

**SURGOINSVILLE UTILITY DISTRICT
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
April 30, 2014**

SURGOINSVILLE UTILITY DISTRICT
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APRIL 30, 2014

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Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of
Surgoinville, Tennessee

Report on the Financial Statements

I have audited the accompanying financial statements of Surgoinville Utility District as of and for the year ended April 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 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 district'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 district's internal control. Accordingly, I 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.

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 Surgoinville Utility District as of April 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 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. 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.

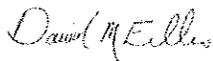
Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Surgoinsville Utility District's basic financial statements. The Officers and Board of Commissioners, Water Rates, Number of Customers, Schedule of Bond Due Dates and AWWA WLCC Free Water Audit Software: Reporting Worksheet are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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 my report dated September 10, 2014, on my consideration of Surgoinsville 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 the Surgoinsville Utility District's internal control over financial reporting and compliance.



David M. Ellis, CPA
Greeneville, Tennessee
September 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the District's annual financial report presents an analysis of the District's financial performance during the year ended April 30, 2014. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2014

- Net investment in capital assets increased in value by \$140,216.
- Total net position increased by \$21,438.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following two parts: Management's Discussion and Analysis and Financial Statements. The financial statements include notes which explain in detail some of the information included in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information utilizing the full accrual basis of accounting. The financial statements conform to accounting principles which are generally accepted in the United States of America. The statement of net position includes information on the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The statement of revenues, expenses and changes in net position identifies the District's revenues and expenses for the fiscal year ended April 30, 2014. This statement provides information on the District's operations over the past year and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the statement of cash flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operating, investing, and financing activities. From the statement of cash flows, the reader can obtain information on the source and use of cash and the change in the cash balance for the last fiscal year.

FINANCIAL ANALYSIS OF THE DISTRICT

The statement of net position and the statement of revenues, expenses and changes in net position provide an indication of the District's financial condition at the end of the last fiscal year. The District's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

NET POSITION

A summary of the District's statement of net position is presented below:

Table 1
Condensed Statement of Net Position

	<u>2014</u>	<u>2013</u>	<u>Dollar Change</u>
Current Assets	\$ 548,223	\$ 659,030	\$ (110,807)
Restricted Assets	82,708	82,708	-
Other Assets – Deposits	60	60	-
Capital Assets (Net of Accumulated Depreciation)	<u>1,680,817</u>	<u>1,551,248</u>	<u>129,569</u>
Total Assets	<u>2,311,808</u>	<u>2,293,046</u>	<u>18,762</u>
Current Liabilities	24,011	28,859	(4,848)
Long-Term Debt (Net of Current Portion)	<u>335,692</u>	<u>346,876</u>	<u>(11,184)</u>
Total Liabilities	<u>359,703</u>	<u>375,735</u>	<u>(16,032)</u>
Net Investment In Capital Assets	1,333,119	1,192,903	140,216
Restricted for Debt Service and Construction	82,708	82,708	-
Unrestricted	<u>522,922</u>	<u>641,700</u>	<u>(118,778)</u>
Total Net Position	<u>\$ 1,938,749</u>	<u>\$ 1,917,311</u>	<u>\$ 21,438</u>

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

	<u>2014</u>	<u>2013</u>	<u>Dollar Change</u>
Operating Revenues	\$ 513,129	\$ 470,917	\$ 42,212
Operating Expenses	<u>477,798</u>	<u>513,243</u>	<u>(35,445)</u>
Operating Income (Loss)	35,331	(42,326)	77,657
Nonoperating Revenue (Expenses)	(13,893)	(16,429)	2,536
Capital Contributions	-	-	-
Change in Net Position	21,438	(58,755)	80,193
Beginning Net Position	<u>1,917,311</u>	<u>1,976,066</u>	<u>(58,755)</u>
Ending Net Position	<u>\$ 1,938,749</u>	<u>\$ 1,917,311</u>	<u>\$ 21,438</u>

The statement of revenues, expenses and changes in net position identifies the various revenue and expense items which impact the change in net position. As the information

in Table 2 indicates, operating revenues increased primarily due to a rate increase in the later part of the year and operating expenses significantly decreased since in the previous year five years of audits were completed.

