

**ANDERSON COUNTY WATER AUTHORITY**  
Clinton, Tennessee

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**For the Years Ended**

**June 30, 2018 and 2017**

**PREPARED BY:**

**Larry Clowers, General Manager**

**ANDERSON COUNTY WATER AUTHORITY**

**Clinton, Tennessee**

**For the Years Ended June 30, 2018 and 2017**

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## **INTRODUCTORY SECTION**



**P. O. Box 70  
Clinton, Tennessee 37717**

**Anderson County Water Authority**

**(865) 457-3033**

November 13, 2018

Board of Directors of  
Anderson County Water Authority  
Clinton, Tennessee

State law and the Comptroller of the Treasury, State of Tennessee, requires that every political subdivision or municipal corporation publish within six months of the close of each fiscal year-end, a complete set of audited financial statements. This Comprehensive Annual Financial Report (CAFR) of the Anderson County Water Authority (the "Authority") is published to fulfill these requirements for the fiscal years ended June 30, 2018 and 2017.

#### Internal Controls

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatements.

#### Independent Audit

Parsons & Wright CPA's have issued an unmodified ("clean") report on the Authority's financial statements for the years ended June 30, 2018 and 2017, respectively. As stated in the independent auditor's report, the audits were conducted in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. The independent auditor's report is located at the front of the financial section of this report on pages one and two.

#### Management's Discussion and Analysis (MD&A)

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of MD&A. The Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The Authority's MD&A can be found immediately following the independent auditor's report.

#### Profile of the Authority

The Authority was created by the Tennessee General Assembly Private Act No. 40 and approved by the Anderson County Commission on July 16, 2007. The Authority started organizing activities on July 16, 2007 and began significant operations on January 1, 2009 and provides water and wastewater collection services to the unincorporated areas of Anderson County, Tennessee. The purpose of the Authority is to "acquire, construct, improve, extend, operate, and maintain a water system." The Authority's primary source of water is drawn from the Clinch River.

The Authority is governed by a Board of Directors composed of five citizens who reside in, or are customers, of the Authority. Board members are nominated by the Anderson County Mayor for a term of four years, subject to confirmation by the Anderson County Commission.

The Authority's primary capital assets consists of two water treatment plants, one office building, one wastewater treatment plant, and twelve water reservoir tanks.

The Authority receives no ongoing financial support from Anderson County, Tennessee and has no taxing authority. The Authority's revenues are derived from water and wastewater charges based upon metered water consumption of customers. The water and wastewater rates are established by the Board of Directors.

### Budgeting

The Authority adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with GAAP. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contributions, grants, borrowings and certain revenues for capital projects. The budgets are projections and are not legally binding.

### Local Economy

The Authority is located within the Knoxville Metropolitan Statistical Area (MSA) which includes Knox, Blount, Anderson, Sevier, Loudon and Union Counties. The Knoxville MSA is also the trade center for several counties in East Tennessee, and parts of Kentucky, Virginia and North Carolina.

For June 2018, the unemployment rates according to the U.S. Bureau of Labor Statistics for Anderson County, State of Tennessee, and the Nation were 4.5%, 3.5% and 4.0%, respectively.

Per capita income for calendar year-end 2016 for Anderson County, State of Tennessee, and the Nation was \$39,225, \$43,326 and \$49,246, respectively.

The Knoxville MSA has several large employers including several U.S. Department of Energy contractors, Alcoa Aluminum, several hospitals, Clayton Homes, Discovery - HGTV cable network, Denso and several automobile parts manufacturers, the University of Tennessee, and several regional shopping malls and centers.

### Long-Term Financial Planning

The Authority has projected a 1 to 2% annual increase in the number of customers over the next several years. The Authority is planning several capital improvements including upgrading water and sewer lines, pump stations, and building additional water lines to provide new water and wastewater services to various areas.

The financing of the Authority's capital improvements is by internally generated cash flows and the issuance of long-term debt.

### Relevant Financial Policies

The combination of continued customer growth, moderate rate increases, and the issuance of long-term debt are projected to provide the Authority with adequate resources to provide for the delivery of water and wastewater services and for capital improvements.

### Major Initiatives

During FY 2018, the Authority completed the Mountain Road Sewer pump station and the Fox Road water pump station capital projects. Other capital projects still in progress at year-end 2018 was the warehouse and distribution center, odor control for the 12-mile-long forced sewer line and the Tacora Hills subdivision water line replacement project.

### Credit Ratings

In June 2016, the Authority continued to maintain its sound public finance credit rating by receiving a Standard and Poor's (S & P) credit rating of "AA-".

### Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting. The Authority received this award for the eighth consecutive year for the FYE June 30, 2017. To be awarded a Certificate of Achievement; the Authority must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

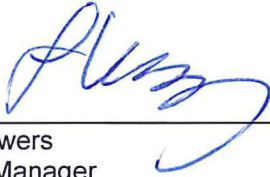
A Certificate of Achievement is valid for a period of only one year. We believe that our current comprehensive annual financial report will meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

### Acknowledgments

The preparation of this CAFR results from the combined efforts of our staff, accountant, and technical assistance provided by our independent auditors. Those involved have our sincere appreciation for the individual and collective contributions made in preparation of the report. Thank you very much for your professional dedication.

Recognition and appreciation are also extended to the Board of Directors for its continued guidance of the operation of the Authority in a financially responsible and progressive manner.

Respectfully submitted,



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Larry Clowers  
General Manager

# ANDERSON COUNTY WATER AUTHORITY

## ORGANIZATION CHART

June 30, 2018

### ACWA BOARD OF DIRECTORS



**Larry Clowers**  
General Manager



**Teresa Ridenour**  
Office Manager



Shelby Vann  
Lori Noonan  
Jeannie Gregory  
Ollie Carter  
Melissa VanHuss

**Annelle Brown**  
HR Director  
Payroll Officer

**John Mitchell**  
Supt. of Operations



**Jeff Elliott**      **Gary Sharp**  
Chief WTP Operator      Supt. Wastewater  
Rusty Phillips

Distribution



Cody Phillips  
Kirk Bray  
Jerry Lindsay  
Jamie Craig  
Clayton Haney  
Kevin Jeffers  
Jimmy Spears  
Steve Phillips  
Justin Brown  
Tony Parks  
Cody Ridenour  
Jeremiah Sweat  
Logan Clowers (Part-Time)

Terry Myers  
Jon Martin  
Randy Hensley  
Steven Reed  
Rusty Keily  
Landon Clowers (PT)  
J.J. Mitchell (PT)

**ANDERSON COUNTY WATER AUTHORITY**  
**ROSTER OF AUTHORITY OFFICIALS AND OTHERS**  
**June 30, 2018**

**Board of Directors**

Jack Shelton, Chairman

Zenith R. Rose, Vice Chairman

George Horton

Jack D. Hill

Duane Stooksbury

**Expiration of Term**

September 30, 2019

September 30, 2019

September 30, 2021

September 30, 2020

September 30, 2018

**Management**

Larry Clowers, General Manager

**Independent Auditors**

Parsons & Wright  
Certified Public Accountants  
Kingston, Tennessee

**Bond Counsel**

Bass, Berry and Sims, PLC  
Attorneys at Law  
Nashville, Tennessee

**General Counsel**

C. Coulter Gilbert, Esquire  
Attorney at Law  
Knoxville, Tennessee

**Consulting Engineer**

Robert G. Campbell, PE  
Robert B. Campbell & Associates, LP  
Knoxville, Tennessee



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Anderson County Water Authority**  
**Tennessee**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2017**

*Christopher P. Morill*

Executive Director/CEO

**FINANCIAL SECTION**

CERTIFIED PUBLIC ACCOUNTANTS

Joe Savage  
Marie I. Niekerk  
Earl O. Wright - 1988 - 2002

Stephen J. Parsons - Retired  
Rebecca Hutsell  
William R. Scandlyn - 1988 - 1999

**INDEPENDENT AUDITOR’S REPORT**

Board of Directors  
Anderson County Water Authority  
Clinton, Tennessee

**Report on the Financial Statements**

We have audited the accompanying financial statements of Anderson County Water Authority (the “Authority”) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority’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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Anderson County Water Authority, as of June 30, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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156 Walker Hill Street  
Crossville, Tennessee 38555  
Telephone (931) 202-1220  
Fax (888) 430-9848

## **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 through 11 and the Schedules of Changes in Net Pension Liability (Asset) and Related Ratios Based on Participation in The Public Employee Pension Plan of TCRS and Schedules of Employer Contributions Based on Participation in the Public Employee Pension Plan of TCRS on pages 35 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Anderson County Water Authority's basic financial statements. The introductory, supplementary information and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The information included in the supplementary information section as listed in the table of contents is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2018, on our consideration of the Anderson County Water Authority'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 solely 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 effectiveness of Anderson County Water Authority's 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 Anderson County Water Authority's internal control over financial reporting and compliance.

*Parsons & Wright*

Parsons & Wright  
Certified Public Accountants  
Kingston, Tennessee

November 13, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of Anderson County Water Authority's (the "Authority") financial condition and results of operations for the years ending June 30, 2018, 2017 and 2016. This information should be read in conjunction with the accompanying financial statements.

The Authority was created on July 16, 2007, by the Anderson County Commission and significant operations began on January 1, 2009. On July 10, 2008, the Board of Commissioners for the North Anderson County Utility District (NACUD) and Anderson County Utilities Board (ACUB), a part of Anderson County, entered into a consolidation agreement to merge their operations into the Authority with an effective date of January 1, 2009.

### INDEPENDENT AUDIT

The unmodified report of our independent auditors, Parsons & Wright CPA's, as of and for the years then ended June 30, 2018 and 2017 is included in this report on pages 1 and 2.

### FINANCIAL HIGHLIGHTS

Management believes the Authority's financial position is strong and results of operations continue to improve.

The Authority maintained good debt service coverage and was in compliance with all debt covenants. The following are key financial highlights:

- The Authority sold 747, 710, and 716 million gallons of water in 2018, 2017 and 2016.
- Total assets and deferred outflows of resources at June 30, 2018, 2017 and 2016 were \$31,030,776, \$30,732,736 and \$26,257,199 and exceeded liabilities (net position) by \$18,844,280, \$18,652,045 and \$17,207,091, respectively. Of the total net position, \$2,994,038, \$2,391,644 and \$2,433,364 were unrestricted and were available to support short-term operations for 2018, 2017 and 2016. Net position increased by \$192,235 in 2018, by \$1,444,954 in 2017 and \$152,249 in 2016.
- Operating revenues were \$5,916,097, \$5,932,600 and \$5,574,291 for 2018, 2017 and 2016.
- Operating expenses before depreciation were \$4,424,855, \$4,337,300 and \$4,152,637 for 2018, 2017 and 2016.
- Operating income was \$284,206, \$489,576 and \$324,988 for 2018, 2017 and 2016.
- The ratios of operating income to total operating revenues were 4.8%, 8.3%, and 5.8% for 2018, 2017 and 2016.
- Debt service coverage ratio was 2.08 for 2018, 2.81 for 2017 and 2.61 for 2016.
- There were no cash capital contributions received in 2018, 2017 and 2016. Noncash contributions recorded in 2018, 2017 and 2016 were \$135,496, \$1,280,585 and \$137,707.
- During 2018, 2017 and 2016 capital asset additions, including construction work-in progress projects completed, were \$605,497, \$6,153,133 and \$660,203 .

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### OVERVIEW OF THE ANNUAL 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 Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's budget, bond resolutions and other management information were used for this analysis.

The financial statements report information about the Authority 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.

The financial statements include a balance sheet; a statement of revenues, expenses and changes in net position; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the Authority on a full accrual basis of accounting. While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs.

The statement of cash flows presents cash receipt and cash disbursement information and changes in cash and cash equivalents resulting from operational, financing and investing activities.

The notes to the financial statements 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 Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The supplementary information provides information on debt service requirements and schedule of water rates and statistics. The required supplementary information provides information about the financial health of the Authority's defined benefit plan as administered by the Tennessee Consolidated Retirement System.

The compliance section includes the auditor's report on the Authority's internal controls and compliance. Also included is the auditor's schedule of audit findings and recommendations and disposition of prior year findings, when applicable.

### SUMMARY OF ORGANIZATION AND BUSINESS

The Authority was created under the authority of the Tennessee General Assembly Private Act No. 40 and approved by the Anderson County Commission on July 16, 2007. The Authority began significant operations on January 1, 2009. The purpose of the Authority is to "acquire, construct, improve, extend, operate, and maintain a water system" in the unincorporated areas of Anderson County. The Authority serves approximately 9,689 water customers and 962 wastewater customers in Anderson County. The Authority's primary source of water is drawn from the Clinch River that forms Norris and Melton Hill lakes.

The Authority is governed by a Board of Directors composed of five citizens who reside in, or are current customers, of the Authority. All Board members are nominated by the Anderson County Mayor for a term of four years, subject to confirmation by the Anderson County Commission.

The Authority's main capital assets consist of approximately 632 miles of water lines, two water treatment plants, one office building, one wastewater treatment facility, and twelve water reservoir tanks.

The Authority receives no ongoing financial support from Anderson County, Tennessee and has no taxing authority. The Authority's revenues are derived from water charges based upon metered water consumption of customers. The water and wastewater rates are established by the Authority's Board of Directors.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**FINANCIAL ANALYSIS**

The following comparative condensed financial statements and other selected information provides key financial data and indicators for management, monitoring, and planning. Net position may serve over time as a useful indicator of the Authority's financial position.

