

**METROPOLITAN LYNCHBURG -
MOORE COUNTY
WATER AND SEWER DEPARTMENT**

Lynchburg, Tennessee

June 30, 2020

WINNETT
Associates, PLLC

Certified Public Accountants and Consultants

INTRODUCTORY SECTION

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OFFICIALS
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2020

UTILITY BOARD

Keith Moses – Vice Chair (Acting Chairperson)

Gerald Burnett

Sunny Rae Moorehead

Will Shavers

OTHER OFFICIALS

Russell Sells - Manager

Brooke Fanning - Office Manager

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Members of Utility Board
Metropolitan Lynchburg - Moore County
Water and Sewer Department
Lynchburg, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Metropolitan Lynchburg-Moore County Water and Sewer Department of Metropolitan Lynchburg, Moore County, Tennessee, as of and for the year ended June 30, 2020, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Metropolitan Lynchburg-Moore County Water and Sewer Department of Metropolitan Lynchburg, Moore County, Tennessee, as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The introductory section, schedule of expenditures of federal awards and state financial assistance, and other miscellaneous schedules, are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of expenditures of federal awards and state financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and state financial assistance is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

Emphasis of Matter

As discussed in Note A, the financial statements present only the Metropolitan Lynchburg - Moore County Water and Sewer Department and do not purport to, and do not, present fairly the financial position of Metropolitan Lynchburg - Moore County, Tennessee, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2021, on our consideration of Metropolitan Lynchburg-Moore County Water and Sewer Department'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 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 Metropolitan Lynchburg-Moore County Water and Sewer Department's internal control over financial reporting and compliance.

Winnett Associates, PLLC

June 23, 2021

STATEMENT OF NET POSITION
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

Year ended June 30, 2020

<u>ASSETS</u>			
UTILITY PLANT:			
Utility plant in service - Notes B(2) and C	\$	20,521,647	
Less accumulated depreciation and amortization		(7,088,754)	
		13,432,893	
Construction in progress		61,505	\$ 13,494,398
CURRENT ASSETS:			
Cash and cash equivalents - including restricted cash of \$63,756 - Note D		914,221	
Certificate of deposit		100,499	
Accounts receivable, net of allowance for uncollectible accounts of \$7,316 - Notes B(3) and I		220,518	
Other accounts receivable		1,517	
Unbilled water and sewer charges		98,190	
Inventories - Note B(4)		74,787	
Prepaid expenses		56,505	
		TOTAL CURRENT ASSETS	1,466,237
OTHER ASSETS:			
Utility deposits			520
		TOTAL ASSETS	\$ 14,961,155
<u>LIABILITIES AND NET POSITION</u>			
CURRENT LIABILITIES:			
Current maturities of long-term debt	\$	283,823	
Accounts payable		79,212	
Accrued wages, payroll taxes, and withholdings		12,561	
Accrued interest		14,937	
Accrued vacation pay		25,243	
Customer advances		4,766	
Customer deposits - Note I		27,789	
		TOTAL CURRENT LIABILITIES	\$ 448,331
LONG-TERM DEBT: Note E			
Revenue bonds		5,165,903	
Notes payable		1,418,960	
Less current portion		(283,823)	
		NET LONG-TERM DEBT	6,301,040
		TOTAL LIABILITIES	6,749,371
NET POSITION:			
Net investment in capital assets		6,909,535	
Restricted for asset maintenance		63,756	
Unrestricted		1,238,493	
		TOTAL NET POSITION	8,211,784
		TOTAL LIABILITIES AND NET POSITION	\$ 14,961,155

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

Year ended June 30, 2020

OPERATING REVENUES: - Note E

Water sales	\$	2,104,875	
Sewer service charges		401,509	
Penalties		17,577	
Service fees		20,242	
Serveline insurance		7,386	
Sanitation revenue		7,200	
Tap connection fees		26,676	
Pre-treatment income		9,952	
Credit card income		5,962	
Miscellaneous		3,934	
Uncollectible accounts		<u>(4,534)</u>	
TOTAL OPERATING REVENUES	\$		<u>2,600,779</u>