CAPITAL ASSETS

As of April 30, 2014 the District's investment in capital assets (net of depreciation) totaled \$1,680,817. Capital assets include all the District's major capital assets, including infrastructure assets, water mains, pipes, storage reservoirs, land and buildings, as well as vehicles and other equipment with a value of \$500 or more. A comparison of the District's capital assets at year-end for the past two years is presented in Table 3 below.

Table 3
Capital Assets

	<u>2014</u>	<u>2013</u>	<u>Dollar Change</u>
Land	\$ 37,200	\$ 37,200	\$ -
Utility Plant in Service	2,834,628	2,636,002	198,626
Equipment	186,364	179,972	6,392
Buildings	<u>72,735</u>	<u>65,884</u>	<u>6,851</u>
Subtotal	3,130,927	2,919,058	211,869
Less: Accumulated Depreciation	<u>(1,450,110)</u>	<u>(1,367,810)</u>	<u>(82,300)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>\$ 1,680,817</u>	<u>\$ 1,551,248</u>	<u>\$ 129,569</u>

During the fiscal year ended April 30, 2014, the largest change in capital assets resulted from water line improvements.

LONG-TERM DEBT

As of April 30, 2014, the District had \$347,698 in long-term outstanding debt compared to \$358,345 as of April 30, 2013. The decrease of \$10,647 resulted from making scheduled payments on the outstanding revenue bond. Outstanding debt includes one revenue bond which is issued by Rural Economic and Community Development. The outstanding bond is payable solely from a pledge of the income and revenues to be derived from the operation of the District, subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring said District. The District has covenanted that it will fix and impose such rates and charges for the services rendered by it and account for sufficient revenues to pay promptly the principal of and interest on the bond.

ECONOMIC FACTORS

The District anticipates no major changes with respect to the overall economic factors in the forthcoming year.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers and interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report, please contact Surgoinsville Utility District Board of Commissioners at 1724 Main Street, Surgoinsville, TN 37873.

SURGOINSVILLE UTILITY DISTRICT
STATEMENT OF NET POSITION
April 30, 2014

ASSETS		
Current Assets		
Cash in bank		\$ 496,742
Trade accounts receivable (less allowance for doubtful accounts)		51,481
Inventory		<u>38,808</u>
Total Current Assets		587,031
Restricted Assets		
Debt service reserve	\$ 29,208	
Repair and extension fund	<u>53,500</u>	
Total Restricted Assets		82,708
Nondepreciable Capital Assets		
Land	<u>37,200</u>	
Total Nondepreciable Capital Assets	37,200	
Depreciable Capital Assets		
Utility plant in service	2,834,628	
Equipment and trucks	186,364	
Buildings	72,735	
Less: accumulated depreciation	<u>(1,450,110)</u>	
Net Depreciable Capital Assets	<u>1,643,617</u>	
Total Capital Assets		<u>1,680,817</u>
Total Noncurrent Assets		<u>1,763,525</u>
Other Assets		
Utility deposits	<u>60</u>	
Total Other Assets		<u>60</u>
TOTAL ASSETS		\$ 2,350,616

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

SURGOINSVILLE UTILITY DISTRICT
STATEMENT OF NET POSITION
April 30, 2014

LIABILITIES		
Current Liabilities		
Accounts payable	\$	9,355
Accred taxes		6,454
Accrued wages and benefits		3,560
Customer deposits		<u>4,642</u>
Total Current Liabilities	\$	24,011
Liabilities Payable From Restricted Assets		
Accrued interest		1,350
Bonds payable-current portion		<u>12,006</u>
Total Liabilities Payable From Restricted Assets		13,356
Long Term Liabilities		
Bonds payable (net of current portion)		<u>335,692</u>
Total Long Term Liabilities		<u>335,692</u>
TOTAL LIABILITIES		<u><u>373,059</u></u>
NET POSITION		
Net investment in capital assets		1,333,119
Restricted		69,352
Unrestricted		<u>575,086</u>
TOTAL NET POSITION	\$	<u><u>1,977,557</u></u>

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

SURGOINSVILLE UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended April 30, 2014