Condensed Balance Sheets  
(In Thousands of Dollars)  
June 30, 2018, 2017 and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>ASSETS AND DEFERRED OUTFLOWS</b>			
Current Assets	\$ 3,316	\$ 2,811	\$ 3,001
Capital Assets:			
Producing - Net	26,165	26,344	22,394
Other Assets - Net	<u>490</u>	<u>468</u>	<u>497</u>
Total Assets	<u>29,971</u>	<u>29,623</u>	<u>25,892</u>
Deferred Outflows of Resources			
Deferred Bond Refunding Loss	799	871	200
Deferred Cost of Pension Plan	<u>261</u>	<u>238</u>	<u>165</u>
Total Deferred Outflows	<u>1,060</u>	<u>1,109</u>	<u>365</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u>\$ 31,031</u>	<u>\$ 30,732</u>	<u>\$ 26,257</u>
<b>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>			
Liabilities:			
Current Liabilities	\$ 1,104	\$ 1,022	\$ 923
Bonds Payable - Net of Current Portion	<u>11,045</u>	<u>11,020</u>	<u>8,072</u>
Total Liabilities	<u>12,149</u>	<u>12,041</u>	<u>8,995</u>
Deferred Inflows of Resources			
Deferred Inflows - Pension Plan	<u>38</u>	<u>39</u>	<u>56</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	15,311	15,728	14,244
Restricted for:			
Debt Service	178	214	184
Pensions	361	317	346
Unrestricted	<u>2,994</u>	<u>2,393</u>	<u>2,433</u>
Total Net Position	<u>18,844</u>	<u>18,652</u>	<u>17,207</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 31,031</u>	<u>\$ 30,732</u>	<u>\$ 26,257</u>

The largest portion of the Authority's net position reflects its net investment in capital assets. The Authority uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to repay long-term debt.

The unrestricted net position may be used to meet the obligations to employees and creditors and provide current operating resources.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**FINANCIAL ANALYSIS (Continued)**

Condensed Statements of Revenues, Expenses, and Changes in Net Position  
(In Thousands of Dollars)  
For the Years Ended June 30, 2018, 2017, and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Operating Revenues</b>			
Water - Net	\$ 4,604	\$ 4,531	\$ 4,446
Wastewater - Net	893	925	829
Connection Fees	86	91	91
Customer Forfeited Discounts	145	131	111
Tap Fees	176	241	87
Other Charges and Fees	<u>12</u>	<u>13</u>	<u>9</u>
Total Operating Revenues	<u>5,916</u>	<u>5,932</u>	<u>5,574</u>
<b>Operating Expenses</b>			
Water Treatment, Transmission and Distribution	3,034	2,843	2,697
Wastewater Treatment	498	616	617
Customer Billing and Accounting	26	25	14
General and Administrative	867	853	825
Depreciation	<u>1,207</u>	<u>1,106</u>	<u>1,097</u>
Total Operating Expenses	<u>5,632</u>	<u>5,443</u>	<u>5,249</u>
<b>Operating Income (Loss)</b>	<u>284</u>	<u>489</u>	<u>325</u>
<b>Non-Operating Revenues (Expenses)</b>			
Gain (Loss) on Disposal of Capital Assets	7	36	0
Interest Income	5	7	8
Other Income	54	30	45
Debt Issuance Costs	0	(169)	0
Interest Expense	<u>(293)</u>	<u>(228)</u>	<u>(364)</u>
Total Non-Operating Revenues (Expenses) - Net	<u>(227)</u>	<u>(325)</u>	<u>(310)</u>
Increase (Decrease) in Net Position Before Capital Contributions	<u>57</u>	<u>164</u>	<u>15</u>
<b>Capital Contributions</b>			
Non-Cash	<u>135</u>	<u>1,281</u>	<u>138</u>
Change in Net Position	192	1,445	152
Net Position, Beginning of Year	<u>18,652</u>	<u>17,207</u>	<u>17,055</u>
Net Position, End of Year	<u>\$ 18,844</u>	<u>\$ 18,652</u>	<u>\$ 17,207</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### OTHER SELECTED INFORMATION

#### Selected Data:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Full-Time Equivalent Employees at Year-End	34	31.5	31.5
Full-Time Average Employees for the Year	32.75	31.5	31.75
Customers at Year-End:			
Water	9,689	9,591	9,464
Wastewater	962	884	864
Water (Millions of Gallons)			
Treated and Purchased	1,070	1,077	1,111
Sold	747	710	716
Per Average Employee:			
Operating Revenues	\$ 180,644	\$ 188,337	\$ 175,568
Operating Expenses	\$ 171,966	\$ 172,794	\$ 165,332
Realized Rate per 1,000 Gallons of Water Sold:			
Retail	\$ 8.61	\$ 8.55	\$ 8.35
Wholesale	\$ 1.20	\$ 1.20	\$ 1.30
Ratio of Operating Revenues to:			
Operating Expenses	1.05	1.09	1.06
Operating Expenses Excluding Depreciation	1.34	1.37	1.34
Total Assets	0.19	0.19	0.21
Net Position	0.31	0.32	0.32
Debt Related Ratios:			
Long-Term Debt to Net Position	0.59	0.59	0.47
Long-Term Debt to Total Assets	0.36	0.36	0.31
Coverage Ratio	2.08	2.81	2.61

### GENERAL TRENDS AND SIGNIFICANT EVENTS

Customer growth in the Authority has remained strong over the last several years, especially in the eastern area of the district primarily in the Andersonville and Bethel area near the State Route 61 and I-75 interchange.

### FINANCIAL CONDITION

The Authority's financial condition remained strong at year-end with adequate current assets and a reasonable level of unrestricted net position. The current financial condition, staff capabilities, operating plans and upgrade plans to meet future water quality requirements are well balanced and under control.

Net customer accounts receivable at year-end 2018, 2017 and 2016 was \$767,775, \$688,847 and \$694,010. At year-end 2018, 2017 and 2016, 78%, 94% and 90% of billed accounts receivable were current within 30 days. The Authority's allowance for uncollectible accounts receivable was \$81,011, \$56,102 and \$44,719 for 2018, 2017 and 2016.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### RESULTS OF OPERATIONS

#### Operating Revenues

Revenues from operations fall into three main categories: water and wastewater service and ancillary charges. Ancillary charges include connection fees, account set up and customer forfeited discounts, and charges for miscellaneous billed services.

There was no increase in water or wastewater rates during FY 2018, 2017 and 2016.

The average realized rate from gross retail water sales was \$8.61, \$8.55 and \$8.35 per thousand gallons and \$1.20, \$1.20 and \$1.30 per thousand gallons for wholesale water sales in 2018, 2017 and 2016.

#### Capital Contributions

The Authority collects water connection fees to ensure that current customers do not bear the burden of growth. These fees are paid by new customers and represent the cost of service connectivity of the new customer. These fees are paid at the time a new water customer is connected to the system. In addition, the Authority accepts new water lines and equipment that are donated by residential and commercial real estate developers, and various federal, state and local government entities.

Capital contributions during 2018, 2017 and 2016, consisted of the following:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Non-Cash:			
Anderson County, TN (via Federal Grants)	\$ 0	\$ 815,465	\$ 137,707
City of Oak Ridge, TN - Donated Equipment	7,500	0	0
State of Tennessee - Debt Forgiveness of State			
Drinking Water Revolving Loan Fund - Note Payable	<u>127,996</u>	<u>465,120</u>	<u>0</u>
Total Non-Cash	<u>\$ 135,496</u>	<u>\$ 1,280,585</u>	<u>\$ 137,707</u>

The non-cash capital contributions from Anderson County (the "County") are funded primarily by various federal grant awards for which the County is the grantee and is responsible for administering these grants in accordance with various federal audit requirements including the Single Audit Act. After the grant projects are completed the capital asset are accepted by the Authority and placed into service.

The Authority's capital contributions activity for 2018 and 2017 are more fully described in Note 11 to the financial statements.

**MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)**

**RESULTS OF OPERATIONS (Continued)**

**Operating Expenses**

Operating expenses, excluding depreciation, increased (decreased) by \$87,555 in 2018, \$155,063 in 2017 and \$(220,338) in 2016. This was a result of increases and (decreases) during 2018, 2017 and 2016 in:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Electricity and Utilities	\$ 51,741	\$ 8,107	\$ (41,767)
Salaries and Benefits	111,015	31,231	0
Purchased Water	(46,450)	(5,498)	(33,666)
Wastewater Treatment Costs	(127,110)	2,210	(36,631)
Insurance	45,510	8,966	(33,371)
Fuel	20,695	4,442	(27,029)
Repairs and Maintenance - Equipment	(3,272)	(15,228)	8,617
Chemicals	10,998	22,156	(27,813)
Repairs and Maintenance - Lines	13,425	49,058	(47,763)
Communications & Information Technology	308	16,605	0
Office Supplies & Postage	7,363	12,066	0
Other	<u>3,332</u>	<u>20,948</u>	<u>19,085</u>
 Total	 <u>\$ 87,555</u>	 <u>\$ 155,063</u>	 <u>\$ (220,338)</u>

In 2018, the Authority began to realize savings in its wastewater treatment costs due to the completion of the 12-mile-long sewer line from the I-75 interchange area directly to the CUB wastewater treatment plant. There was an increase in salaries and benefits due to the decrease in self-constructed capital assets.

During 2017, the Authority had modest increases across several expense categories.

During 2016, the Authority realized savings in utilities (due to a prior year billing adjustment error for wastewater treatment), purchased water, treatment costs and chemicals, insurance, fuel and repairs and maintenance costs.

**CAPITAL ASSETS**

The Authority is improving its water treatment, distribution and storage system to reduce water line loss and provide adequate capacity for future customer growth. In addition, the Authority is improving its wastewater collection and treatment systems.

During 2018, 2017 and 2016, the Authority increased its capital assets before depreciation and disposals by \$605,497, \$6,153,133 and \$660,203. This increase is due to the following:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Land & Easements	\$ 111,151	\$ 33,481	\$ 0
Water Reservoirs, Line Improvements and Extensions	322,456	2,966,168	244,871
Wastewater Collection Lines and Equipment	155,362	3,004,919	171,463
Vehicles and Equipment	16,528	140,158	217,164
Buildings & Improvements	0	8,407	0
Office Furniture and Equipment	<u>0</u>	<u>0</u>	<u>26,705</u>
 Total	 <u>\$ 605,497</u>	 <u>\$ 6,153,133</u>	 <u>\$ 660,203</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CAPITAL ASSETS (Continued)

In 2018, the Authority started work on the odor control of the 12-mile-long forced wastewater main line from the I-75, construction of the warehouse and distribution center, and continued the Tacora Hills subdivision water line replacement project. Major capital projects completed in 2018 were the Mountain Road sewer pump station for \$104,654 and the Fox Road water pump station for \$184,329

During 2017, the Authority completed a 12-mile-long forced wastewater main line from the I-75 area to the Clinton Utilities Board wastewater treatment plant that cost approximately \$2,982,645. Also, during 2017, the Authority replaced the main water lines and added a new 100,000-gallon water reservoir tank in the Briceville area for approximately \$1,676,284.

During 2016, the Authority purchased several new vehicles, machinery, equipment and continued to make improvements and upgrades to water lines and pump stations primarily located in the northern part of the service area.

The Authority's capital asset activity for 2018 and 2017 is described in Notes 3 and 4 to the financial statements.

### DEBT

In FY 2018, the Authority obtained a \$500,000 note payable with a local bank to provide financing to construct the warehouse and distribution center which will help provide more efficient service of water line repairs and maintenance. The note payable is to be paid in five annual principal payments of \$100,000, plus accrued interest at 2.42%.

During FY 2017, the Authority issued \$8,750,000 Series 2016 Revenue Bonds which included an advanced refunding of \$6,390,000 of the Series 2010 Revenue Bonds. Approximately \$1,567,230 of the net bond proceed were used to finance the Briceville area water line replacement and water tank reservoir project.

During FY 2016, the Authority finalized a State Revolving Loan Note Payable of \$1,860,480, net of \$465,120 in debt forgiveness, with an average interest rate of .70% payable over 20 years. The amount of the draw down by the Authority for 2017 and 2016 was \$1,551,471 and \$774,129, respectively with the remaining balance to be requested by December 31, 2017. The proceeds from this note payable were used to finance the construction of the 12-mile wastewater line project that was completed in 2017.

At June 30, 2018, 2017 and 2016, the Authority had \$11,652,731, \$11,486,441 and \$8,349,449 in revenue bonds and notes payable, net of unamortized bond premiums.

During 2018, 2017 and 2016, the Authority incurred \$293,314, \$227,738 and \$364,229 in interest expense. During 2018, 2017 and 2016, the Authority capitalized \$0, \$44,370 and \$577 of interest costs as part of capital asset costs.

The long-term debt to total assets ratio was .36, .36 and .31 at years-end 2018, 2017 and 2016, respectively.

More detailed information about the Authority's debt activity for 2018 and 2017 is described in Notes 7 and 8 to the financial statements.

### NET PENSION ASSET (LIABILITY)

As calculated under GASB Statements No. 67, 68 and 71, the Authority's net pension asset was \$361,022, \$317,495 and \$345,849 as of year-end 2018, 2017 and 2016 for its participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS). More detailed information about the Authority's participation in TCRS is described in Note 14 to the financial statements and the RSI section.

**ECONOMIC FACTORS AND FISCAL YEAR 2019**

- Number of water customers is projected to increase by 2% during 2019 due to the completion of several water line extensions and improvements.
- FY 2019 Budget:

Revenues	\$ 6,300,000
Expenses	<u>(6,054,000)</u>
Increase in Net Position	<u>\$ 246,000</u>

- The budget includes increases of 4% for salaries during 2019.

