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. We consider the deficiencies described in the accompanying schedule of findings to be a material weaknesses. Finding 13-01 Unrecorded Investments in Common Stock, Finding 13-02 All Disbursements of the District Were Not Recorded on the General Ledger in a Timely Manner, Payments Made to Vendors in Advance and Not in Compliance with Contract Documents, and Finding 13-04



Allen, McGee and Associates

Certified Public Accountants

Disbursements to the Contractor on the Water Line Replacement Project were Not Properly Supported.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings to be significant deficiency. Finding 13-05 Providing Materials and Supplies to Vendors of the District That Have Not Been Subjected to Sales Tax, and Finding 13-06 Unaccounted for Water.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether First Utility District of Carter County'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 as items, Finding 13-01 Unrecorded Investments in Common Stock, Finding 13-07 Failure to Properly Fund Restricted Cash Accounts Required by Bond Covenants.

First Utility District of Carter County's Response to Findings

First Utility District of Carter County's response to the findings identified in our audit is described in the accompanying schedule of findings. First Utility District of Carter County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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.

Allen, McGee and Associates, LLC
Certified Public Accountants

**First Utility District of Carter County
Schedule of Audit Findings
Year Ended October 31, 2013**

PART I. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses a qualified opinion on the financial statements of First Utility District of Carter County.
2. The audit of the financial statements of the First Utility District of Carter County disclosed significant deficiencies in internal control condition 13-05 Providing Materials and Supplies to Vendors of the District that have not been Subjected to Sales Tax, and 13-06 Unaccounted for Water.
3. The audit of the financial statements of the First Utility District of Carter County disclosed material weaknesses in internal control deficiencies 13-01 Unrecorded Investment in Common Stock, 13-02 All Disbursements of the District Not Recorded on the General Ledger in a Timely Manner, 13-03 Payments Made to Vendors in Advance and Not in Compliance with Contract Documents, and 13-04 Disbursements to Contractor on Water Line Replacement Project were Not Properly Supported.
4. Instances of noncompliance material to the financial statements of the First Utility District of Carter County were disclosed during the audit 13-01 Unrecorded Investments in Common Stock, and 13-07 Failure to Properly Fund Restricted Cash Accounts Required by Bond Covenants.

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

FINDING 13-01 UNRECORDED INVESTMENTS IN COMMON STOCK
(Internal Control – Material Weakness and Noncompliance under
Government Auditing Standards)

Our examination disclosed that the Utility District had an investment in 320 shares of Principal Financial Group, Inc. common stock of the valued at \$15,187 as of October 31, 2013. This investment was not recorded on the general ledger or accounted for in any other manner on the records of the district.

Further, *Tennessee Code Annotated* Section 7-82-108 does not authorize a utility district to invest in common stock of a publicly held company.

Quarterly dividends totaling \$249.60 were paid on this investment and backup withholdings of \$69.90 was made from these dividends received on this investment.

Recommendation:

All assets of the Utility District should be recorded on the general ledger and properly accounted for. Investments should only be made as authorized by state statutes. A W-9 should be properly filed with the corporation to stop any further back-up withholdings on the Utility District's earnings.

**First Utility District of Carter County
Schedule of Findings
Year Ended October 31, 2013 (Cont.)**

FINDING 13-01 UNRECORDED INVESTMENTS IN COMMON STOCK (CONT.)

Management's Response

We were unaware of the existence of this investment or how it was obtained. The prior manager and bookkeeper did not maintain sufficient records and have been replaced several years ago after a special audit by the Comptroller's office. The stock will be sold immediately and we will request a refund of the backup withholding tax.