REVENUES		
Metered water sales (net of \$4,576 bad debt expense)	\$	487,282
Penalties		14,725
Connection fees		3,074
Tap fees		1,300
Service charges		3,610
Miscellaneous revenue		<u>3,138</u>
Total Operating Revenues	\$	513,129
OPERATING EXPENSES		
Water purchased		45,265
Salaries and wages		158,635
System maintenance		29,794
Truck/backhoe expense		16,228
Depreciation		84,640
Utilities		41,107
Employee health insurance		36,207
Business insurance		11,472
Payroll taxes		13,003
Office expenses		12,672
Commissioners' fees		10,800
Travel and conference		2,050
Professional fees		12,327
Dues, publications and permits		2,390
Miscellaneous		<u>1,208</u>
Total Expenses		<u>477,798</u>
Operating Income (Loss)		35,331
NONOPERATING REVENUES (EXPENSES)		
Interest income		2,864
Gain on sale of capital asset		1,763
Interest expense		<u>(18,520)</u>
Total Other Income (Expense)		<u>(13,893)</u>
CHANGE IN NET POSITION		21,438
NET POSITION-April 30, 2013, as previously stated		1,917,311
Prior Period Adjustment		<u>38,808</u>
NET POSITION-April 30, 2013, as restated		<u>1,956,119</u>
NET POSITION-April 30, 2014	\$	<u><u>1,977,557</u></u>

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

SURGOINSVILLE UTILITY DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended April 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 507,515
Cash payments to suppliers for goods and services	(225,759)
Cash payments to employees for services	(159,428)
Net Cash Provided (Used) by Operations	122,328
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Additions to capital assets	(214,209)
Payments on bonds issued	(10,647)
Interest paid on debt	(18,520)
Net Cash Used by Capital and Related Financing Activities	(243,376)
CASH FLOWS FROM INVESTING ACTIVITIES	
Gain on sale of capital asset	1,763
Interest received on investments	2,864
Net Cash Provided by Investing Activities	4,627
NET INCREASE (DECREASE) IN CASH	(116,421)
CASH AT BEGINNING OF YEAR	695,871
CASH AT END OF YEAR	\$ 579,450
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 35,331
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	84,640
(Increase) decrease in accounts receivable (net)	(5,614)
Increase (decrease) in accrued interest payable	(42)
Increase (decrease) in trade accrued wages	793
Increase (decrease) in taxes payable	360
Increase (decrease) in accounts payable	6,882
Increase (decrease) in customer deposits	(22)
Total adjustments	86,997
Net cash provided (used) by operating activities	\$ 122,328

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

SURGOINSVILLE UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. GENERAL** – Surgoinsville Utility District (the District) is a public entity located in Surgoinsville, Tennessee. The District is engaged in the distribution and sale of water to customers within their area of Surgoinsville, Tennessee. The District operates under the utility district laws of the State of Tennessee. The District is fiscally independent, operating under the authority of the Board of Commissioners, and as a reporting entity has responsibility for fiscal matters including debt management, revenues, rates, budgets and control of surpluses and deficits without requiring approval by a primary government. The District at April 30, 2014 provides water services to approximately 946 customers.
- B. REPORTING ENTITY** – Based on the application of the criteria promulgated in GASB Statement No. 14 concerning the existence of component units, the District has no component units.
- C. BASIS OF PRESENTATION** – The District is an enterprise fund which is a proprietary type fund used to account for operations: 1) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (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 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or changes in net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has implemented GASB Statement No. 62, *“Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements.”*
- D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION** – Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.
- The accompanying financial statements are reported using the “economic resources measurement focus” and the “accrual basis of accounting.” Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.
- E. UTILITY PLANT** – Capital assets are defined by the District as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of five years. The distribution lines and other plant and equipment are stated at cost and are depreciated on the straight-line method over their estimated useful lives as follows:

SURGOINSVILLE UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Utility Plant	10-40 years
Buildings	10-30 years
Equipment and Vehicles	5-15 years

Repairs and maintenance of the system are expensed as the costs are incurred.

- F. INVENTORY** – Inventories of materials and supplies used for the Utility are recorded at the lower of cost or market value on a first-in first-out cost flow assumption.
- G. NET POSITION** – Net position comprise the various net earnings from operating income, non-operating revenues and expenses, capital contributions, and special items. Net position is classified in the following three components:

Restricted – This component of net position 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 included in the calculation of 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.