**CONTACTING THE AUTHORITY**

This comprehensive annual financial report (CAFR) is designed to provide our customers, creditors and regulatory agencies with a general overview of the Authority's finances. If you have any questions about this report or need additional information, you may contact the Authority:

Mr. Larry Clowers, General Manager  
Anderson County Water Authority  
P.O. Box 70  
Clinton, TN 37716  
865-457-3033

## **BASIC FINANCIAL STATEMENTS**

ANDERSON COUNTY WATER AUTHORITY

BALANCE SHEETS

	As of June 30,	<u>2018</u>	<u>2017</u>
<b>ASSETS AND DEFERRED OUTFLOWS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$	1,438,757	\$ 578,594
Cash and Cash Equivalents - Restricted		67,596	184,034
Certificates of Deposit		918,849	1,226,132
Accounts Receivable - Customers (Net of Allowance for Uncollectible Accounts of \$81,011 for 2018 and \$56,102 for 2017)		767,775	688,847
Accrued Interest Receivable		2,037	2,112
Inventories		<u>120,946</u>	<u>130,945</u>
<b>Total Current Assets</b>		<u>3,315,960</u>	<u>2,810,664</u>
<b>NON-CURRENT ASSETS</b>			
Capital Assets - Net		26,164,967	26,343,657
Net Pension Asset		361,022	317,495
Debt Service Funds on Deposit with the State of Tennessee		128,268	150,879
Utility Deposits		<u>635</u>	<u>635</u>
<b>Total Non-Current Assets</b>		<u>26,654,892</u>	<u>26,812,666</u>
<b>TOTAL ASSETS</b>		<u>29,970,852</u>	<u>29,623,330</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Bond Refunding Loss		799,195	871,216
Deferred Outflows - Pension Plan		<u>260,729</u>	<u>238,190</u>
<b>Total Deferred Outflows of Resources</b>		<u>1,059,924</u>	<u>1,109,406</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$</b>	<u><u>31,030,776</u></u>	<b>\$</b> <u><u>30,732,736</u></u>

The accompanying notes are an integral part of these financial statements.

ANDERSON COUNTY WATER AUTHORITY

BALANCE SHEETS (Continued)

	As of June 30,	<u>2018</u>	<u>2017</u>
<b>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$	157,784	\$ 240,083
Accrued Liabilities		68,301	53,355
Accrued Interest Payable		18,075	18,919
Compensated Absences Payable		58,059	50,799
Customer Deposits		193,768	191,472
Bonds and Notes Payable - Current Portion		<u>607,788</u>	<u>467,072</u>
<b>Total Current Liabilities</b>		1,103,775	1,021,700
<b>NON-CURRENT LIABILITIES</b>			
Bonds and Notes Payable - Net of Current Portion		<u>11,044,943</u>	<u>11,019,369</u>
<b>Total Liabilities</b>		<u>12,148,718</u>	<u>12,041,069</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflows - Pension Plan		<u>37,778</u>	<u>39,622</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets		15,311,431	15,728,432
Restricted:			
Debt Service		177,789	214,474
Pensions		361,022	317,495
Unrestricted		<u>2,994,038</u>	<u>2,391,644</u>
<b>Total Net Position</b>		<u>18,844,280</u>	<u>18,652,045</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$</b>	<b><u>31,030,776</u></b>	<b>\$ <u>30,732,736</u></b>

The accompanying notes are an integral part of these financial statements.

**ANDERSON COUNTY WATER AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	For the Years Ended June 30,	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES</b>			
Water - Net	\$	4,603,877	\$ 4,531,138
Wastewater - Net		892,693	925,396
Connection Fees		86,275	90,865
Customer Forfeited Discounts		145,260	131,148
Tap Fees		175,910	241,437
Other Charges and Fees		<u>12,082</u>	<u>12,616</u>
<b>Total Operating Revenues</b>		<u>5,916,097</u>	<u>5,932,600</u>
<b>OPERATING EXPENSES</b>			
Water Treatment, Transmission, and Distribution		3,033,790	2,842,977
Wastewater Treatment		498,008	616,417
Customer Billing and Accounting		25,428	24,567
General and Administrative		867,629	853,339
Depreciation		<u>1,207,036</u>	<u>1,105,724</u>
<b>Total Operating Expenses</b>		<u>5,631,891</u>	<u>5,443,024</u>
<b>OPERATING INCOME</b>		<u>284,206</u>	<u>489,576</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Gain (Loss) on Disposal of Capital Assets		6,428	35,500
Interest Income		5,326	6,506
Other Income (Expenses) - Net		54,093	29,600
Debt Issuance Costs		0	(169,075)
Interest Expense		<u>(293,314)</u>	<u>(227,738)</u>
<b>Total Non-Operating Revenues (Expenses) - Net</b>		<u>(227,467)</u>	<u>(325,207)</u>
<b>INCREASE (DECREASE) IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS</b>		<u>56,739</u>	<u>164,369</u>
<b>CAPITAL CONTRIBUTIONS</b>			
Non-Cash		<u>135,496</u>	<u>1,280,585</u>
<b>CHANGE IN NET POSITION</b>		192,235	1,444,954
<b>NET POSITION, BEGINNING OF YEAR</b>		<u>18,652,045</u>	<u>17,207,091</u>
<b>NET POSITION, END OF YEAR</b>	\$	<u><u>18,844,280</u></u>	\$ <u><u>18,652,045</u></u>

The accompanying notes are an integral part of these financial statements.

ANDERSON COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers and Users		\$ 5,867,434	\$ 5,970,050
Payments to Employees		(2,242,856)	(2,104,151)
Payments to Suppliers		<u>(2,327,972)</u>	<u>(2,397,516)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>		<u>1,296,606</u>	<u>1,468,383</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and Construction of Capital Assets		(1,020,846)	(4,240,068)
Interest Paid on Debt		(242,361)	(178,831)
Principal Paid on Bonds and Notes Payable		(475,467)	(389,454)
Proceeds from Bonds and Notes Payable		789,977	3,095,305
Funds Deposited with the State of Tennessee		22,611	0
Proceeds from Sale of Materials & Disposal of Capital Assets		<u>60,521</u>	<u>65,100</u>
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>		<u>(865,565)</u>	<u>(1,647,948)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest Income Received		5,401	6,660
Proceeds from Maturities of Certificates of Deposit		1,942,216	0
Purchases of Certificates of Deposit		<u>(1,634,933)</u>	<u>(3,895)</u>
<b>Net Cash Provided (Used) by Investing Activities</b>		<u>312,684</u>	<u>2,765</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		743,725	(176,800)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>		<u>762,628</u>	<u>939,428</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>		<u>\$ 1,506,353</u>	<u>\$ 762,628</u>

The accompanying notes are an integral part of these financial statements.

**ANDERSON COUNTY WATER AUTHORITY**  
**STATEMENTS OF CASH FLOWS (Continued)**

	For the Years Ended June 30,	<u>2018</u>	<u>2017</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF:</b>			
Unrestricted Cash and Cash Equivalents	\$	1,438,757	\$ 578,594
Restricted Cash and Cash Equivalents		<u>67,596</u>	<u>184,034</u>
<b>Total</b>	<b>\$</b>	<b><u><u>1,506,353</u></u></b>	<b><u><u>\$ 762,628</u></u></b>
 <b>RECONCILIATION OF OPERATING INCOME TO</b>			
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating Income	\$	284,206	\$ 489,576
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation		1,207,036	1,105,724
Provision for Uncollectible Receivables		24,910	24,910
Net Change in Net Pension (Asset) Obligation		(43,527)	28,354
Net Change in Deferred Outflows - Pensions		(22,539)	(73,328)
Net Change in Deferred Inflows - Pensions		(1,844)	(15,879)
Changes in:			
Accounts Receivable, Net of Charge Offs		(103,838)	(19,747)
Other Current Assets		9,999	12,565
Accounts Payable		(82,299)	(82,199)
Other Accrued Liabilities		14,946	(1,829)
Compensated Absences Payable		7,260	(3,397)
Customer Deposits		<u>2,296</u>	<u>3,633</u>
<b>Net Cash Provided by Operating Activities</b>	<b>\$</b>	<b><u><u>1,296,606</u></u></b>	<b><u><u>\$ 1,468,383</u></u></b>
 <b>NONCASH INVESTING, CAPITAL AND RELATED</b>			
<b>FINANCING ACTIVITIES</b>			
Bonds Issued to Refund Previously Issued Bonds	\$	0	\$ 6,390,000
Debt Issuance Costs		0	169,075
Deferred Amount on Refunding of Bonds, Net		0	155,320
Amortization of Bond Premiums		20,224	17,689
Amortization of Deferred Cost of Defeased Bonds		72,021	73,334
Contribution of Capital Assets by Anderson County		0	815,465
Debt Forgiveness by the State of Tennessee		127,996	465,120
Contribution of Capital Assets by the City of Oak Ridge		7,500	0

The accompanying notes are an integral part of these financial statements.

**ANDERSON COUNTY WATER AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2018 and 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - Anderson County Water Authority (the "Authority") was created on July 16, 2007 by the Anderson County Commission under the authority of the Tennessee State Legislature Private Act No. 40 (House Bill No. 2388 and Senate Bill No. 2362) passed on May 7, 2007 and signed by the Governor on May 21, 2007.

On July 10, 2008, the Board of Commissioners for the North Anderson County Utility District (NACUD) and Anderson County Utilities Board (ACUB), a part of Anderson County, Tennessee, entered into a consolidation agreement to merge NACUD and ACUB into the Authority with an effective date of January 1, 2009. The Authority provides water and wastewater services to customers in the unincorporated areas of Anderson County, Tennessee.

The Authority's Board of Directors serves staggered four-year terms. The Anderson County Mayor nominates all five directors, which are subject to confirmation by the Anderson County Commission. Therefore, the Authority is considered a related organization of Anderson County as defined by the Governmental Accounting Standards Board. However, Anderson County, Tennessee (the "County") does not have any fiscal or budgetary control over the Authority. In addition, the County does not approve or pledge assets to secure the debts of the Authority. The operations of the Authority are funded by water and wastewater rates established by the Authority's Board of Directors.

A summary of the major accounting policies of the Authority are presented as follows:

**Basis of Accounting and Presentation** - The Authority's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the Authority 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, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority 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 balance sheet. Net position (i.e., total assets and deferred outflows of resources, net of total liabilities and deferred inflows of resources, if any) are segregated into net investment in capital assets; restricted for capital asset activity and debt service; and unrestricted components.

**Budgeting** - The Authority adopts a flexible annual operating budget. The budget is adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The Authority's budget is a projection but is not legally binding.

Management submits a proposed budget to the Authority's Board of Directors prior to the July Board meeting. A budget is adopted by resolution prior to July 1.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash and Cash Equivalents, Deposits and Investments** - Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, interest in State Treasurer's Investment Pool, certificates of deposit, and debt security investments with a maturity at purchase of three months or less.

Investments are reported at their fair value. Fair value is based upon quoted market prices. Realized gains and losses from the sale of investments are calculated separately from the change in the fair value using the specific identification method. Realized gains or losses in the current period include unrealized amounts from prior periods.

**Restricted Assets** - Restricted assets represent cash and investments maintained in accordance with bond resolutions, loan agreements, grant awards and other resolutions and formal actions of the Authority or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the system. Restricted assets are generally not available for current operating expenses.

**Receivables and Revenues** - Revenues are billed monthly to customers on a cyclical meter reading basis. Unbilled revenues are accrued for estimated usage from the last meter reading date to year-end.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Authority provides for estimated uncollectible receivables through a reduction of gross water revenues and a credit to an allowance based on its assessment of the current status of individual accounts and historical write-off experience. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Operating revenues consist of net water and wastewater revenues, forfeited discounts, inspection fees and various service fees. Connection (tap) fees are recorded as revenue to the extent of expenses incurred in connecting a customer to the system. Connection fees in excess of costs, if any, are recorded as cash capital contributions.

Non-operating revenue consists of investment income and gains (losses) on the sale or disposal of capital assets. Investment income is interest earned and the change in unrealized gains and losses on the fair value of marketable debt securities.

**Expenses** - Operating expenses consist of the cost of water treatment, storage and distribution. Other operating expenses include customer billing, collections, administrative and general and depreciation on capital assets.

Non-operating expenses consist of interest on long-term liabilities, debt issuance costs and loss on the disposal or impairment of capital assets.

**Inventories** - Material and supply inventories are stated at cost using the first in, first out method. Incidental supplies are not included in inventory.

**Capital Assets** - Property, plant and equipment in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated acquisition value, if available, or at engineer's estimated acquisition value or cost to construct at the date of the contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to acquisition value.

Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred.

Interest is not capitalized on project costs funded by contributed capital, such as grants, gifts and impact fees. Interest costs of tax-exempt borrowings are capitalized, net of related investment earnings on the proceeds, during the construction period. Depreciation is not recorded until the assets are actually put into use.

The Authority defines a capital asset as an asset with an initial individual cost, or a project with a cumulative cost of more than \$5,000 and an estimated useful life in excess of one year.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capital assets are depreciated using primarily the straight-line method. Depreciation is calculated using the following estimated useful lives:

	Years
Water and Wastewater Treatment Plants	40-50
Transmission and Distribution Lines	40-50
Meters	10-15
Vehicles	5-10
Machinery and Equipment	5-20
Buildings and Improvements	15-40
Office Furniture and Equipment	5-10

**Long-Term Obligations and Costs** - Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts and gains or losses on advance or current refundings or defeasances are deferred and amortized over the life of the related bonds.

**Compensation Absences** - Accumulated vacation eligible to be paid to employees at termination is recorded as an expense and liability as the benefits are earned. The Authority has assumed a first-in, first-out method of using accumulated compensated time and the related liability has been recorded as a liability in the financial statements.

**Pensions** - For purposes of measuring the net pension liability, or asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the Authority's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

**Contributions** - Contributions are recognized in the statement of revenues, expenses and changes in net position when earned. Contributions include developer contributed utility systems, capacity and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

**Presentation of Certain Taxes** - The Authority collects various taxes from customers and remits these amounts to applicable taxing authorities. The Authority's accounting policy is to exclude these taxes from revenues and cost of sales.

**Deferred Outflows/Inflows of Resources** - In addition to assets, the balance sheet 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(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the balance sheet 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(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**Net Position** - Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted for capital activity, debt service and pensions; and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and deferred outflows of resources and deferred inflows of resources and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets; debt or deferred inflow of resources attributable to unspent proceeds or other restricted cash and investments are excluded from the determination. Restricted for capital activity, debt service and pensions consists of net positions for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The net position restricted for pensions is restricted due to state statutes, and the plan assets which are in trust, are to be used only for the benefit of retirees and beneficiaries are protected from the Authority's creditors. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

**Net Position Flow Assumption** - Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. To calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted resources are available for use, it is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

**Reclassification of Comparative Financial Statements** - Certain items in the 2017 financial statements have been reclassified to conform to the 2018 financial statements.