FINDING 13-02 ALL DISBURSEMENTS OF THE DISTRICT WERE NOT RECORDED ON THE GENERAL LEDGER IN A TIMELY MANNER
(Internal Control – Material Weakness under *Government Auditing Standards*)

Proper internal controls have not been established to ensure that all checks issued are posted to the general ledger in a timely manner. This weakness resulted in three checks totaling \$27,715 that were written in October 2013 not being posted to the general ledger; furthermore, these checks were not on the October 2013 bank reconciliation as outstanding checks. On January 24, 2014, we issued a draft report for the district's review and approval of the 2013 financial report after receiving the representation letter from the district and approval by the district on February 20, 2014. The initial report was released on February 22, 2014 and filed with the State of Tennessee's Comptroller's Office via the CARS system. On February 25, 2014 we were notified of this immaterial and other insignificant errors by the accounting firm providing accounting assistance to the district, and on February 27, 2014 we were notified by the district to reissue the report on this date, we contacted the Tennessee Comptroller's Office and withdrew the report from submission and notified the district to return the written reports.

Recommendation:

Proper internal controls should be established by the district to ensure that all financial transactions are posted in a timely manner to the general ledger of the district and proper reconciliations should be performed listing all outstanding checks. All discovered errors after the submission of financial information for the audit should be reported to the auditor in a timely manner before the approval of the draft report for publication.

Management's Response:

We have purchased new accounting software and will implement this system in the near future. All internal controls will be properly installed and all transactions will be recorded in a timely manner. Also, a new accountant will be sufficiently trained to accurately operate the accounting software and comply with internal controls.

**First Utility District of Carter County
Schedule of Findings
Year Ended October 31, 2013 (Cont.)**

FINDING 13-03

PAYMENTS MADE TO VENDORS IN ADVANCE AND NOT IN
COMPLIANCE WITH CONTRACT DOCUMENTS
(Internal Control – Material Weakness under *Government Auditing
Standards*)

Internal controls of the district have not been established to ensure that all disbursements to vendors are made in compliance with contract agreements and **not** paid in advance of services performed. On October 31, 2013 the district issued two checks total \$26,888 to one vendor for payment on the completion of a water line replacement project. The bid specifications on the project provides that “Prior to acceptance of the line by the owner the project must be fully complete. This includes seeding, asphalt repair, testing of lines, etc.” A review of the November 18th 2013 board meeting minutes revealed that the Manager reported that yard repairs were all that is left to be completed on the project, therefore; these payments were not made within strict compliance with the construction contracts.

Recommendation:

Proper controls should be established to ensure that services are received and payments made are in strict compliance with all agreements to ensure that funds are only paid for services or materials received by the district.

Management’s Response:

We paid the contractor when the waterline replacement was complete and put into service. Due to the weather in November, we agreed to wait for the contractor to sow the grass seed when the grass had a better chance of growing. Based on our past experience with the contractor, we knew they would complete this immaterial task as soon as weather permitted.

**First Utility District of Carter County
Schedule of Findings
Year Ended October 31, 2013 (Cont.)**

FINDING 13-04 DISBURSEMENTS TO CONTRACTOR ON WATER LINE REPLACEMENT PROJECT WERE NOT PROPERLY SUPPORTED
(Internal Control – Material Weakness under *Government Auditing Standards*)

Two disbursements were made totaling \$26,888 without proper supporting documentation other than the contracts for construction of the project signed before the start of the project. These contract documents do not document the acceptance, completion of work performed and if the proper amount was paid on the water line replacement project. Further, the construction contract on the water line extension project states that the contractor shall begin work on June 3rd 2013 and that the contractor shall have 60 calendar days to complete the Project; such that the 60th day shall be the Guaranteed Completion Date. During the process of the project a change order was approved by the utility district manager extending the completion date to 90 days from the start date. The contract defines the completion date as “the inspection passes, meaning there are no leaks due to Contractor’s workmanship and all customer properties returned to original condition”. As stated in an earlier finding a review of the November 18th 2013 board meeting minutes revealed that the Manager reported that yard repairs were all that is left to be completed on the project. Without documentation of the calculation made by the district of the late assessment we were unable to determine if the late assessment should have been made by the district as required by the construction contract as approved by the board. Also, a review of the minutes of the board did **not** abate, amend or alter the guaranteed completion date. Therefore, we were unable to determine if the proper amounts in accordance with the construction contract were paid to the contractor.

Recommendation:

Proper supporting documentation should be obtain before disbursements are made which includes invoices that are properly dated and signed and calculations made by the district of the late penalty or lack of penalty supporting disbursements.