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

- H. ACCOUNTS RECEIVABLE/REVENUES**–Accounts receivable of \$55,144 is stated at recorded amount less an allowance for uncollectible accounts of \$3,663. Net estimated realizable value of \$51,481 is reported on the statement of net position. Sales revenues of \$491,858 are presented net of uncollectible account expense of \$4,576. Sales taxes collected are not included in revenues.
- I. CASH FLOWS** – For purposes of reporting cash flows, the District considers cash on deposit and highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Certificates of deposit classified as investments and funds restricted for various reasons are not treated as cash in the statement of cash flows.
- J. CASH INVESTMENT** – The District has no formal deposit and investment policies; however the District is required to follow certain state statutes with respect to authorized investment and deposit procedures.

SURGOINSVILLE UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

- K. CONSIDERATION OF CREDIT RISK** – The District’s financial instruments that are exposed to concentrations of credit risk consist primarily of cash and trade accounts receivable. The District maintains cash in accounts at local financial institutions. The balance, at times, may exceed the federal insurance limit. However, any amounts in excess of these limits are properly collateralized through the Tennessee Collateral Pool. The trade accounts receivable credit risk exposure is limited.
- L. 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.
- M. RISK MANAGEMENT** – The District uses commercial insurance to provide property, liability and workers’ compensation insurance. There have been no significant reductions in insurance coverage, and no settlement amounts have exceeded insurance coverage for the current year or five prior years. At April 30, 2014 there were no unpaid claims.
- N. TAP FEES** - Tap fees are recorded as revenue and the related installation costs are expensed. The amount recognized as revenue approximates related installation costs.

NOTE 2 – CASH AND CASH EQUIVALENTS

The District has implemented GASB Statement No. 40, “Deposits and Investment Risk Disclosures,” for financial reporting of deposit and investment risk.

The District has no formal policies with respect to deposit and investment; however, it is required to follow procedures allowed by applicable state laws. At April 30, 2014, the District only had funds invested in demand deposits and certificates of deposit accounts with local financial institutions in the form of cash deposits. No funds were invested in bonds, notes, treasury bills or any other agencies of the United States. The state regulations (i.e., TCA Code 7-82-108) authorize the District to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchasing agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund and money market funds. Statutes also require that securities underlying repurchase agreements must be approved by the State Director of Local Finance as an authorized investment. With respect to custodial credit risk, the District follows the applicable state guidelines. Furthermore, the state requires that all deposits with financial institutions be collateralized by securities whose market value is equal to 105% of the value of the insured deposits. The deposits must be covered by federal depository insurance of the Tennessee Collateral Bank Pool, by collateral held by District agent in the District’s name or by the Federal Reserve Banks acting as third party agents.

**SURGOINSVILLE UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
April 30, 2014**

As of April 30, 2014, the carrying amount of the District's deposits was \$579,200 (excluding cash on hand of \$250) and the respective bank balances totaled \$582,314. The difference between the two represented were deposits in transit, outstanding checks or other reconcilable items. As of April 30, 2014, the total bank balances of \$582,314 were covered by F.D.I.C. insurance or the financial institution's participation in the Tennessee Collateral Bank Pool.

As of April 30, 2014, the Utility has the following cash deposits:

	<u>OPERATING</u>	<u>RESTRICTED</u>	<u>TOTALS</u>
Cash on Hand	\$ 250	\$ -	\$ 250
Cash in Bank-Checking	123,760	-	123,760
Certificates of Deposit	<u>372,732</u>	<u>82,708</u>	<u>455,440</u>
TOTALS	<u>\$ 496,742</u>	<u>\$ 82,708</u>	<u>\$ 579,450</u>

NOTE 3 – LONG-TERM DEBT

The District has one bond which consists of a waterworks revenue bond issued through Rural Economic and Community Development Agency.

The following is a summary of changes in long-term debt for the year ended April 30, 2014:

<u>Issue No.</u>	<u>Issue Date</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Terms In Years</u>	<u>Balance 04/30/13</u>	<u>Retired</u>	<u>Balance 04/30/14</u>	<u>Due In One Year</u>
1	03/03/95	\$480,000	5.25%	38	\$ 358,345	\$10,647	\$347,698	\$12,006
					<u>\$ 358,345</u>	<u>\$10,647</u>	<u>\$347,698</u>	<u>\$12,006</u>

Debt service requirements for bonds payable are:

Year ending <u>April 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	12,006	17,202	29,208
2016	11,786	17,422	29,208
2017	12,421	16,787	29,208
2018	13,090	16,118	29,208
2019	13,794	15,414	29,208
2020-2024	80,946	65,094	146,040
2025-2029	105,210	40,830	146,040
2030-2033	<u>98,445</u>	<u>9,996</u>	<u>108,441</u>
	<u>\$ 347,698</u>	<u>\$ 198,863</u>	<u>\$ 546,651</u>

**SURGOINSVILLE UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
April 30, 2014**

At April 30, 2014, the District had \$29,208 in its bond debt service fund for the Rural Economic and Community Development Agency requirements for debt service and \$53,500 in its repairs and maintenance fund in accordance with bond requirements. The total amount of interest expense for the year ended April 30, 2014 was \$18,520.