**Recently Issued Accounting Pronouncements**

During FY 2018, the Authority implemented GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which requires more disclosures related to the refunding of debt using internal cash resources. There was no immediate effect upon the Authority's FY 2018 financial statements or disclosures.

During FY 2017, the Authority implemented GASB Statement No. 82, *Pension Issues*, which requires the presentation of covered payroll, which is the portion of compensation paid to active employees on which contributions to the TCRS defined benefit plan are based, in the not disclosures and the required supplementary information.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

Tennessee Code Annotated (TCA) Section 7-82-108 and bond covenants restrict the types of depositories and investment securities available to the Authority. State statutes and bond indentures limit depositories to state or national banks, or credit unions located in the United States. The types of deposits and investments permitted are certificates of deposit, repurchase agreements in governmental obligations, state local government investment pool (SLGIP), obligations of states, municipalities, U.S. Government and federal agency debt securities.

At June 30, 2018 and 2017, the Authority had the following bank deposits and investments:

	<u>2018</u>	<u>2017</u>
Deposits:		
Demand Deposits	\$ 1,506,353	\$ 762,628
Certificates of Deposit	<u>918,849</u>	<u>1,226,132</u>
Total	<u>\$ 2,425,202</u>	<u>\$ 1,988,760</u>

**NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

A summary of the bank deposits and investments on the balance sheets at June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Current Assets:		
Cash and Cash Equivalents	\$ 1,438,757	\$ 578,594
Cash and Cash Equivalents - Restricted	67,596	184,034
Certificates of Deposit	<u>918,849</u>	<u>1,226,132</u>
Total	<u>\$ 2,425,202</u>	<u>\$ 1,988,760</u>

**Restricted Cash Equivalents** - The restricted cash and cash equivalents are for construction projects and for required reserves by various covenants of the revenue bonds and are to be used solely for the repayment of debt and capital improvements. As of June 30, 2018 and 2017 the amount of restricted cash and cash equivalents was \$67,596 and \$184,034.

**Custodial Credit Risk - Deposits** - The Authority's deposits, with a carrying amount of \$2,425,202 and \$1,988,760 at June 30, 2018 and 2017, respectively, were covered by FDIC insurance, pledged investment collateral held in safekeeping by a custodial bank, or by the bank collateral pool administered by the Treasurer of the State of Tennessee. The bank may use one of three different pledged security levels (90%, 100% or 105%) depending on the specific bank holding the deposit. Participating banks determine the aggregate balance of their public fund accounts for the Authority. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured and classified as Category 1, under GASB Statement No. 40, for purposes of custodial credit risk disclosure.

**Interest Income** - Interest income for 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
	\$ <u>5,326</u>	\$ <u>6,506</u>

**Investment Policies**

*Custodial Credit Risk:* The Authority's investment policy requires that investment securities be registered in the name of Anderson County Water Authority. All safekeeping receipts for investment instruments are held in accounts in the Authority's name and all securities are registered in the Authority's name.

*Credit Risk:* The Authority's investment policy and state law limits investments in non-federal obligations to issuers that are rated in the two highest rating categories by a nationally recognized rating agency of such obligations.

*Interest Rate Risk:* The Authority's Investment Policy limits its holdings to obligations having a final maturity on the date of investment of not to exceed forty-eight (48) months. Investments are made based upon prevailing market conditions with the intent to hold the instrument until maturity. If the performance of the portfolio can be improved upon by the sale of an investment prior to maturity, the policy allows for the implementation of this strategy. The Authority uses the specific identification method to manage interest rate risk.

*Concentration of Credit Risk:* The Authority's Investment Policy has no limit to its exposure to various investment debt securities as a whole or individually.

The Authority's Investment Policy does not require diversification among authorized investment broker-dealers. Presently, the Authority has selected Raymond James, Inc. as its authorized broker-dealer.

**NOTE 3 - CAPITAL ASSETS**

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2018 was as follows:

	Balance 7/1/17	Additions and Transfers	Deletions, Retirements and Transfers	Balance 6/30/18
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 537,840	\$ 111,151	\$ 0	\$ 648,991
Construction in Progress	327,745	900,668	(477,819)	750,594
<b>Total Capital Assets Not Being Depreciated</b>	<b>865,585</b>	<b>1,011,819</b>	<b>(477,819)</b>	<b>1,399,585</b>
Capital Assets Being Depreciated:				
Water System:				
Mains, Lines and Reservoirs	26,396,999	322,456	0	26,719,455
Treatment Facilities	9,829,198	0	0	9,829,198
Wastewater System:				
Collection Lines and Equipment	8,395,989	155,362	0	8,551,351
Treatment Facilities	340,489	0	0	340,489
Other:				
Building and Improvements	545,432	0	0	545,432
Miscellaneous Equipment & Tools	67,647	0	(9,700)	57,947
Vehicles and Machinery & Equipment	1,246,740	16,528	(48,869)	1,214,399
Office Furniture and Equipment	133,650	0	0	133,650
<b>Total Capital Assets Being Depreciated</b>	<b>46,956,144</b>	<b>494,346</b>	<b>(58,569)</b>	<b>47,391,921</b>
Less Accumulated Depreciation:				
Water System:				
Mains, Lines and Reservoirs	11,277,392	622,018	0	11,899,410
Treatment Facilities	7,108,744	248,958	0	7,357,702
Wastewater System:				
Collection Lines and Equipment	1,984,271	199,528	0	2,183,799
Treatment Facilities	158,310	7,776	0	166,086
Other:				
Building and Improvements	94,887	14,126	0	109,013
Miscellaneous Equipment & Tools	62,150	2,908	(9,700)	55,358
Vehicles and Machinery & Equipment	692,823	104,825	(48,869)	748,779
Office Furniture and Equipment	99,495	6,897	0	106,392
<b>Total Accumulated Depreciation</b>	<b>21,478,072</b>	<b>1,207,036</b>	<b>(58,569)</b>	<b>22,626,539</b>
<b>Total Capital Assets Being Depreciated - Net</b>	<b>25,478,072</b>	<b>(712,690)</b>	<b>0</b>	<b>24,765,382</b>
<b>Total Capital Assets</b>	<b>\$ 26,343,657</b>	<b>\$ 299,129</b>	<b>\$ (477,819)</b>	<b>\$ 26,164,967</b>

Depreciation expense was \$1,207,036 for 2018.

**NOTE 3 - CAPITAL ASSETS (Continued)**

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2017, was as follows:

	Balance 7/1/16	Additions and Transfers	Deletions, Retirements and Transfers	Balance 6/30/17
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 504,359	\$ 33,481	\$ 0	\$ 537,840
Construction in Progress	1,425,345	4,099,871	(5,197,471)	327,745
<b>Total Capital Assets Not Being Depreciated</b>	<b>1,929,704</b>	<b>4,133,352</b>	<b>(5,197,471)</b>	<b>865,585</b>
Capital Assets Being Depreciated:				
Water System:				
Mains, Lines and Reservoirs	23,430,831	2,966,168	0	26,396,998
Treatment Facilities	9,829,198	0	0	9,829,198
Wastewater System:				
Collection Lines and Equipment	5,391,070	3,004,919	0	8,395,989
Treatment Facilities	340,489	0	0	340,489
Other:				
Buildings and Improvements	537,025	8,407	0	545,432
Miscellaneous Equipment & Tools	67,647	0	0	67,647
Vehicles and Machinery & Equipment	1,201,886	140,158	(95,304)	1,246,740
Office Furniture and Equipment	133,650	0	0	133,650
<b>Total Capital Assets Being Depreciated</b>	<b>40,931,796</b>	<b>6,119,652</b>	<b>(95,304)</b>	<b>46,956,144</b>
Less Accumulated Depreciation:				
Water System:				
Mains, Lines and Reservoirs	10,712,183	565,209	0	11,277,392
Treatment Facilities	6,858,047	250,697	0	7,108,744
Wastewater System:				
Collection Lines and Equipment	1,834,797	149,474	0	1,984,271
Treatment Facilities	150,534	7,776	0	158,310
Other:				
Buildings and Improvements	81,286	13,601	0	94,887
Miscellaneous Equipment & Tools	58,479	3,671	0	62,150
Vehicles and Machinery & Equipment	682,929	105,198	(95,304)	692,823
Office Furniture and Equipment	89,397	10,098	0	99,495
<b>Total Accumulated Depreciation</b>	<b>20,467,652</b>	<b>1,105,724</b>	<b>(95,304)</b>	<b>21,478,072</b>
<b>Total Capital Assets Being Depreciated - Net</b>	<b>20,464,144</b>	<b>5,013,928</b>	<b>0</b>	<b>25,478,072</b>
<b>Total Capital Assets</b>	<b>\$ 22,393,848</b>	<b>\$ 9,147,280</b>	<b>\$ (5,197,471)</b>	<b>\$ 26,343,657</b>

Depreciation expense was \$1,105,724 for 2017.

**NOTE 4 - CONSTRUCTION IN PROGRESS**

Construction in progress at June 30 consisted of:

Projects	2018		2017	
	Actual To Date	Remaining Contractual Commitments	Actual To Date	Remaining Contractual Commitments
Warehouse & Distribution Center	\$ 269,849	\$ 164,437	\$ 0	\$ 0
SRF Phase II Odor Control	187,794	0	0	0
Mountain Rd. Wastewater Lines	0	0	50,087	0
Tecora Hills Water Lines	161,711	0	78,092	0
Fox Rd. Water Lines & Booster Station	0	0	175,940	0
Various Projects	131,240	0	23,626	0
<b>Total Construction in Progress</b>	<b>\$ 750,594</b>	<b>\$ 164,437</b>	<b>\$ 327,745</b>	<b>\$ 0</b>

There were no contractual construction commitments as of June 30, 2017.

**NOTE 5 - DEBT SERVICE FUNDS ON DEPOSIT WITH THE STATE OF TENNESSEE**

During fiscal year 2016, the Authority obtained a loan from the State of Tennessee Clean Water - State Revolving Loan Note Payable for up to \$2,810,057 to be repaid in annual principal and interest payments of \$150,612 over 20 years. As required by this program, the Authority was required to deposit one year's worth of debt service payments, or \$150,608, with the State of Tennessee Comptroller of the Treasury – Office of State and Local Finance, the loan administrator. The funds are being held in the Tennessee Local Government Investment Pool (LGIP) in a pooled account established by the Tennessee Local Development Authority (TLDA). The Authority will be credited with a pro-rata share of the investment earnings. During 2018, the TLDA returned \$22,611 of the funds on deposit to the Authority. The amount of funds on deposit as of June 30, 2018 and 2017 was \$128,268 and \$150,879.

**NOTE 6 - ACCRUED LIABILITIES**

Accrued liabilities at June 30, 2018 and 2017 consisted of the following:

	2018	2017
Sales Taxes Payable	\$ 38,354	\$ 35,293
Accrued Salaries and Payroll Taxes	29,947	18,062
<b>Total</b>	<b>\$ 68,301</b>	<b>\$ 53,355</b>

**NOTE 7 - LONG-TERM DEBT**

Long-term debt at June 30, 2018 and 2017 consisted of the following:

**Revenue Bonds and Notes Payable**

	<u>2018</u>	<u>2017</u>
Revenue Term Bonds Series 2016 of \$8,750,000 with interest rates between 2% to 3% were issued on July 22, 2016. Semi-annual payments on June 1 and December 1 through June 1, 2036. Principal payments are annually deposited with the bond trustee on June 1, ranging from \$125,000 to \$615,000. Interest is paid semi-annually ranging from \$104,650 to \$9,225. Bond proceeds of \$7,290,195 were used to advance refund a portion of the Revenue Bonds Series 2010.	\$ 8,495,000	\$ 8,620,000
Revenue Term Bonds Series 2010 of \$8,650,000 with an interest rate of between 2% to 5%. Semi-annual payments on June 1 and December 1 through June 1, 2036. Principal payments are annually deposited with the bond trustee on June 1, ranging from \$165,000 to \$555,000. Interest is paid semi-annually ranging from \$167,167 to \$13,875. On July 22, 2016, \$6,390,000 of the bonds were defeased. The remaining outstanding bonds will be repaid as originally scheduled by June 1, 2020.	530,000	785,000
State Revolving Fund Loan Note Payable 2015 of \$2,372,462, net of \$593,116 in debt forgiveness, with an interest rate of 0.70%. Monthly payments of \$10,836 to \$10,693 from April 2017 through 2037. The final draw down date was February 15, 2018.	2,262,540	1,846,026
Note Payable to Community Bank of East Tennessee 2018 of \$500,000, with interest at 2.42%. Annual principal payments of \$100,000 plus accrued interest from June 19, 2019 through June 19, 2023. The outstanding principal amount at June 30, 2018 is \$150,000 with an expected final draw down of this loan in September 2018. This loan is secured by a \$512,000 certificate of deposit.	<u>150,000</u> 11,437,540	<u>0</u> 11,251,026
Add: Unamortized Bond Premium	<u>215,191</u>	<u>235,415</u>
Total	<u>\$ 11,652,731</u>	<u>\$ 11,486,441</u>
Current Portion	\$ 607,788	\$ 467,072
Long-Term	<u>11,044,943</u>	<u>11,019,369</u>
Total	<u>\$ 11,652,731</u>	<u>\$ 11,486,441</u>

The Authority has pledged revenues as collateral for the Revenue Term Bonds Series 2016, 2010 and the State Revolving Fund Loan Note Payable 2015. The bond and note holders have placed statutory liens upon the Authority as permitted by TCA, Section 7-28-101, and will remain in effect until the bond issue and note are paid in full. There are bond and note covenants which require a minimum debt service coverage ratio of 1.2; the ratio for 2018 and 2017 was 2.08 and 2.81.