OPERATING EXPENSES:

General and administrative		423,906	
Water operating expenses		1,158,907	
Sewer operating expenses		473,761	
Utility maintenance		<u>357,686</u>	
TOTAL OPERATING EXPENSES			<u>2,414,260</u>
		OPERATING INCOME	<u>186,519</u>

NONOPERATING REVENUES (EXPENSES):

Interest income		1,834	
Interest expense		(174,452)	
Bond issuance costs		(65,245)	
Gain on retirement of fixed assets		<u>11,718</u>	
TOTAL NONOPERATING REVENUES (EXPENSES), NET			<u>(226,145)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS, GRANTS, AND TRANSFERS			<u>(39,626)</u>

CONTRIBUTIONS, GRANTS, AND TRANSFERS:

Tap fees in excess of cost		18,324	
Grants		61,960	
Contributions		<u>2,307</u>	
CHANGE IN NET POSITION			<u>42,965</u>
TOTAL NET POSITION - BEGINNING (RESTATED)			<u>8,168,819</u>
TOTAL NET POSITION- ENDING	\$		<u><u>8,211,784</u></u>

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

STATEMENT OF CASH FLOWS
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

Year ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers, including other funds	\$	2,592,402	
Payments to suppliers		(953,854)	
Payments to or on behalf of employees		(918,102)	
		NET CASH PROVIDED BY OPERATIONS	\$ 720,446

CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES: -

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets		(359,678)	
Proceeds from sale of asset		11,718	
Proceeds from borrowings		3,633,658	
Bond issuance costs		(65,245)	
Borrowings repaid		(3,642,722)	
Contributions, grants, and transfers in aid of construction		57,134	
Interest paid		(169,757)	
		NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(534,892)

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment in certificate of deposit		(100,499)	
Interest income		1,834	
		NET CASH USED BY INVESTING ACTIVITIES	(98,665)
		INCREASE IN CASH AND CASH EQUIVALENTS	86,889
		CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	827,332
		CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 914,221

RECONCILIATION OF OPERATING INCOME TO NET CASH

PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$	186,519	
Depreciation and amortization		603,684	
Changes in operating assets and liabilities:			
Amounts receivable		(19,911)	
Inventories		(4,337)	
Accrued revenue		4,251	
Other assets		(47,537)	
Accounts payable		(995)	
Accrued wages and payroll taxes		2,338	
Accrued vacation pay		896	
Customer deposits and deferred fees		(4,462)	
		NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 720,446

SCHEDULE OF CAPITAL AND RELATED FINANCING ACTIVITIES THAT DID NOT RESULT IN CASH PAYMENTS

Purchase of capital assets on account-net of prior year's amount	\$	7,481	
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The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2020

NOTE A - GENERAL

These financial statements include the accounts of Metropolitan Lynchburg - Moore County Water and Sewer Department (the Department). The Department is a proprietary fund of Metropolitan Lynchburg - Moore County, Tennessee (the Primary Government) and is governed by the Metropolitan Council (the Council) and a Utility Board composed of members of the Council. The Department does not represent a legal entity separate and apart from the Primary Government.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Department conform to generally accepted accounting principles as applicable to enterprise funds. The following is a summary of significant policies:

(1) Measurement Focus and Basis of Accounting

These financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

(2) Utility Plant and Depreciation

Utility plant in service is reported at cost and includes improvements, with a cost in excess of \$3,000, that significantly add to utility plant or extend useful lives. Cost of maintenance and repairs are charged to expense, as are tap connection costs.

Depreciation is calculated by the straight-line method to allocate the cost of the assets over their estimated useful lives using guidelines set forth by the Utility Review Board. The estimated useful lives are as follows:

Structures	20-50 years
Utility plant other than structures and equipment	25-50 years
Equipment	5-10 years

(3) Allowance for Uncollectible Accounts

The Department provides an allowance for uncollectible accounts equal to estimated losses that will be incurred in collection of all receivables. The estimated losses are based on historical collection experience and a review of the current status of the outstanding receivables.