NOTE 4 – CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 37,200	\$ -	\$ -	\$ 37,200
 Total Capital Assets Not Being Depreciated	 37,200	 -	 -	 37,200
Utility plant	\$ 2,636,002	\$ 198,626	\$ -	\$ 2,834,628
Buildings	65,884	6,851	-	72,735
Equipment	<u>179,972</u>	<u>14,192</u>	<u>7,800</u>	<u>186,364</u>
 Total Assets Being Depreciated	 \$ 2,881,858	 \$ 219,669	 \$ 7,800	 \$ 3,093,727
 Less: Accumulated depreciation for:				
Utility plant	\$ 1,234,537	\$ 68,479	\$ -	\$ 1,303,016
Buildings	34,060	2,184	-	36,244
Equipment	<u>99,213</u>	<u>13,977</u>	<u>2,340</u>	<u>110,850</u>
 Total Accumulated Depreciation	 \$ 1,367,810	 <u>84,640</u>	 \$ 2,340	 \$ 1,450,110
 Total Capital Assets Being Depreciated, Net	 <u>1,514,048</u>	 <u>135,029</u>	 <u>5,460</u>	 <u>1,643,617</u>
 Total Capital Assets, Net	 \$ 1,551,248	 \$ 135,029	 \$ 5,460	 \$ 1,680,817

NOTE 5 - PRIOR PERIOD ADJUSTMENT

During the current fiscal year, it was discovered that the Utility District retained inventory on hand that was not recorded as an asset within the Statement of Net Position for the current year or any prior year. To correct this oversight, the April 30, 2013, beginning Net Position, as originally reported as \$1,917,311, was increased by \$38,808 to represent the recapture of the net expense recorded in prior years instead of the inventory being recorded as an asset at that time. This brought restated the April 30, 2013, beginning net position to \$1,956,119.

SURGOINSVILLE UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

NOTE 6 – SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through September 10, 2014, the date the financial statements were available to be issued.

**SURGOINSVILLE UTILITY DISTRICT
SUPPLEMENTARY INFORMATION
April 30, 2014**

OFFICERS AND BOARD OF COMMISSIONERS:

	<u>Term</u>
CHAIRMAN: Lynn Norris	02/20/13 – 02/20/17
VICE CHAIRMAN: Wayne Haun	02/20/11 – 02/20/15
SECRETARY/TREASURER: Don Thurman	02/20/14 – 02/20/18

WATER RATES

UTILITY RATES – CUSTOMERS WITH 3/4 INCH METERS:

First 1,000 gallons-minimum	\$10.63 minimum
1,000 gallons to 20,000 gallons	\$6.25 per 1,000 gallons
Over 20,000 gallons	\$5.63 per 1,000 gallons

Note: Minimums differ for larger meters

1 inch meter – minimum first 1,000 gallons	\$25.00 minimum
2 inch meter – minimum first 1,000 gallons	\$62.50 minimum
3 inch meter – minimum first 1,000 gallons	\$87.50 minimum
4 inch meter – minimum first 1,000 gallons	\$106.25 minimum
6 inch meter – minimum first 1,000 gallons	\$137.50 minimum
8 inch meter – minimum first 1,000 gallons	\$262.50 minimum

Rates for larger meters same as 3/4 inch meters after first 1,000 gallons

NUMBER OF CUSTOMERS

The District has 946 active customers.