**NOTE 7 - LONG-TERM DEBT (Continued)**

**Activity**

The following is a summary of changes in long-term debt for 2018 and 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
<b>2018</b>					
Revenue Bonds	\$ 9,405,000	\$ 0	\$ (380,000)	\$ 9,025,000	\$ 395,000
Notes Payable	1,846,026	789,977	(223,463)	2,412,540	212,788
Add: Bond Premium	235,415	0	(20,224)	215,191	0
<b>Total</b>	<b>\$ 11,486,441</b>	<b>\$ 789,977</b>	<b>\$ (623,687)</b>	<b>\$ 11,652,731</b>	<b>\$ 607,788</b>
<b>2017</b>					
Revenue Bonds	\$ 7,420,000	\$ 8,750,000	\$ (6,765,000)	\$ 9,405,000	\$ 380,000
Note Payable	774,129	1,551,471	(479,574)	1,846,026	87,072
Add: Bond Premium	155,320	253,104	(173,009)	235,415	0
<b>Total</b>	<b>\$ 8,349,449</b>	<b>\$ 10,554,575</b>	<b>\$ (7,417,583)</b>	<b>\$ 11,486,441</b>	<b>\$ 467,072</b>

**Debt Service**

The annual debt service requirements of the bonds and notes payable as of June 30, 2018 are as follows:

Years Ending June 30,	Principal	Interest	Total
2019	\$ 607,788	\$ 246,244	\$ 854,032
2020	568,580	231,862	800,442
2021	539,384	216,451	755,835
2022	545,188	200,394	745,582
2023	560,992	184,117	745,109
2024-2028	3,007,284	755,460	3,762,744
2029-2033	3,323,392	471,328	3,794,720
2034-2037	2,284,932	110,406	2,395,338
<b>Total</b>	<b>\$ 11,437,540</b>	<b>\$ 2,416,262</b>	<b>\$ 13,853,802</b>

**Interest Expense**

Interest expense for 2018 and 2017 consisted of the following:

	2018	2017
Interest Paid	\$ 242,361	\$ 223,201
Change in Accrued Interest Payable	(844)	(6,738)
Less: Capitalization of Construction Period Interest	0	(44,370)
Amortization of Bond Premium	(20,224)	(17,689)
Amortization of Deferred Cost of Defeasance	72,021	73,334
<b>Total</b>	<b>\$ 293,314</b>	<b>\$ 227,738</b>

The amortization of the deferred cost of defeasance is related to advance refundings of debt as described in Note 8 and a current refunding of debt that occurred during fiscal year 2011.

**NOTE 7 - LONG-TERM DEBT (Continued)**

**Restricted Cash and Cash Equivalents - Debt Service**

The Revenue Term Bonds - Series 2016 and 2010, require the Authority to make mandatory semi-annual sinking fund payments to the bond trustee, Regions Bank, who is responsible for paying the bondholder when the term bonds mature on June 1, 2036.

The Authority is required by various bond covenants to maintain the following restricted cash and cash equivalents at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Bond Principal and Interest Payment Account	\$ <u>67,596</u>	\$ <u>82,514</u>

**NOTE 8 - DEFEASANCE OF DEBT**

**Advanced Refunding - 2017**

On July 22, 2016, the Authority refinanced \$6,390,000 of the Series 2010 Revenue Bonds. The remaining outstanding portion of the Series 2010 Bonds will be repaid as previously scheduled with a final principal payment of \$245,000 due on June 1, 2020. The Authority placed \$7,290,195 of funds with the escrow agent (Regions Bank) which was used to purchase State and Local Government Securities (SLGS) for the purpose of generating resources for future debt service payments of \$9,355,839. Future payments consist of semi-annual interest payments due on January 1, 2017 through June 1, 2036, and annual principal payments due on June 1 with a final principal payment of \$520,000 due on June 1, 2036. The amount of the outstanding defeased debt as of June 30, 2018 and 2017 was \$6,390,000. The advanced refunded bonds are considered defeased and the liability has been removed from the Authority's balance sheet. The escrowed investment securities exceeded the net carrying amount of the old debt by \$944,550. This deferred refunding loss will be amortized through June 1, 2036, using the stated interest method.

Due to the lower interest rates of the Series 2016, the refunding portion decreased total aggregate debt service payments by \$904,315. In addition, the Authority incurred an economic gain, the difference between the present values of the old and new debt service payments of \$757,172.

**Advanced Refunding - 2010**

On December 31, 2008, the Authority refinanced \$3,080,000 in revenue bonds previously issued by North Anderson County Utility District (NACUD) which were assumed by the Authority. The Authority placed \$3,355,507 of funds with the escrow agent (Regions Bank) which was used to purchase State and Local Government Securities (SLGS) for the purpose of generating resources for future debt service payments of \$3,540,450. Future payments consist of annual bond principal maturities of between \$275,000 to \$305,000 on January 1, 2010 through January 1, 2013, and a final principal redemption of \$1,920,000, which requires a call premium of 1%, on the call date of January 1, 2014. As a result, the advanced refunded bonds are considered to be defeased and the liability has been removed from the Authority's balance sheet. The escrowed investment securities exceeded the net carrying amount of the old debt by \$595,687. This amount was amortized over the original life of the old NACUD Series 2004 debt issue through January 1, 2019, using the stated interest required method.

Due to the additional eight years until maturity in 2026, the refunding increased total aggregate debt service payment by \$736,263. In addition, the Authority incurred an economic loss, the difference between the present values of the old and new debt service payments of \$145,899.

**Deferred Outflows of Resources**

As of June 30, 2018 and 2017 the remaining unamortized deferred cost of defeasance was \$799,195 and \$871,216.

**NOTE 9 - COMPENSATED ABSENCES**

Changes in compensated absences for the years ended June 30, 2018 and 2017, consisted of:

	<u>2018</u>	<u>2017</u>
Beginning Balance	\$ 50,799	\$ 54,196
Earned	86,000	83,841
Used	<u>(78,740)</u>	<u>(87,238)</u>
Ending Balance	\$ <u>58,059</u>	\$ <u>50,799</u>
Current Portion Due	\$ <u>58,059</u>	\$ <u>50,799</u>

Since the amount of compensated absences used by the employees during 2018 and 2017 is more than the amount outstanding at June 30, 2018 and 2017, the year-end liability amount has been recorded on the balance sheets as a current liability.

**NOTE 10 - NET POSITION**

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources, if any. The net position at June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Net Investment in Capital Assets		
Capital Assets, Net of Accumulated Depreciation	\$ 26,164,967	\$ 26,343,657
Less: Revenue Bonds and Notes Payable - Net of Unamortized Premiums and Discounts	(11,652,731)	(11,486,441)
Add: Unamortized Deferred Refunding Losses	<u>799,195</u>	<u>871,216</u>
	<u>15,311,431</u>	<u>15,728,432</u>
Restricted for Debt Service:		
Restricted Cash and Cash Equivalents	67,596	82,514
Debt Service Funds on Deposit with the State of Tennessee	128,268	150,879
Less: Accrued Interest Payable	<u>(18,075)</u>	<u>(18,919)</u>
	<u>177,789</u>	<u>214,474</u>
Restricted for Capital Asset Activity:		
Restricted Cash and Cash Equivalents	0	101,520
Less: Accounts Payable for Capital Assets	<u>0</u>	<u>(101,520)</u>
	<u>0</u>	<u>0</u>
Restricted for Pensions:		
Net Pension Asset	<u>361,022</u>	<u>317,495</u>
Unrestricted	<u>2,994,038</u>	<u>2,391,644</u>
Total	\$ <u>18,844,280</u>	\$ <u>18,652,045</u>

**NOTE 11 - CAPITAL CONTRIBUTIONS**

Capital contributions during 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Non-Cash:		
Anderson County, TN (Funded by Federal Grants awarded to the County.)	\$ 0	\$ 815,465
City of Oak Ridge, TN - Donated Equipment	7,500	0
State of Tennessee - Debt Forgiveness of State Drinking Water Revolving Loan - Note Payable	<u>127,996</u>	<u>465,120</u>
Total	<u>\$ 135,496</u>	<u>\$ 1,280,585</u>

**Noncash**

The non-cash contribution of \$7,500 received from the City of Oak Ridge during FY 2018 was for donated equipment. During 2017, non-cash contributions received from Anderson County, which were funded by federal grants awarded to and administered by the County funded by the Office of Surface Mining for \$205,000 for water lines in the Upper Vowell Mountain area and from the U.S. Housing and Urban Development – Community Development Block Grant for \$610,465 for water lines along TN State Route 71 and Hickory Valley in the eastern end of Anderson County and western parts of Union County. During 2018 and 2017, the State of Tennessee forgave \$127,996 and \$465,120, or 20%, of the Authority’s note payable to the State Drinking Water Revolving Loan Fund.

**NOTE 12 - NET OPERATING REVENUES**

Net operating revenues during 2018 and 2017 consisted of the following:

	<u>Water</u>	<u>Wastewater</u>	<u>Other Charges</u>	<u>Total</u>
<b><u>2018</u></b>				
Gross Revenues	\$ 4,624,741	\$ 896,738	\$ 419,527	\$ 5,941,006
Less: Provision for Bad Debt Expense	<u>(20,864)</u>	<u>(4,045)</u>	<u>0</u>	<u>(24,909)</u>
Operating Revenues - Net	<u>\$ 4,603,877</u>	<u>\$ 892,693</u>	<u>\$ 419,527</u>	<u>\$ 5,916,097</u>
<b><u>2017</u></b>				
Gross Revenues	\$ 4,551,823	\$ 929,620	\$ 476,066	\$ 5,957,509
Less: Provision for Bad Debt Expense	<u>(20,685)</u>	<u>(4,224)</u>	<u>0</u>	<u>(24,909)</u>
Operating Revenues - Net	<u>\$ 4,531,138</u>	<u>\$ 925,396</u>	<u>\$ 476,066</u>	<u>\$ 5,932,600</u>

**NOTE 13 - WHOLESALE WATER SALES**

The Authority sells treated water on a month-to-month basis to the Caryville - Jacksboro Utility District (CJUD) and the City of Rocky Top, Tennessee (formerly Lake City) for \$1.20 per 1,000 gallons. During 2018 and 2017, the revenues earned under these billings were \$291,089 and \$247,924.

**NOTE 14 - DEFINED BENEFIT PENSION PLAN - TCRS**

On January 1, 2009, the Authority established a defined benefit pension plan through the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System, (TCRS). All full-time employees (also known as members) are required to participate.

**Plan Description** - Employees of the Authority are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. TCRS was created by state statute under Tennessee Code Annotate (TCA) Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of TCRS. TCRS issues a publicly available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

**Benefits Provided** - TCA Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The Authority's Board of Directors may adopt the benefit terms permitted by state statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 for members who are vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related, and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLA's) after retirement. A COLA is granted each July for annuitants retired prior to the 2<sup>nd</sup> of July in the previous year. A COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3.0%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

**Employees Covered by Benefit Terms** - At the measurement dates of June 30, 2017 and 2016, the following employees were covered by the benefit terms:

	<u>2017</u>	<u>2016</u>
Inactive Employees or Beneficiaries Currently Receiving Benefits	2	2
Inactive Employees Entitled to but Not Yet Receiving Benefits	2	1
Active Employees	<u>31</u>	<u>32</u>
Total	<u><u>35</u></u>	<u><u>35</u></u>

**Contributions** - Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5.0% of salary. The Authority makes employer contributions at the rate set by the TCRS Board of Trustees as determined by an actuarial valuation. For the years ended June 30, 2018 and 2017, the Actuarially Determined Contributions (ADC) for Anderson County Water Authority were \$94,461 and \$88,747 based on a rate of 6.14% and 5.86% of covered payroll, respectively. By law, employer contributions are required to be paid. The TCRS may intercept the Authority's state shared taxes, if applicable, if the required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of unfunded liability.

**Net Pension Liability (Asset)**

The Authority's net pension liability (asset) was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of those dates.

**NOTE 14 - DEFINED BENEFIT PENSION PLAN - TCRS (Continued)**

**Actuarial Assumptions** - The total pension liability as of June 30, 2017 and 2016 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50% (2017), 3.00% (2016)
Salary Increases	Graded salary ranges from 8.75% to 3.45% (2017), 8.97% to 3.71% (2016) based on age, including inflation, averaging 4.00% (2017), 4.25% (2016)
Investment Rate of Return	7.25% (2017), 7.50% (2016), net of pension plan investment expenses, including inflation
Cost-of-living-adjustment	2.25% (2017), 2.50% (2016)

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2017 and 2016 actuarial valuations were based on the results of an actuarial experience study performed for the periods of July 1, 2012 through June 30, 2016 and July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

**Changes of Assumptions** - In 2017, the following assumptions were changed: decreased inflation rate from 3.00% to 2.50%; decreased the investment rate of return from 7.50% to 7.25%; decreased the cost-of-living adjustment from 2.50% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4.00%; and modified mortality assumptions.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.50%.