(4) Inventories

Inventories are stated at cost, first-in, first-out method.

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2020

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Compensated Absences

The costs of vacation pay granted to employees are recorded as expenditures when earned.

(6) Cash Equivalents

For purposes of the statement of cash flows, the Department considers all highly liquid investments (including restricted assets) purchased with an original maturity of three months or less to be cash equivalents.

(7) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

- (8) Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Department are charges to customers for sales and services. The Department also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative and maintenance expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

- (9) As a general rule, when both restricted and unrestricted resources are available for use, it is the Department's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

- (10) Bond premiums are amortized over the life of the debt using the effective interest method.

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2020

NOTE C - UTILITY PLANT ADDITIONS AND RETIREMENTS

	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions &</u> <u>Reclassifications</u>	<u>Retirements &</u> <u>Reclassifications</u>	<u>Balance</u> <u>June 30, 2020</u>
Capital assets not being depreciated or amortized:				
Land and land rights	\$ 92,459			\$ 92,459
Construction in progress	<u>55,846</u>	\$ 369,835	\$ 364,176	<u>61,505</u>
Total capital assets not being depreciated or amortized	<u>148,305</u>	<u>369,835</u>	<u>364,176</u>	<u>153,964</u>
Other capital assets:				
General	336,248	112,581	77,724	371,105
Water	14,229,544	29,976	28,989	14,230,531
Sewer	5,119,189	59,782	3,090	5,175,881
Maintenance	206,563	153,344	9,335	350,572
Acquisition adjustment	<u>301,099</u>	-	-	<u>301,099</u>
	<u>20,192,643</u>	<u>355,683</u>	<u>119,138</u>	<u>20,429,188</u>
Less accumulated depreciation/amortization for:				
General	223,389	22,755	77,724	168,420
Water	5,220,481	423,532	19,926	5,624,087
Sewer	834,588	120,144	3,090	951,642
Maintenance	141,476	22,198	9,253	154,421
Acquisition adjustment	175,129	15,055	-	190,184
Total accumulated depreciation/amortization	<u>6,595,063</u>	<u>603,684</u>	<u>109,993</u>	<u>7,088,754</u>
Other capital assets, net	<u>13,597,580</u>	<u>(248,001)</u>	<u>9,145</u>	<u>13,340,434</u>
Capital assets, net	<u>\$ 13,745,885</u>	<u>\$ 121,834</u>	<u>\$ 373,321</u>	<u>\$ 13,494,398</u>

NOTE D - CASH AND RESTRICTED FUNDS

The following is a summary of cash and restricted funds at June 30, 2020:

	<u>Cash Equivalents</u>	<u>Certificate of Deposit</u>
Cash for general use:	\$ 850,465	\$ 100,499
Restricted for asset maintenance	<u>63,756</u>	-
	<u>\$ 914,221</u>	<u>\$ 100,499</u>

The Department has also designated \$707,714 to be used to fund capital asset replacements.

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2020

NOTE D - CASH AND RESTRICTED FUNDS (Continued)

Legal Provisions: All deposits with financial institutions must be secured by one of two methods depending on whether the financial institution participates in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public funds accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. 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 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 for purposes of credit risk disclosure. For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the Department.

Types of Investments Authorized: State statutes authorize the entity to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; the metropolitan government's own legally issued bonds or notes; the State Treasurer's Investment Pool; and repurchase agreements. The entity has no policy that would further limit its investments.