SURGOINSVILLE UTILITY DISTRICT
SCHEDULE OF BOND DUE DATES
April 30, 2014

Series 1993 WaterWorks Bond			
	Principal	Interest	Total
2014	-	-	-
2015	12,006	17,202	29,208
2016	11,786	17,422	29,208
2017	12,421	16,787	29,208
2018	13,090	16,118	29,208
2019	13,794	15,414	29,208
2020	14,537	14,671	29,208
2021	15,320	13,888	29,208
2022	16,145	13,063	29,208
2023	17,014	12,194	29,208
2024	17,930	11,278	29,208
2025	18,895	10,313	29,208
2026	19,912	9,296	29,208
2027	20,984	8,224	29,208
2028	22,114	7,094	29,208
2029	23,305	5,903	29,208
2030	24,559	4,649	29,208
2031	25,882	3,326	29,208
2032	27,275	1,933	29,208
2033	20,729	88	20,817
	\$ 347,698	\$ 198,863	\$ 546,561

AWWA WLCC Free Water Audit Software: Reporting Worksheet						Back to Instructions	
Copyright © 2010, American Water Works Association. All Rights Reserved.						WAS v4.2	
Water Audit Report for: Surgoinsville Utility District		Reporting Year: 2013		5/2013 - 4/2014			
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 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="6"/>	<input type="text" value="101.103"/>	Million gallons (US)/yr (MG/Yr)			
Master meter error adjustment (enter positive value):		<input type="text" value="3"/>	<input type="text" value="1.010"/>	under-registered		MG/Yr	
Water imported:		<input type="text" value="5"/>	<input type="text" value="10.750"/>	MG/Yr			
Water exported:		<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr			
WATER SUPPLIED:			<input type="text" value="112.863"/>	MG/Yr			
AUTHORIZED CONSUMPTION							
Billed metered:		<input type="text" value="6"/>	<input type="text" value="72.770"/>	MG/Yr		Click here: for help using option buttons below	
Billed unmetered:		<input type="text" value="10"/>	<input type="text" value="0.041"/>	MG/Yr		Value:	
Unbilled metered:		<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr		Pcnt: 1.25%	
Unbilled unmetered:		<input type="text" value="10"/>	<input type="text" value="0.938"/>	MG/Yr		<input type="radio"/> <input checked="" type="radio"/> 338	
AUTHORIZED CONSUMPTION:		<input type="text" value="10"/>	<input type="text" value="73.749"/>	MG/Yr		Use buttons to select percentage of water supplied OR value	
WATER LOSSES (Water Supplied - Authorized Consumption)			<input type="text" value="39.114"/>	MG/Yr			
Apparent Losses							
Unauthorized consumption:		<input type="text" value="10"/>	<input type="text" value="0.282"/>	MG/Yr		Pcnt: 0.25%	
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed							
Customer metering inaccuracies:		<input type="text" value="4"/>	<input type="text" value="3.032"/>	MG/Yr		4.00%	
Systematic data handling errors:		<input type="text" value="10"/>	<input type="text" value="1.896"/>	MG/Yr			
Apparent Losses:		<input type="text" value="10"/>	<input type="text" value="5.210"/>			<input type="radio"/> <input checked="" type="radio"/>	
Real Losses (Current Annual Real Losses or CARL)							
Real Losses = Water Losses - Apparent Losses:		<input type="text" value="10"/>	<input type="text" value="33.904"/>	MG/Yr			
WATER LOSSES:			<input type="text" value="39.114"/>	MG/Yr			
NON-REVENUE WATER							
NON-REVENUE WATER:		<input type="text" value="10"/>	<input type="text" value="40.052"/>	MG/Yr			
= Total Water Loss + Unbilled Metered + Unbilled Unmetered							
SYSTEM DATA							
Length of mains:		<input type="text" value="6"/>	<input type="text" value="38.4"/>	miles			
Number of active AND inactive service connections:		<input type="text" value="6"/>	<input type="text" value="970"/>				
Connection density:			<input type="text" value="25"/>	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="5"/>	<input type="text" value="80.0"/>	psi			
COST DATA							
Total annual cost of operating water system:		<input type="text" value="10"/>	<input type="text" value="\$507,006"/>	\$/Year			
Customer retail unit cost (applied to Apparent Losses):		<input type="text" value="10"/>	<input type="text" value="\$6.25"/>	\$/1000 gallons (US)			
Variable production cost (applied to Real Losses):		<input type="text" value="10"/>	<input type="text" value="\$764.80"/>	\$/Million gallons			
PERFORMANCE INDICATORS							
Financial Indicators							
Non-revenue water as percent by volume of Water Supplied:			<input type="text" value="35.5%"/>				
Non-revenue water as percent by cost of operating system:			<input type="text" value="11.7%"/>				
Annual cost of Apparent Losses:			<input type="text" value="\$32,564"/>				
Annual cost of Real Losses:			<input type="text" value="\$25,930"/>				
Operational Efficiency Indicators							
Apparent Losses per service connection per day:			<input type="text" value="14.72"/>	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="2,418.93"/>	gallons/mile/day			
Real Losses per service connection per day per psi pressure:			<input type="text" value=""/>	gallons/connection/day/psi			
<input type="text" value="10"/> Unavoidable Annual Real Losses (UARL):			<input type="text" value="Not Valid"/>				
*** UARL cannot be calculated as either average pressure, number of connections or length of mains is too small: SEE UARL DEFINITION ***							
From Above, Real Losses = Current Annual Real Losses (CARL):			<input type="text" value="33.90"/>				
<input type="text" value="10"/> Infrastructure Leakage Index (ILI) [CARL/UARL]:			<input type="text" value=""/>				
* only the most applicable of these two indicators will be calculated							
WATER AUDIT DATA VALIDITY SCORE:							
*** YOUR SCORE IS: 68 out of 100 ***							
A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score							
PRIORITY AREAS FOR ATTENTION:							
Based on the information provided, audit accuracy can be improved by addressing the following components:							
1: Volume from own sources							
2: Master meter error adjustment		For more information, click here to see the Grading Matrix worksheet					
3: Water imported							