The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	2017		2016	
	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation
U.S. Equity	5.69%	31%	6.46%	33%
Developed Market International Equity	5.29%	14%	6.26%	17%
Emerging Market International Equity	6.36%	4%	6.40%	5%
Private Equity and Strategic Lending	5.79%	20%	4.61%	8%
U.S. Fixed Income	2.01%	20%	0.98%	29%
Real Estate	4.32%	10%	4.73%	7%
Short-Term Securities	0.00%	1%	0.00%	1%
Total		100%		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% (2017) and 7.50% (2016) based on a blending of the factors described above.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.25% (2017) and 7.50% (2016). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that employer contributions from the Authority will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**NOTE 14 - DEFINED BENEFIT PENSION PLAN - TCRS (Continued)**

**Changes in Net Pension Liability (Asset)**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
<b>Balance at June 30, 2015</b>	\$ 1,280,721	\$ 1,626,570	\$ (345,849)
<b>Changes for the Year:</b>			
Service Cost	106,108	0	106,108
Interest	103,737	0	103,737
Differences between expected and actual experience	17,901	0	17,901
Contributions - Employer	0	85,062	(85,062)
Contributions - Employees	0	71,912	(71,912)
Net Investment Income	0	44,853	(44,853)
Benefit Payments, including Refunds of Employee Contributions	(7,333)	(7,333)	0
Administrative Expenses	0	(2,435)	2,435
<b>Net Change</b>	<u>220,413</u>	<u>192,059</u>	<u>28,354</u>
<b>Balance at June 30, 2016</b>	<u>1,501,134</u>	<u>1,818,629</u>	<u>(317,495)</u>
<b>Changes for the Year:</b>			
Service Cost	108,801	0	108,801
Interest	120,227	0	120,227
Differences between expected and actual experience	63,833	0	63,833
Changes in Assumptions	39,863	0	39,863
Contributions - Employer	0	88,747	(88,747)
Contributions - Employees	0	75,723	(75,723)
Net Investment Income	0	214,494	(214,494)
Benefit Payments, including Refunds of Employee Contributions	(13,826)	(13,826)	0
Administrative Expenses	0	(2,713)	2,713
<b>Net Change</b>	<u>318,898</u>	<u>362,425</u>	<u>(43,527)</u>
<b>Balance at June 30, 2017</b>	<u>\$ 1,820,032</u>	<u>\$ 2,181,054</u>	<u>\$ (361,022)</u>

**Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate** - The following presents the net pension liability (asset) of the Authority calculated using the discount rate of 7.25% and 7.50%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1% lower (6.25% & 6.50%) or 1% higher (8.25% & 8.50%) than the current rate:

Net Pension Liability (Asset)	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
	2017	\$ <u>(43,320)</u>	\$ <u>(361,022)</u>
	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
2016	\$ <u>(57,857)</u>	\$ <u>(317,495)</u>	\$ <u>(529,162)</u>

**NOTE 14 - DEFINED BENEFIT PENSION PLAN - TCRS (Continued)**

**Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources**

**Pension Expense (Income)** - For the fiscal years June 30, 2018 and 2017, the Authority recognized pension expense of \$26,551 and \$28,321.

**Deferred Outflows of Resources and Deferred Inflows of Resources** - For the fiscal year ended June 30, 2018 and 2017, the Authority reported deferred outflows of resources and deferred inflows of resources as follows:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2018	2017	2018	2017
Differences between Expected and Actual Experience	\$ 130,834	\$ 86,111	\$ 34,669	\$ 39,622
Net Difference between Projected and Actual Investment Earnings	0	63,332	3,109	0
Changes in Assumptions	35,434	0	0	0
Employer contributions subsequent to the measurement dates of June 30, 2017 and 2016	94,461	88,747	0	0
<b>Total</b>	<b>\$ 260,729</b>	<b>\$ 238,190</b>	<b>\$ 37,778</b>	<b>\$ 39,622</b>

The amount shown above for “Employer contributions subsequent to the measurement dates of June 30, 2017 and 2016”, will be recognized as a reduction (increase) to the net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

Years Ended June 30:	
2019	\$ 12,478
2020	34,076
2021	20,608
2022	4,076
2023	18,586
Thereafter	38,666

In the table above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

**Payable to the Pension Plan**

At June 30, 2018 and 2017, the Authority reported no accounts payable to TCRS.

**Required Supplementary Information**

The Authority has presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the net pension liability (asset) assets is increasing or decreasing over time relative to the plan’s fiduciary net position and if the Authority has made its actuarial determined contributions as required by the TCRS.

#### **NOTE 15 - AGENT MULTIPLE EMPLOYER DEFINED CONTRIBUTION RETIREMENT PLANS**

As of January 1, 2018, the Authority offered its full time and part-time employees the ability to enroll in deferred compensation plans as administered by the State of Tennessee Treasurer's Office. These plans are agent multiple employer defined contribution plans. Employees may contribute to the State of Tennessee 401(k) and/or 457 plans. Employees are permitted to make contributions to the plans up to the maximum Internal Revenue Code annual limits. During FY 2018, the Authority did not make any employer matching contributions. As of June 30, 2018, there were two participating employees.

#### **NOTE 16 - RISK MANAGEMENT**

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority's loss exposure for general liability and worker's compensation is limited by state law.

During fiscal years 2018 and 2017, the Authority obtained general liability, vehicle, errors and omissions, worker's compensation, and other property and casualty insurance coverage through commercial insurance.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The occurrence deductible for each insurance policy of the Authority is as follows: comprehensive general liability \$0, public official's liability \$2,500, electronic data processing \$0, property \$1,000, automobile \$500, and umbrella policy \$0.

#### **NOTE 17 - ECONOMIC CONCENTRATION**

The Authority's area covers the unincorporated areas of Anderson County located in East Tennessee. At June 30, 2018 and 2017, the Authority served and water customers located in a semi-rural area 25 miles from Knoxville, Tennessee. The Authority's ten largest customers accounted for 12% and 13% of water revenues during 2018 and 2017.

#### **NOTE 18 - SUBSEQUENT EVENT**

Effective July 1, 2018, the Authority decreased the amount of water usage from 1,200 to 1,000 gallons per month for the minimum customer billing of \$18.00.

**REQUIRED SUPPLEMENTARY INFORMATION**

ANDERSON COUNTY WATER AUTHORITY

SCHEDULES OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS  
BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS

Last Four Fiscal Years Ending June 30

	2017	2016	2015	2014
<b>Total Pension Liability</b>				
Service Cost	\$ 108,801	\$ 106,108	\$ 98,271	\$ 58,821
Interest	120,227	103,737	93,817	74,681
Changes in Benefit Terms	0	0	0	0
Differences between Actual and Expected Experience	63,833	17,901	(49,528)	100,283
Change of Assumptions	39,863	0	0	0
Benefit Payments, Including Refunds of Employee Contributions	<u>(13,826)</u>	<u>(7,333)</u>	<u>(28,914)</u>	<u>(7,269)</u>
<b>Net Change in Pension Liability</b>	318,898	220,413	113,646	226,516
<b>Total Pension Liability - Beginning</b>	<u>1,501,134</u>	<u>1,280,721</u>	<u>1,167,075</u>	<u>940,559</u>
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 1,820,032</u>	<u>\$ 1,501,134</u>	<u>\$ 1,280,721</u>	<u>\$ 1,167,075</u>
<b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ 88,747	\$ 85,062	\$ 85,182	\$ 75,969
Contributions - Employees	75,723	71,912	71,962	65,831
Net Investment Income	214,494	44,853	46,425	197,213
Benefit Payments, Including Refunds of Employee Contributions	(13,826)	(7,333)	(28,914)	(7,269)
Administrative Expenses	<u>(2,713)</u>	<u>(2,435)</u>	<u>(1,624)</u>	<u>(1,094)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	362,425	192,059	173,031	330,650
<b>Plan Fiduciary Net Position - Beginning</b>	<u>1,818,629</u>	<u>1,626,570</u>	<u>1,453,539</u>	<u>1,122,889</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 2,181,054</u>	<u>\$ 1,818,629</u>	<u>\$ 1,626,570</u>	<u>\$ 1,453,539</u>
<b>Net Pension Liability (Asset) - Ending (a) - (b)</b>	<u>\$ (361,022)</u>	<u>\$ (317,495)</u>	<u>\$ (345,849)</u>	<u>\$ (286,464)</u>
<b>Plan Fiduciary Net Position as % of Total Pension Liability</b>	119.84%	121.15%	127.00%	124.55%
<b>Covered Payroll</b>	\$ 1,514,454	\$ 1,446,761	\$ 1,456,098	\$ 1,316,623
<b>Net Pension Liability (Asset) as a % of Covered Payroll</b>	-23.84%	-21.95%	-23.75%	-21.76%

Notes: (1) The measurement period is for the previous fiscal year.

(2) Fiscal year 2015 was the first year the Authority implemented GASB Statement No. 68.

(3) Future years will be added to this schedule until 10 years of information is available.

**ANDERSON COUNTY WATER AUTHORITY**  
**SCHEDULES OF EMPLOYER CONTRIBUTIONS BASED ON PARTICIPATION IN THE**  
**PUBLIC EMPLOYEE PENSION PLAN OF TCRS**

**Last Five Fiscal Years Ending June 30**

	2018	2017	2016	2015	2014
Actuarially Determined Contribution (ADC)	\$ 94,461	\$ 88,747	\$ 85,062	\$ 85,182	\$ 75,969
Contributions Made in Relation to ADC	94,461	88,747	85,062	85,182	75,969
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 1,513,798	\$ 1,514,454	\$ 1,446,761	\$ 1,456,098	\$ 1,316,623
Contributions as a % of Covered Payroll	6.14%	5.86%	5.88%	5.85%	5.77%

**Notes to the Schedule**

*Valuation Date:* Actuarially determined contribution rates for FY 2018 was based on the results of the June 30, 2017 actuarial valuation. Detailed below are the methods and assumptions used in the June 30, 2017 actuarial valuation.

*Methods and Assumptions Used to Determine Contribution Rates:*

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar, Closed (not to exceed 20 years)
Remaining Amortization Period	Varies by Year
Asset Valuation	10 Year Smoothed within a 20% corridor to market value
Inflation	3.00%
Salary Increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%.
Investment Rate of Return	7.50%, net of investment expense, including inflation
Retirement Age	Pattern of retirement determined by experience study.
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvements.
Cost of Living Adjustments	2.50%

**SUPPLEMENTARY INFORMATION**

**ANDERSON COUNTY WATER AUTHORITY**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS**

**June 30, 2018**

Years Ending June 30,	Revenue Term Bonds Series 2016		Revenue Term Bonds Series 2010		State Revolving Fund Loan Note Payable 2015		Community Bank of East Tennessee Note Payable 2018		Total Principal	Total Interest	Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest			
2019	\$ 135,000	\$ 201,650	\$ 260,000	\$ 15,250	\$ 112,788	\$ 17,244	\$ 100,000	\$ 12,100	\$ 607,788	\$ 246,244	\$ 854,032
2020	135,000	197,600	270,000	8,100	113,580	16,368	50,000	9,794	568,580	231,862	800,442
2021	425,000	193,550	0	0	114,384	15,468	0	7,433	539,384	216,451	755,835
2022	430,000	180,800	0	0	115,188	14,580	0	5,014	545,188	200,394	745,582
2023	445,000	167,900	0	0	115,992	13,680	0	2,537	560,992	184,117	745,109
2024	460,000	159,000	0	0	116,808	12,768	0	0	576,808	171,768	748,576
2025	470,000	149,800	0	0	117,624	11,856	0	0	587,624	161,656	749,280
2026	480,000	140,400	0	0	118,452	10,932	0	0	598,452	151,332	749,784
2027	500,000	130,800	0	0	119,280	10,020	0	0	619,280	140,820	760,100
2028	505,000	120,800	0	0	120,120	9,084	0	0	625,120	129,884	755,004
2029	515,000	110,700	0	0	120,972	8,136	0	0	635,972	118,836	754,808
2030	520,000	100,400	0	0	121,812	7,188	0	0	641,812	107,588	749,400
2031	545,000	88,700	0	0	122,676	6,228	0	0	667,676	94,928	762,604
2032	555,000	76,438	0	0	123,528	5,280	0	0	678,528	81,718	760,246
2033	575,000	63,950	0	0	124,404	4,308	0	0	699,404	68,258	767,662
2034	585,000	49,574	0	0	125,280	3,336	0	0	710,280	52,910	763,190
2035	600,000	34,950	0	0	126,156	2,352	0	0	726,156	37,302	763,458
2036	615,000	18,450	0	0	127,044	1,368	0	0	742,044	19,818	761,862
2037	0	0	0	0	106,452	376	0	0	106,452	376	106,828
Totals	\$ 8,495,000	\$ 2,185,462	\$ 530,000	\$ 23,350	\$ 2,262,540	\$ 170,572	\$ 150,000	\$ 36,878	\$ 11,437,540	\$ 2,416,262	\$ 13,853,802

**ANDERSON COUNTY WATER AUTHORITY**

**SCHEDULE OF RATES AND STATISTICS**

**June 30, 2018 and 2017**

1. Monthly Water Rates

All Customers:

1st 1,200 gallons - \$18.00 minimum bill.

All over 1,200 gallons - \$6.20 per 1,000 gallons.

2. Monthly Wastewater Rates

Sewer Residential:

1st 1,200 gallons of water used - \$24.48 minimum bill.

All over 1,200 gallons of water used - \$9.32 per 1,000 gallons.

Sewer Commercial:

1st 1,200 gallons of water used - \$24.48 minimum bill.

All over 1,200 gallons of water used - \$10.58 per 1,000 gallons.