NOTE E - REVENUE BONDS

A summary of revenue bond transactions for the year ended June 30, 2020, includes the following:

	<u>Revenue bonds</u>
Balance - beginning of year	\$ 5,214,888
Additions	3,422,124
Reductions	<u>(3,471,109)</u>
Balance - end of year	<u>\$ 5,165,903</u>

Details of water and sewer revenue bonds are as follows:

Series 2014 Sewer Revenue and Tax Bonds, 2.250% payable \$4,696 per month Including principal and interest with final maturity in 2054	\$1,344,169
Series 2014 Sewer Revenue and Tax Bonds, 2.250% payable \$1,586 per month Including principal and interest with final maturity in 2055	457,674

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2020

NOTE E - REVENUE BONDS (Continued)

Series 2019 Water Revenue and Tax Refunding Bonds, with interest rates of 1.6%, 3.0% and 2.875%, and final maturity in 2044	<u>3,237,000</u>
	<u>\$5,038,843</u>
Unamortized premium	<u>127,060</u>
	<u>\$5,165,903</u>

The bonds are payable from and secured primarily by a pledge of the net revenues of the Department; in the event such revenues are insufficient, the bonds are further secured by the taxing power of the Metropolitan Government.

The annual requirements to amortize principal and interest for all revenue bonds as of June 30, 2020, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 139,204	\$ 133,583
2022	141,004	131,119
2023	143,822	128,621
2024	147,660	124,573
2025	152,516	120,417
2026-2030	828,117	535,237
2031-2035	946,637	411,627
2036-2040	992,074	275,559
2041-2045	913,773	133,687
2046-2050	323,123	53,797
2051-2055	310,913	15,720
	<u>\$5,038,843</u>	<u>\$2,063,940</u>

The proceeds from the \$3,292,000 in Series 2019 Water Revenue and Tax Refunding Bonds were used to refund \$3,345,300 of outstanding 1997, 2001, 2006, and 2008 Series Water Revenue and Tax Bonds, which had interest rates ranging from 4.125% to 4.875%. The net proceeds of \$3,422,124 (including a \$130,124 premium and after payment of \$65,245 in underwriting fees and other issuance costs) were used to pay the outstanding principal and interest of the refunded bonds.

As a result of the refunding, the Department reduced its debt service through June 30, 2047, by \$853,671 and obtained an economic gain of \$597,701.

Under provisions of the bond agreements, the Department is required to establish and maintain various funds as follows:

(a) Revenue Fund

All revenues are to be deposited in this fund and shall be disbursed for the establishment of the other required funds.

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2020

NOTE E - REVENUE BONDS (Continued)

(b) Operation and Maintenance Fund

The money transferred from the revenue fund is to be deposited to this fund for payment of current expenses. The maximum balance of this fund shall not exceed one-fourth of the amount budgeted for current expenses for the fiscal year.

As required by provisions of the bond agreements, the beginning and end of the year balances of the required funds are as follows:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Revenue	\$ 714,743	\$ 554,433
Operation and maintenance	236,221	226,531
Short-lived asset maintenance	63,756	46,368

Principal and interest payments for these revenue bonds as a percentage of pledged revenue totaled 11% for the year.

NOTE F - NOTES PAYABLE

Direct borrowings and direct placement debt

Metropolitan Lynchburg-Moore County, Tennessee (the Primary Government) has borrowed under the State's revolving loan program for the Department's construction projects. The principal and interest payments required under the terms of the loans, which are secured by the Department's revenues and have stated interest rates of 2.95% and 0%, respectively, are as follows:

	<u>DWF 00-026</u>		<u>CWO 10-259</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2021	\$ 52,893	\$ 6,555	\$ 65,628
2022	54,475	4,973	65,628
2023	56,104	3,344	65,628
2024	57,868	1,580	65,628
2025	22,185	146	65,628
2026-2030	-	-	328,140
2031-2035	-	-	328,140
2036	-	-	38,166
Total	<u>\$ 243,525</u>	<u>\$ 16,598</u>	<u>\$ 1,022,586</u>

Principal and interest payments as a percentage of pledged revenue totaled 5% for the year for these loans. Should the Department fail to remit monthly payments in accordance with the terms of the agreement, the Metropolitan Government has consented to the withholding and application of State-Shared Taxes.