Management’s Response:

In the future, the manager will document the completion of all projects. He will maintain a log of the days worked by the contractors to comply with the completion date specified in the contract. Also, we will request an invoice to substantiate the amount of the payment is the same as the contract.

**First Utility District of Carter County
Schedule of Findings
Year Ended October 31, 2013 (Cont.)**

FINDING 13-05 PROVIDING MATERIALS AND SUPPLIES TO VENDORS OF THE DISTRICT THAT HAVE NOT BEEN SUBJECTED TO SALES TAX
(Internal Control – Significant Deficiency under *Government Auditing Standards*)

During the period under examination the district entered into a construction contract for a water line replacement project with a construction contractor. The bid proposal prepared by the district and other contract documents required the district to provide materials for this project. During the period the district purchased materials totaling \$27,761 that were not subjected to sales tax and provided these materials to the contractor for use in the project. The district failed to obtain from the contractor any documentation that the Tennessee Sales and Use Tax was paid on these materials by the contractor. It should also be noted that the Tennessee Department of Revenue has assessed sales and use taxes to local governments due to evasion of Sales Taxes in such situations.

Recommendation:

Documentation should be obtained from vendor in such situations that the Tennessee Sales and Use Tax has been paid by the vendor before final payments are made and if the Tennessee Sales and Use Tax is not paid by the vendor then the amount of tax should be deducted from the final payment and remitted to the state.

Management's Response:

Tennessee Use Tax does not apply to a replacement waterline. We were advised by the local office of the Tennessee Department of Revenue that only NEW lines to customers are not tax-exempt.

FINDING 13-06 UNACCOUNTED FOR WATER
(Internal Control – Significant Deficiency under *Government Auditing Standards*)

Our examination disclosed that the district did not account for approximately 52.155 percent of water pumped. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 4-1, states, "Investigate unexplained fluctuations to ensure that users are billed with total consumption and that malfunctioning meters and leaks in lines and mains are located promptly and repaired."

Recommendation:

To increase effectiveness and efficiency, the district should locate and repair water leaks and malfunctioning meters.

Management's Response

We have hired a new employee to locate possible leaks. This is his primary focus of his job duties.

**First Utility District of Carter County
Schedule of Findings
Year Ended October 31, 2013 (Cont.)**

FINDING 13-07 FAILURE TO PROPERLY FUND RESTRICTED CASH ACCOUNTS
REQUIRED BY BOND COVENANTS
(Noncompliance under *Government Auditing Standards*)

The First Utility District of Carter County is maintaining a “Bond Interest Sinking” checking account for the purpose of paying the Waterworks Revenue Refunding and Improvement Bonds, Series 2010 bond requirements. As of October 31, 2013 this account had a balance of \$203,777. The 2010 Series Bond covenants require that 1/6th of the next interest required to be paid and 1/12th of the next principal payment be deposited monthly into this account. The district deposit monthly 1/6th of the next interest payment into this account, however; they failed to make deposits to the Bond Interest Sinking checking account of the monthly payment of 1/12th of the next principal payment.

The bond covenants also requires that the district maintain a 2010 debt reserve fund of \$260,175 which can be funded with cash or by a Reserve Fund Credit Facility. As of October 31, 2013 \$81,883 should have been on deposit in the Bond Interest Sinking account (a restricted cash account) and a restricted cash account for the Series 2010 Bond should have been established with a balance of \$260,175 for a total required on deposit in these restricted cash accounts of \$342,058. This resulted in an under funding of the required restricted cash accounts for the Series 2010 Bond of \$138,281.

On February 12, 2014 after we brought this to the Utility District’s attention and they established a separate reserve account in the amount of \$260,175.

Recommendation:

The First Utility District of Carter County should periodically review the amounts on deposit in the restrict accounts and verify they are being maintained in compliance with all requirements.

Management Response:

A Certificate of Deposit was opened for \$260,175, and the certificate indicates the funds are restricted for a Debt Reserve Fund for the 2010 Series Bond. Also, we will maintain sufficient amounts in the Bond Interest Sinking Account for current payments of interest and principal.