3. Service Charges:

Residential Connection Fee	\$	40
Customer Deposits - Residential Renters		100
Commercial Connection Fee		100
Wastewater Connection Fee		50
Reconnection Fee for Nonpayment		50
Returned Check Fee		25
Reactivation Fee		20

4. New Service Installation

Water Tap Fees for:

$\frac{3}{4}$ "	\$	900
1"		1,300
2"		2,800
Above 2"		1,000
		Plus actual costs

5. There were 9,689 and 9,591 water and 962 and 884 wastewater customers at June 30, 2018 and 2017.

**ANDERSON COUNTY WATER AUTHORITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**AND STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2018**

<u>Grantor Agency</u>	<u>Federal CFDA Number</u>	<u>Program Name</u>	<u>Contract or Grant #</u>	<u>Passed Through to Subrecipients</u>	<u>Expenditures/ Amounts Earned</u>
<b>FEDERAL AWARD</b>					
U.S. Environmental Protection Agency: Passed through the Tennessee Department of Environment and Conservation: Office of Water	66.458	Capitalization Grant for Clean Water Revolving Funds	CG2 2014-331	\$ <u>0</u> \$	533,315
<b>STATE AWARD</b>					
Direct Loan: Tennessee Department of Environment and Conservation	N/A	Capitalization Grant for Clean Water Revolving Funds State Revolving Fund Loan	CG2 2014-331	N/A	<u>9,359</u>
Total					\$ <u><u>542,674</u></u>

The accompanying notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance are an integral part of this Schedule.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE

For the Year Ended June 30, 2018

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal award and of state financial assistance (the "Schedule") include the federal award and state grant activity of the Anderson County Water Authority (the "Authority") for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the Tennessee Comptroller of the Treasury. Because the Schedule present only a selected portion of the operations of the Authority, they are not intended to and do not present the financial position, changes in net position, or cash flows of the Anderson County Water Authority.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported in the Schedule are reported on the full accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3 - INDIRECT COSTS**

Some of the Authority's federal and state funded programs may allow indirect costs to be charged and include them as a line item in the grant budget. However, if the grant budget does not specifically provide for indirect costs to be charged, none of the indirect costs are reported as costs to the grantor nor are the costs included or presented in the schedules of expenditures of federal awards and of state financial assistance. The Authority has elected not to use the ten percent de minimis indirect rate as allowed under the *Uniform Guidance*.

### AWWA Free Water Audit Software: Reporting Worksheet

WAS v5.0  
American Water Works Association.

? Click to access definition  
+ Click to add a comment

**Water Audit Report for:** Anderson County Water Authority (0000514)  
**Reporting Year:** 2018 7/2017 - 6/2018

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

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

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

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

**WATER SUPPLIED**

Volume from own sources:	+ ? 8	1,050.091	MG/Yr
Water imported:	+ ? 8	20.194	MG/Yr
Water exported:	+ ? 8	242.961	MG/Yr
<b>WATER SUPPLIED:</b>		<b>819.133</b>	MG/Yr

**AUTHORIZED CONSUMPTION**

Billed metered:	+ ? 8	503.947	MG/Yr
Billed unmetered:	+ ? n/a	0.000	MG/Yr
Unbilled metered:	+ ? 9	65.186	MG/Yr
Unbilled unmetered:	+ ? 10	0.001	MG/Yr
<b>AUTHORIZED CONSUMPTION:</b>		<b>569.134</b>	MG/Yr

**WATER LOSSES (Water Supplied - Authorized Consumption)**

**249.999** MG/Yr

**Apparent Losses**

Unauthorized consumption:	+ ?	2.048	MG/Yr
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed			
Customer metering inaccuracies:	+ ? 9	7.204	MG/Yr
Systematic data handling errors:	+ ?	1.260	MG/Yr
Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed			
<b>Apparent Losses:</b>	?	<b>10.512</b>	MG/Yr

**Real Losses (Current Annual Real Losses or CARL)**

Real Losses = Water Losses - Apparent Losses: ? 239.487 MG/Yr

**WATER LOSSES:** 249.999 MG/Yr

**Master Meter and Supply Error Adjustments**

Pcnt:	3	1.00%	Value:		MG/Yr
	2	1.00%			MG/Yr
	2	1.00%			MG/Yr

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

Click here: ?  
for help using option buttons below

Pcnt: Value: 0.001 MG/Yr

Use buttons to select percentage of water supplied OR value

Pcnt: Value: 0.25% MG/Yr

1.25% MG/Yr

0.25% MG/Yr

---

**NON-REVENUE WATER**

**NON-REVENUE WATER:** ? 315.186 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

---

**SYSTEM DATA**

Length of mains:	+ ? 6	632.0	miles
Number of active AND inactive service connections:	+ ? 8	9,689	
Service connection density:	?	15	conn./mile main

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

Average length of customer service line: + ? (length of service line, beyond the property boundary, that is the responsibility of the utility)

**Average length of customer service line has been set to zero and a data grading score of 10 has been applied**

Average operating pressure: + ? 7 125.0 psi

---

**COST DATA**

Total annual cost of operating water system:	+ ? 10	\$4,993,587	\$/Year
Customer retail unit cost (applied to Apparent Losses):	+ ? 10	\$4.76	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	+ ? 10	\$4,755.00	\$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

---

**WATER AUDIT DATA VALIDITY SCORE:**

\*\*\* YOUR SCORE IS: 83 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: Unauthorized consumption

3: Systematic data handling errors



**AWWA Free Water Audit Software:**  
**System Attributes and Performance Indicators**

WAS v5.0  
 American Water Works Association.

Water Audit Report for: Anderson County Water Authority (0000514)

Reporting Year: 2018 | 7/2017 - 6/2018

\*\*\* YOUR WATER AUDIT DATA VALIDITY SCORE IS: 83 out of 100 \*\*\*

**System Attributes:**

	Apparent Losses:	10.512	MG/Yr	
	+ Real Losses:	239.487	MG/Yr	
	= <b>Water Losses:</b>	<b>249.999</b>	MG/Yr	
?	Unavoidable Annual Real Losses (UARL):	222.31	MG/Yr	
	Annual cost of Apparent Losses:	\$50,037		
	Annual cost of Real Losses:	\$1,138,760	Valued at <b>Variable Production Cost</b>	Return to Reporting Worksheet to change this assumption

**Performance Indicators:**

Financial:	{	Non-revenue water as percent by volume of Water Supplied:	38.5%	
		Non-revenue water as percent by cost of operating system:	30.0%	Real Losses valued at Variable Production Cost
Operational Efficiency:	{	Apparent Losses per service connection per day:	2.97	gallons/connection/day
		Real Losses per service connection per day:	N/A	gallons/connection/day
		Real Losses per length of main per day*:	1,038.18	gallons/mile/day
		Real Losses per service connection per day per psi pressure:	N/A	gallons/connection/day/psi
		From Above, Real Losses = Current Annual Real Losses (CARL):	239.49	million gallons/year
?		Infrastructure Leakage Index (ILI) [CARL/UARL]:	1.08	

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

## STATISTICAL SECTION

This part of the Authority's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority's overall financial health.

<u>Contents</u>	<u>Pages</u>
Financial Trends	
These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.....	43-44
Revenue Capacity	
These schedules contain information to help the reader assess the Authority's operating revenues and customer statistics. ....	45-49
Debt Capacity	
These schedules present information to help the reader assess the affordability of the Authority's current levels of outstanding debt and the Authority's ability to issue additional debt in the future. ....	50-51
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place. ....	52-53
Operating Information	
These schedules contain service data to help the reader understand how the information in the Authority's financial report relates to the water services provided by the Authority. ....	54-55

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

ANDERSON COUNTY WATER AUTHORITY

NET POSITION BY COMPONENT

Last Ten Fiscal Years

Fiscal Year	Net Investment in Capital Assets	Restricted			Unrestricted	Total
		Debt Service	Capital Activity	Pensions		
2009	\$ 12,765,165	\$ 17,862	\$ 627,330	\$ 0	\$ 2,630,990	\$ 16,041,347
2010	13,134,668	25,260	45,000	0	2,508,266	15,713,194
2011	13,196,514	16,503	0	0	2,517,613	15,730,630
2012	13,425,235	16,582	0	0	2,511,511	15,953,328
2013	13,863,610	18,333	0	0	2,687,448	16,569,391
2014	14,132,114	27,569	100,000	0	2,463,093	16,722,776
2015	(A) 14,199,130	31,032	0	286,464	2,538,216	17,054,842
2016	14,244,074	183,804	0	345,849	2,433,364	17,207,091
2017	15,728,432	214,474	0	317,495	2,391,644	18,652,045
2018	15,311,431	177,789	0	361,022	2,994,038	18,844,280

**Note:** (A) During FY 2015 the Authority implemented GASB Statement No. 68.

**ANDERSON COUNTY WATER AUTHORITY**  
**CHANGES IN NET POSITION**  
**Last Ten Fiscal Years**

	2018	2017	2016	(B) 2015	2014	2013	2012	2011	2010	(A) 2009
<b>Operating Revenues</b>										
Water - Net	\$ 4,603,877	\$ 4,531,138	\$ 4,446,482	\$ 4,480,748	\$ 4,194,593	\$ 3,993,754	\$ 3,965,496	\$ 3,713,110	\$ 3,894,825	\$ 1,873,956
Wastewater - Net	892,693	925,396	829,453	855,701	699,653	735,767	732,686	641,015	578,260	339,171
Connection Fees	86,275	90,865	90,536	95,450	90,920	87,590	123,143	105,190	50,810	11,201
Customer Forfeited Discounts	145,260	131,148	111,194	118,050	110,039	105,100	111,258	87,518	0	41,300
Tap Fees	175,910	241,437	87,145	97,850	150,250	91,210	68,650	55,620	40,550	15,500
Other Charges and Fees	12,082	12,616	9,481	11,731	11,308	16,362	7,901	17,728	40,127	43,201
<b>Total Operating Revenues</b>	<b>5,916,097</b>	<b>5,932,600</b>	<b>5,574,291</b>	<b>5,659,530</b>	<b>5,256,763</b>	<b>5,029,783</b>	<b>5,009,134</b>	<b>4,620,181</b>	<b>4,604,572</b>	<b>2,324,329</b>
<b>Operating Expenses</b>										
Water Treatment, Transmission and Distribution	3,033,790	2,842,977	2,696,811	2,824,529	2,854,871	2,710,620	2,650,036	2,444,457	2,488,121	1,402,607
Wastewater Treatment	498,008	616,417	616,566	660,458	600,936	522,323	533,027	462,561	449,829	246,428
Customer Billing and Accounting	25,428	24,567	13,940	20,629	15,882	9,843	31,152	100,940	189,670	119,442
General and Administrative	867,629	853,339	825,320	867,360	733,777	598,301	571,563	617,668	626,086	377,710
Depreciation	1,207,036	1,105,724	1,096,666	1,134,892	1,112,120	1,074,093	963,933	915,378	901,475	436,347
<b>Total Operating Expenses</b>	<b>5,631,891</b>	<b>5,443,024</b>	<b>5,249,303</b>	<b>5,507,868</b>	<b>5,317,586</b>	<b>4,915,180</b>	<b>4,749,711</b>	<b>4,541,004</b>	<b>4,655,181</b>	<b>2,582,534</b>
<b>Operating Income (Loss)</b>	<b>284,206</b>	<b>489,576</b>	<b>324,988</b>	<b>151,662</b>	<b>(60,823)</b>	<b>114,603</b>	<b>259,423</b>	<b>79,177</b>	<b>(50,609)</b>	<b>(258,205)</b>
<b>Non-Operating Revenues (Expenses)</b>										
Gain (Loss) on Disposal of Capital Assets	6,428	35,500	0	0	(18,498)	53,126	36,915	12,000	(15,721)	10,281
Interest Income	5,326	6,506	8,303	12,576	9,183	4,997	(1,828)	24,253	14,669	20,484
Other Income (Expense) - Net	54,093	29,600	45,480	20,208	71,233	0	0	0	0	0
Debt Issuance Costs	0	(169,075)	0	0	0	0	0	0	(138,411)	0
Interest (Expense)	(293,314)	(227,738)	(364,229)	(372,973)	(383,398)	(360,087)	(193,613)	(334,791)	(283,081)	(148,657)
<b>Non-Operating Revenues (Expenses) - Net</b>	<b>(227,467)</b>	<b>(325,207)</b>	<b>(310,446)</b>	<b>(340,189)</b>	<b>(321,480)</b>	<b>(301,964)</b>	<b>(158,526)</b>	<b>(298,538)</b>	<b>(422,544)</b>	<b>(117,892)</b>
<b>Increase (Decrease) in Net Position Before Capital Contributions</b>	<b>56,739</b>	<b>164,369</b>	<b>14,542</b>	<b>(188,527)</b>	<b>(382,303)</b>	<b>(187,361)</b>	<b>100,897</b>	<b>(219,361)</b>	<b>(473,153)</b>	<b>(376,097)</b>
<b>Capital Contributions</b>										
Cash	0	0	0	0	160,590	197,528	121,799	236,800	145,000	2,988,916
Non-Cash	135,496	1,280,585	137,707	262,293	375,098	605,897	0	0	0	13,413,705
<b>Total Capital Contributions</b>	<b>135,496</b>	<b>1,280,585</b>	<b>137,707</b>	<b>262,293</b>	<b>535,688</b>	<b>803,425</b>	<b>121,799</b>	<b>236,800</b>	<b>145,000</b>	<b>16,402,621</b>
<b>Change in Net Position</b>	<b>\$ 192,235</b>	<b>\$ 1,444,954</b>	<b>\$ 152,249</b>	<b>\$ 73,766</b>	<b>\$ 153,385</b>	<b>\$ 616,064</b>	<b>\$ 222,696</b>	<b>\$ 17,439</b>	<b>\$ (328,153)</b>	<b>\$ 16,026,524</b>

**Notes:** (A) FY 2009 was the first year the Authority began operations (effective January 1, 2009).

(B) FY 2015 the Authority implemented GASB Statement No. 68.

**ANDERSON COUNTY WATER AUTHORITY**  
**CUSTOMER STATISTICS, WATER RATES, AND TAP SALES**

**Last Ten Fiscal Years**

Fiscal Year	Water Customers	Former ACUB Territory		Former NACUD Territory		Annual Water Tap Sales
		Minimum Bill (A)	Rate Per 1,000 Gallons	Minimum Bill (A)	Rate Per 1,000 Gallons	
2009	8,990	\$ 15.20	\$ 4.90	\$ 21.14	\$ 5.42	19
2010	9,136	15.20	4.90	21.14	5.42	69
2011 (C)	9,132	18.00	5.50	18.00	5.50	66
2012 (D)	9,126	18.00	5.50	18.00	5.50	95
2013	9,227	18.00	5.50	18.00	5.50	124
2014 (E)	9,283	18.00	6.20	18.00	6.20	149
2015 (F)	9,399	18.00	6.20	18.00	6.20	77
2016	9,464	18.00	6.20	18.00	6.20	51
2017	9,591	18.00	6.20	18.00	6.20	91
2018	9,689	18.00	6.20	18.00	6.20	106

- Notes:**
- (A) Minimum bill is based upon the first 1,200 gallons of water purchased.
  - (B) Rates are the same for any size meter.
  - (C) During FY 2011, the Authority changed the rate per 1,000 gallons to \$5.50 and the monthly minimum residential billing to \$18.00 for ratepayers in the former ACUB and NACUD territories.
  - (D) During FY 2012, the Authority reduced the monthly minimum billing to 1,500 gallons.
  - (E) During FY 2014, the Authority increased the rate per 1,000 gallons to \$6.20.
  - (F) During FY 2015, the Authority reduced the monthly minimum billing to 1,200 gallons.