The Department has also borrowed \$ 211,534 to purchase five vehicles. The obligation requires payments over five years at interest rates of 4.14% and 5.39%. Remaining principal and interest payments as of June 30, 2020, are as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)
 METROPOLITAN LYNCHBURG - MOORE COUNTY
 WATER AND SEWER DEPARTMENT

June 30, 2020

NOTE F - NOTES PAYABLE (Continued)

	<u>Principal</u>	<u>Interest</u>	
2021	\$ 26,098	\$ 4,599	
2022	40,385	5,770	
2023	42,222	3,933	
2024	44,144	2,011	
	<u>\$ 152,849</u>	<u>\$ 16,313</u>	

In the event of default, Ally Financial is recorded as lienholder.

Notes payable activity for the year ended June 30, 2020, is as follows:

<u>Balance</u> <u>June 30, 2019</u>	<u>Draws</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2020</u>
\$1,382,103	\$ 211,534	\$174,677	\$1,418,960

The Department incurred \$174,452 in interest costs from revenue bonds and notes payable during the current year and had no unused lines of credit at June 30, 2020.

NOTE G - RISK MANAGEMENT

The Department 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 Department obtains insurance coverage covering the above risks of loss through a public risk entity pool, Tennessee Risk Management Trust (TRMT), which is a public entity risk pool created under the auspices of the Tennessee Governmental Tort Liability Act to provide governmental insurance coverage. The creation of the TRMT provides for it to be self-sustaining through member premiums.

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

NOTE H - INCOME TAXES

As a governmental entity, the Department is exempt from federal, state and local income taxes.

NOTE I - SIGNIFICANT CONCENTRATIONS

The Department operates principally to distribute water to residents of Moore County, Tennessee. The Department grants credit to its customers, which at June 30, 2020, totaled \$246,872. Deposits from these customers, totaling \$27,789 at June 30, 2020, are held as security for these accounts receivable.

Water and sewer revenues from Jack Daniel Distillery account for approximately thirty-five percent of the Department's total water and sewer revenues.

NOTES TO FINANCIAL STATEMENTS (Continued)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2020

NOTE J - ENVIRONMENTAL CONTINGENCY

The Department's facilities and operations are subject to a wide range of environmental protection laws related to the use and disposal of hazardous materials. As a result, there is the possibility that environmental conditions may arise which would require the Department to incur cleanup costs. As in prior years, management continues its efforts to comply, and to determine compliance, with all applicable environmental protection laws and does not believe such costs, if any, would materially affect the Department's financial position or its future cash flows.

NOTE K - DEFINED CONTRIBUTION PLANS

The Department offers its employees the following defined contribution plans: State of Tennessee Deferred Compensation Plan I for Participating Governmental Employers-457(b)- and State of Tennessee Deferred Compensation Plan II for Participating Governmental Employers-401(k)-(Plans). The Plans are administered by the Treasurer, State of Tennessee. Full-time employees (30 or more hours of service per week) are immediately eligible to make elective deferrals under the Plans. All contributions after February 2018 have been made to Plan II. The Department contributes up to 2.38 percent of employee compensation as matching contributions. Matching contributions related to distributed permissible withdrawals will be placed in a forfeiture account which will be used first to reduce the employers' matching contributions plan and then to offset Plan expenses. The election provisions of the Plans may be amended, so long as the amendment is not inconsistent with the Plan, the Code, Tennessee law, or other applicable law and is approved by the Chair of the Tennessee Consolidated Retirement System. The Chair may amend the Plans on behalf of all Employers for changes in the Code, the regulations thereunder, Tennessee law, revenue rulings, other statements published by the IRS, and for other reasons that are deemed at the Chair's sole discretion to be in the interest of the Plans. The Department recognized \$16,842 in retirement plan expense for the year. Forfeitures for the current year were \$514.