DAVID M. ELLIS

Certified Public Accountant

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*Member, Tennessee Society 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
Surgoinville Utility District
Surgoinville, Tennessee

I 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 Surgoinville Utility District, as of and for the year ended April 30, 2014, and the related notes to the financial statements, which collectively comprise Surgoinville Utility District's basic financial statements and have issued my report thereon dated September 10, 2014.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Surgoinville 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 Surgoinville Utility District's internal control. Accordingly, I do not express an opinion on the effectiveness of Surgoinville Utility District's internal control.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and recommendations, I identified certain deficiencies in internal control that I 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. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Surgoinsville 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 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 2007-02.

Surgoinsville Utility District's Response to Findings

Surgoinsville Utility District's response to the findings identified in my audit are described in the accompanying schedule of findings and recommendations. Surgoinsville Utility District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

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

September 10, 2014

**SURGOINSVILLE UTILITY DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
April 30, 2014**

Financial Statement Findings

Current and Prior Year Findings:

Update to Prior Year Findings and Recommendations from April 30, 2014:

2007-02 Inadequate separation of duties

Finding: The State of Tennessee Comptroller of the Treasury Department of Audit Division of Municipal Audits performed an investigative audit and noted that the District employs only one full-time office worker, who is responsible for collecting, depositing, disbursing and recording transactions. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 1-2, Procedure 1, states that commissioners should require reconciliation of all bank statements and canceled checks by someone other than the person writing or recording the checks or handling cash. Section 2-6, Procedure 2, states:

[T]he same individual should not be responsible for authorizing transactions, recording transactions and maintaining custody of assets. Establish work flow so that an employee's work is automatically verified by another employee working independently. Such procedures will help to eliminate errors in accounting records and limit the possibility of fraud.

Recommendation: To decrease the risk of undetected errors and irregularities, the board should review employee responsibilities to ensure that no employee has control over a complete transaction. When necessary, management should assume additional oversight duties.

Management's Comments: Available employees and board members are limited and optimum segregation may not be possible. This will likely be an ongoing condition.

Update: - Finding 2007-02 continues to apply.

2013-01 District Operating at a Continued Deficit

Condition: The District has experienced a negative change in Net Assets for two consecutive years.

Criteria: Public Charter 72 (effective April 15, 2009) amended T.C.A. 68-221-1010(a) and requires the Comptroller of the Treasury to refer a water system facility that has a negative change in net assets for two consecutive years to the Water and Wastewater Financing Board.

Effect: The District will be subject to the supervision and evaluation of the Utility Management Review Board due to the Districts "financially distressed condition".

SURGOINSVILLE UTILITY DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
April 30, 2014

Recommendation: Management of the District should undertake measures to eliminate a loss for the subsequent operating year.

Management's Comments: Management has implemented rate increases, and is working to correct the issue of noncompliance.

Update: - Finding 2013-01 no longer applies.