**ANDERSON COUNTY WATER AUTHORITY**  
**WATER TREATED, SOLD, AND CONSUMED**  
**Last Ten Fiscal Years**

Fiscal Year	Gallons of Water (In Thousands)			Percent Lost
	Water Treated and Purchased	Water Sold and Consumed	Water Unbilled	
2009	495,339	335,174	160,165	32.3%
2010	1,015,372	684,203	331,169	32.6%
2011	1,047,568	688,207	359,361	34.3%
2012	1,131,927	748,779	383,148	33.8%
2013	1,116,747	749,325	367,421	32.9%
2014	1,131,480	752,809	378,671	33.5%
2015	1,147,559	787,879	359,681	31.3%
2016	1,111,380	787,591	323,789	29.1%
2017	1,077,360	786,407	290,954	27.0%
2018	1,070,285	812,094	258,190	24.1%

**Note:** FY 2009 was the first year the Authority began operations (effective January 1, 2009).

**ANDERSON COUNTY WATER AUTHORITY**

**ANNUAL TAPS SOLD**

**Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Water Meter Taps Sold</u>	<u>Sewer Taps Sold</u>	<u>Total Taps</u>
2009	19	0	19
2010	69	9	78
2011	66	27	93
2012	95	12	107
2013	124	10	134
2014	149	20	169
2015	77	10	87
2016	51	4	55
2017	91	12	103
2018	106	19	125

**Note:** FY 2009 was the first year the Authority began operations (effective January 1, 2009).

ANDERSON COUNTY WATER AUTHORITY

NUMBER OF CUSTOMERS BY TYPE

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Water</u>	<u>Wastewater</u>
2009	8,990	919
2010	9,136	893
2011	9,132	889
2012	9,126	792
2013	9,227	801
2014	9,283	824
2015	9,399	822
2016	9,464	864
2017	9,591	884
2018	9,689	962

**Note:** Water and wastewater customers at year-end June 30.

ANDERSON COUNTY WATER AUTHORITY

TEN LARGEST CUSTOMERS

Current Fiscal Year and Nine Fiscal Years Ago

Customer	Type of Business	2018		2009 (B)	
		(A) Total Annual Sales	Percentage of Total Sales	(A) Total Annual Sales	Percentage of Total Sales
City of Rocky Top	Municipality	\$ 84,650	1.84%	\$ 49,634	2.65%
Mountain Lake Marina	Recreation	83,932	1.82%	38,517	2.06%
Mariner Health	Health Care	75,610	1.64%	26,488	1.41%
Clinton Utility Board	Municipality	97,242	2.11%	15,186	0.81%
Stardust Marina	Recreation	92,131	2.00%	16,268	0.87%
TVA	Electrical Power Distributor	31,608	0.69%	26,684	1.42%
Waterside Marina	Recreation	56,208	1.22%	16,043	0.86%
Shoney's of Knoxville	Restaurant	17,523	0.38%	N/A	N/A
Clinton/Knoxville KOA - Fox Campground	Recreation	18,367	0.40%	N/A	N/A
Meadowview Senior Living	Health Care	2,414	0.05%	N/A	N/A
City of Caryville	Municipality	N/A	N/A	5,851	0.31%
Norris Dam State Park	Recreation	N/A	N/A	1,696	0.09%
Rocky Top Marina	Recreation	N/A	N/A	11,843	0.63%
Total		\$ 559,685	12.16%	\$ 208,210	11.11%

**Note:** (A) Sales includes net water revenues only.

(B) FY 2009 is for the initial six month period ending June 30, 2009.

ANDERSON COUNTY WATER AUTHORITY

OUTSTANDING DEBT PER CUSTOMER

Last Ten Fiscal Years

Fiscal Year	Revenue Bonds and Notes Payable (A)	Number of Customers (B)	Amount of Outstanding Debt Per Customer
2009	\$ 4,750,000	8,990	\$ 528
2010	4,550,000	9,136	498
2011	8,703,192	9,132	953
2012	8,495,299	9,126	931
2013	8,277,558	9,227	897
2014	8,054,979	9,283	868
2015	7,822,563	9,399	832
2016	8,349,449	9,464	882
2017	11,486,441	9,591	1,198
2018	11,652,731	9,689	1,203

**Notes:** (A) Net of related unamortized bond premiums or discounts.

(B) Water customers at fiscal year end.

(C) No debt to personal income ratio is shown because personal income for the Authority's service area, which excludes the Cities of Oak Ridge, Clinton, and Norris, TN, is not available.

**ANDERSON COUNTY WATER AUTHORITY**

**PLEDGED REVENUE COVERAGE**

**Last Ten Fiscal Years**

(A) Fiscal Year	(B) Gross Revenues	(C) Operating Expenses	Net Revenues Available for Debt Service	Debt Service Requirements			(E) Coverage Ratio
				Principal	(D) Interest Paid	Total	
2009	\$ 2,344,813	\$ 2,146,187	\$ 198,626	\$ 150,000	\$ 95,729	\$ 245,729	0.80
2010	4,619,241	3,753,706	865,535	200,000	199,975	399,975	2.16
2011	4,644,434	3,625,626	1,018,808	165,000	262,947	427,947	2.38
2012	5,007,306	3,785,778	1,221,528	195,000	329,188	524,188	2.33
2013	5,034,780	3,841,087	1,193,693	205,000	325,955	530,955	2.25
2014	5,265,946	4,205,466	1,060,480	210,000	321,188	531,188	2.00
2015	5,672,106	4,372,975	1,299,131	220,000	316,989	536,989	2.42
2016	5,582,594	4,152,637	1,429,957	235,000	313,164	548,164	2.61
2017	5,939,106	4,337,300	1,601,806	389,454	178,831	568,285	2.81
2018	5,921,423	4,424,855	1,496,568	475,468	242,361	717,829	2.08

- Notes:** (A) FY 2009 is for a six month period beginning January 1, 2009, the effective date of significant operations.  
 (B) Includes operating revenues and investment interest income.  
 (C) Does not include depreciation expense.  
 (D) Includes interest paid net of capitalization construction period interest.  
 (E) The Revenue Bond Series 2016 and 2010 and the 2015 Note Payable covenants require a coverage ratio of 1.20.

**ANDERSON COUNTY WATER AUTHORITY**  
**DEMOGRAPHIC AND ECONOMIC INDICATORS (E)**

**Last Ten Fiscal Years**

Fiscal Year	Population (A)	Personal Income In Thousands (A)	Per Capita Personal Income (A)	Median Age (A)	School Attendance (B)	Unemployment Rates (C)	
						County	State
2009	74,738	\$ 2,258,433	\$ 30,218	41.4	8,541	11.2%	10.8%
2010	74,849	2,154,154	28,780	39.2	8,117	9.1%	10.0%
2011	75,129	2,580,901	34,358	39.9	8,186	9.2%	9.8%
2012	75,129	2,543,192	33,851	39.5	8,141	9.0%	8.1%
2013	75,416	2,908,538	38,567	40.5	8,081	8.8%	8.5%
2014	75,542	2,957,316	39,148	42.0	8,080	7.0%	6.6%
2015	75,528	3,048,403	40,361	42.6	8,053	6.4%	5.7%
2016	75,936	2,926,695	38,637	43.2	8,022	5.1%	4.1%
2017	75,936	2,978,570	39,225	43.4	7,739	4.6%	3.6%
2018	N/A	N/A	N/A	N/A	7,772	4.5%	3.5%

- Notes:** (A) U.S. Department of Commerce Bureau of Economic Analysis for the previous calendar year.  
 (B) Source: Tennessee Dept. of Education - Anderson County Board of Education Average Daily Attendance  
 (C) U.S. Department of Labor - Bureau of Labor Statistics for June.  
 (D) Demographic and economic information is for Anderson County, Tennessee. Specific information for the Authority is not available.  
 (E) N/A data not yet available.

**ANDERSON COUNTY WATER AUTHORITY**

**PRINCIPAL EMPLOYERS**

**Current Fiscal Year and Nine Fiscal Years Ago**

Customer	2018			2009		
	Employees	Rank	Percentage of County Workforce	Employees	Rank	Percentage of County Workforce
BWXT - Y12	4,800	1	12.17%	4,500	1	12.84%
Oak Ridge National Laboratory	4,559	2	11.56%	4,275	2	12.84%
UCOR/Bechtel Jacobs Co., LLC	1,645	3	4.17%	1,306	5	3.25%
Anderson County Government & BOE	1,565	4	3.97%	1,542	3	3.91%
SL Tennessee	1,450	5	3.68%	N/A		
Covenant Health Systems (Methodist Medical Center)	1,175	6	2.98%	1,337	4	3.63%
Oak Ridge Associated Universities (ORAU)	1,046	7	2.65%	600	10	1.68%
Eagle Bend Manufacturing	850	8	2.16%	624	9	2.00%
Aisin Automotive Casting	820	9	2.08%	N/A		
SITEL	700	10	1.78%	N/A		
Oak Ridge Schools	N/A		N/A	674	8	1.84%
SAIC	N/A		N/A	1,000	6	2.79%
Wackenhut-Oak Ridge Team	N/A		N/A	902	7	2.51%
<b>Total</b>	<b>18,610</b>		<b>47.19%</b>	<b>16,760</b>		<b>47.29%</b>

**Notes:** (A) Source(s): Anderson County Chamber of Commerce, Tennessee Department of Economic and Community Development, and Tennessee Department of Labor and Workforce Development.

**ANDERSON COUNTY WATER AUTHORITY**

**EMPLOYEES BY FUNCTION**

**Last Ten Fiscal Years**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>WATER AND WASTEWATER</b>										
Water System	24	22.5	22.5	21.5	23	22	22	24	21	20
Wastewater System	<u>2</u>	<u>1</u>	<u>1</u>	<u>2</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>26</u>	<u>23.5</u>	<u>23.5</u>	<u>23.5</u>	<u>24</u>	<u>22</u>	<u>22</u>	<u>24</u>	<u>21</u>	<u>20</u>
<b>ADMINISTRATION</b>										
Billing and Customer Service	5	5	5	5.5	4	2	2	2	2	4.5
Finance & Accounting	2	2	2	2	2	2	2	2.5	2.5	2
Administrative	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>2</u>
	<u>8</u>	<u>8</u>	<u>8</u>	<u>8.5</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>7.5</u>	<u>7.5</u>	<u>8.5</u>
<b>TOTAL EMPLOYEES</b>	<u>34</u>	<u>31.5</u>	<u>31.5</u>	<u>32</u>	<u>31</u>	<u>29</u>	<u>29</u>	<u>31.5</u>	<u>28.5</u>	<u>28.5</u>

**Note:** Full time positions only, does not include part-time or seasonal employees.

**Source:** Payroll records of the Authority.

**ANDERSON COUNTY WATER AUTHORITY  
OPERATING AND CAPITAL INDICATORS**

**Last Ten Fiscal Years**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Area in Square Miles:	220	220	220	220	220	220	220	220	220	220
Water System:										
Miles of Water Mains	632	632	630	630	630	625	612	426	422	420
Number of:										
Water Service Connections	9,689	9,591	9,464	9,399	9,283	9,227	9,126	9,132	9,136	8,990
Wastewater Service Connections	962	884	864	822	824	801	792	889	893	919
Office Building	1	1	1	1	1	1	1	1	1	0
Water Treatment Plants	2	2	2	2	2	2	2	2	2	2
Wastewater Treatment Plants	1	1	1	1	1	1	1	1	1	1
Reservoirs	12	12	11	11	11	13	13	16	16	16
Water Pumping Stations	25	25	23	23	23	23	24	24	24	24
Wastewater Pumping Stations	23	23	19	19	19	19	19	19	19	19
Fire Hydrants	354	352	347	347	345	340	330	327	325	325
Daily Average Water Treatment in Gallons (MGD)	2.88	2.84	2.91	2.96	2.92	2.87	2.90	2.69	2.61	2.58
Daily Average Water Purchases in Gallons (MGD)	0.06	0.11	0.13	0.18	0.18	0.18	0.18	0.18	0.17	0.12
Daily Average Water Sales and Consumption in Gallons (MGD)	2.22	2.15	2.16	2.16	2.06	2.05	1.87	1.86	1.87	1.84
Water Reservoir Storage Capacity (Millions of Gallons)	6.10	6.10	6.00	6.00	6.00	6.00	6.00	4.38	4.38	4.38

**Notes:** (A) MGD = Million of gallons per day

**Source:** Various operational reports and records of the Authority.

**COMPLIANCE SECTION**

CERTIFIED PUBLIC ACCOUNTANTS

Joe Savage  
Marie I. Niekerk  
Earl O. Wright - 1988 - 2002

Stephen J. Parsons - Retired  
Rebecca Hutsell  
William R. Scandlyn - 1988 - 1999

**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**

Board of Directors  
Anderson County Water Authority  
Clinton, 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 Anderson County Water Authority ("the Authority"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Anderson County Water Authority's basic financial statements and have issued our report thereon dated November 13, 2018.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Anderson County Water Authority'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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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**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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Parsons & Wright*

Parsons & Wright  
Certified Public Accountants  
Kingston, Tennessee

November 13, 2018

**ANDERSON COUNTY WATER AUTHORITY**  
**SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS**  
**June 30, 2018**

There were no prior findings reported.