NOTE L - PRIOR PERIOD ADJUSTMENT

Payroll-related accounts were adjusted in the current year to correct errors in insurance withholdings and payments arising in prior years. The effect of the correction was to increase the beginning net position by \$8,984. Had the correction been made in the prior year, the effect would have been an increase in the change in net position of approximately \$4,000.

NOTE M - COMMITMENT

Subsequent to June 30, 2020, an agreement between The Metropolitan Government of Lynchburg, Moore County and Government Capital Corporation was finalized to provide \$765,997 to finance a lease-purchase of water meters and AMI. The agreement requires annual payments commencing July 8, 2021, of \$90,242 through July 8, 2030, at a stated interest rate of 3.637 percent.

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

**METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT**

Year ended June 30, 2020

Federal Grantor/ Pass-Through Grantor	CFDA Number	Contract Number	Expenditures
<u>FEDERAL AWARDS</u>			
U. S. Department of Agriculture: Water and Waste Disposal Systems for Rural Communities	10.760	-	\$ 55,329
U. S. Department of Homeland Security: Passed through State Department of Military: Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036	63407-3314	6,631
			<u>61,960</u>
			-
			<u>\$ 61,960</u>

Note 1: Loans Outstanding: At June 30, 2020, there were outstanding balances of \$243,525 and \$1,022,586 on loans obtained through the State Revolving Loan Fund. Repayments during the current fiscal year totaled \$51,240 and \$64,752 respectively.

At June 30, 2020, amounts owed to the U. S. D. A. totaled \$1,801,843. Repayments for the year totaled \$3,413,045.

Note 2: The schedule is presented using the accrual basis of accounting.

SCHEDULE OF INCOME - BUDGET AND ACTUAL
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

Year ended June 30, 2020

	Budget	Actual	Favorable (Unfavorable)
REVENUES			
Water sales	\$ 2,200,500	\$ 2,104,875	\$ (95,625)
Sewer service charges	387,544	401,509	13,965
Penalties	18,294	17,577	(717)
Pre-treatment income	9,952	9,952	0
Water reconnect fees	500		(500)
Credit card revenue	6,300	5,962	(338)
Miscellaneous	5,500	3,934	(1,566)
Service fees	19,000	20,242	1,242
Serveline insurance	3,000	7,386	4,386
Sanitation revenue	6,300	7,200	900
Tap connection fees	30,000	26,676	(3,324)
Uncollectible accounts	(5,000)	(4,534)	466
TOTAL REVENUES	<u>2,681,890</u>	<u>2,600,779</u>	<u>(81,111)</u>
OPERATING EXPENSES			
General and administrative	440,544	423,906	16,638
Water operating expenses	1,280,460	1,158,907	121,553
Sewer operating expenses	305,288	473,761	(168,473)
Utility maintenance expenses	415,932	357,686	58,246
TOTAL OPERATING EXPENSES	<u>2,442,224</u>	<u>2,414,260</u>	<u>27,964</u>
Operating income	239,666	186,519	(53,147)
NONOPERATING INCOME (EXPENSE)			
Interest income	800	1,834	1,034
Interest expense	(217,000)	(174,452)	42,548
Bond issuance costs	-	(65,245)	(65,245)
Gain on retirement of fixed assets	-	11,718	11,718
Total nonoperating income (expense), net	<u>(216,200)</u>	<u>(226,145)</u>	<u>(9,945)</u>
NET INCOME (LOSS) BEFORE			
CONTRIBUTIONS, GRANTS, AND TRANSFERS	23,466	(39,626)	(63,092)
Tap fees in excess of cost	-	18,324	18,324
Contributions from developers	-	2,307	2,307
Grants	-	61,960	61,960
	<u>\$ 23,466</u>	<u>\$ 42,965</u>	<u>\$ 19,499</u>

SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

Year ended June 30, 2020

	Budget	Actual	Favorable (Unfavorable)
GENERAL AND ADMINISTRATIVE:			
Salaries and wages	\$ 209,332	\$ 199,354	\$ 9,978
Payroll taxes and employee benefits	72,262	61,101	11,161
Telephone	4,000	5,123	(1,123)
Utilities	5,750	4,614	1,136
Depreciation and amortization	31,000	37,810	(6,810)
Insurance	7,500	8,565	(1,065)
Uniforms	3,500	1,260	2,240
Postage	14,000	15,942	(1,942)
Advertising	1,200	1,101	99
Office equipment service contract	2,500	1,304	1,196
Legal and professional fees	24,000	25,621	(1,621)
Education	4,000	3,736	264
Maintenance and repair	1,000	1,880	(880)
Fuel	5,000	4,255	745
Engineering fee	2,000	700	1,300
Supplies	15,000	6,519	8,481
Technical support	15,500	25,871	(10,371)
General services	11,000	2,570	8,430
Vehicle maintenance and repair	2,500	1,416	1,084
Dues and subscriptions	3,000	2,775	225
Miscellaneous supplies and expenses	1,500	5,111	(3,611)
Credit card expense	5,000	7,278	(2,278)
GENERAL AND ADMINISTRATIVE	<u>440,544</u>	<u>423,906</u>	<u>16,638</u>
WATER:			
Plant operations:			
Salaries and wages	227,210	226,699	511
Payroll taxes and employee benefits	57,810	58,832	(1,022)
Telephone	3,300	3,376	(76)
Electricity	120,000	102,421	17,579
Treated water	55,000	56,058	(1,058)
Education	3,000	1,299	1,701
Advertising	400	335	65
Chemicals	150,000	100,730	49,270
Depreciation	433,790	423,532	10,258
Maintenance and repair	23,000	12,306	10,694
Raw water	2,000	1,035	965
Postage	300	62	238
Uniforms	2,600	5,181	(2,581)
Insurance	17,000	16,723	277
Engineering fee	4,000	875	3,125
Lab expense	2,050	2,013	37
State fees	5,000	4,111	889
Miscellaneous supplies	5,000	5,775	(775)
Dues and subscriptions	2,000	471	1,529
	<u>1,113,460</u>	<u>1,021,834</u>	<u>91,626</u>
Distribution:			
Electricity	51,000	40,320	10,680
Meters and parts	25,000	24,801	199
Maintenance and repair	64,000	29,833	34,167
Tap connection and construction expense	17,000	26,392	(9,392)
State permit fees	500	-	500
Engineering fee	500	5,500	(5,000)
Miscellaneous supplies	3,000	3,589	(589)
Lab fees	6,000	6,638	(638)
	<u>167,000</u>	<u>137,073</u>	<u>29,927</u>
WATER OPERATING EXPENSES	<u>1,280,460</u>	<u>1,158,907</u>	<u>121,553</u>

See independent auditor's report.

SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL (Continued)

METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

Year ended June 30, 2020

	Budget	Actual	Favorable (Unfavorable)
SEWER:			
Plant Operations:			
Salaries and wages	62,000	52,665	9,335
Payroll taxes and employee benefits	10,163	10,821	(658)
Telephone	1,000	843	157
Electricity	32,000	31,401	599
Education	6,000	1,031	4,969
Maintenance and repair	11,000	2,843	8,157
Vehicle maintenance and repair	-	-	-
Insurance	7,000	6,526	474
Postage	125	87	38
Miscellaneous supplies	4,250	5,414	(1,164)
Fuel	200	64	136
State fees	3,500	3,735	(235)
Pre-treatment expense	3,500	-	3,500
Uniforms	1,500	1,173	327
Lab fees	4,200	6,532	(2,332)
Engineering fees	500	963	(463)
Depreciation	127,000	120,144	6,856
Inventory expense	-	126	(126)
Dues and subscriptions	650	481	169
Chemicals	6,000	5,955	45
	<u>280,588</u>	<u>250,804</u>	<u>29,784</u>
Collection:			
Electricity	20,000	16,565	3,435
Tap connections	500	284	216
Engineering fees	-	203,462	(203,462)
Miscellaneous supplies	100	14	86
Maintenance and repair	4,100	2,632	1,468
	<u>24,700</u>	<u>222,957</u>	<u>(198,257)</u>
SEWER OPERATING EXPENSES	<u>305,288</u>	<u>473,761</u>	<u>(168,473)</u>
UTILITY MAINTENANCE			
Salaries and wages	255,569	226,911	28,658
Payroll taxes and employee benefits	108,339	75,969	32,370
Electricity	500	481	19
Telephone	224	224	-
Insurance	9,000	8,972	28
Maintenance and repair	2,200	1,173	1,027
Office supplies	100	-	100
Education	1,000	1,057	(57)
Vehicle maintenance and repair	10,000	5,967	4,033
Depreciation	10,000	22,198	(12,198)
Fuel	11,000	9,505	1,495
Dues and subscriptions	500	471	29
Miscellaneous supplies	2,500	9,492	(6,992)
Utility maintenance tools	1,500	1,464	36
Uniforms	3,500	5,080	(1,580)
Allocable expenses	-	(11,278)	11,278
	<u>415,932</u>	<u>357,686</u>	<u>58,246</u>
UTILITY MAINTENANCE EXPENSES	<u>415,932</u>	<u>357,686</u>	<u>58,246</u>
TOTAL OPERATING EXPENSES	<u>\$ 2,442,224</u>	<u>\$ 2,414,260</u>	<u>\$ 27,964</u>

See independent auditor's report.

SCHEDULE OF REVENUE BOND PRINCIPAL AND INTEREST REQUIREMENTS

**METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT**

Year ended June 30, 2020

Year Ending June 30,	Series 2019		Series 2014		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 104,000	\$ 93,403	\$ 35,204	\$ 40,180	\$ 139,204	\$ 133,583
2022	105,000	91,739	36,004	39,380	141,004	131,119
2023	107,000	90,059	36,822	38,562	143,822	128,621
2024	110,000	86,849	37,660	37,724	147,660	124,573
2025	114,000	83,549	38,516	36,868	152,516	120,417
2026	117,000	80,129	39,391	35,993	156,391	116,122
2027	121,000	76,619	40,287	35,097	161,287	111,716
2028	124,000	72,988	41,203	34,181	165,203	107,169
2029	128,000	69,269	42,139	33,245	170,139	102,514
2030	132,000	65,429	43,097	32,287	175,097	97,716
2031	136,000	61,469	44,077	31,307	180,077	92,776
2032	140,000	57,388	45,079	30,305	185,079	87,693
2033	144,000	53,189	46,104	29,280	190,104	82,469
2034	148,000	48,869	47,152	28,232	195,152	77,101
2035	148,000	44,429	48,225	27,159	196,225	71,588
2036	140,000	39,988	49,321	26,063	189,321	66,051
2037	144,000	35,789	50,442	24,942	194,442	60,731
2038	148,000	31,468	51,589	23,795	199,589	55,263
2039	153,000	27,029	52,761	22,623	205,761	49,652
2040	149,000	22,439	53,961	21,423	202,961	43,862
2041	150,000	17,969	55,187	20,197	205,187	38,166
2042	154,000	13,656	56,442	18,942	210,442	32,598
2043	158,000	9,229	57,726	17,658	215,726	26,887
2044	163,000	4,686	59,038	16,346	222,038	21,032
2045			60,380	15,004	60,380	15,004
2046			61,752	13,632	61,752	13,632
2047			63,156	12,228	63,156	12,228
2048			64,592	10,792	64,592	10,792
2049			66,060	9,324	66,060	9,324
2050			67,563	7,821	67,563	7,821
2051			69,099	6,285	69,099	6,285
2052			70,669	4,715	70,669	4,715
2053			72,275	3,109	72,275	3,109
2054			73,918	1,466	73,918	1,466
2055			24,952	145	24,952	145
	\$ 3,237,000	\$ 1,277,630	\$ 1,801,843	\$ 786,310	\$ 5,038,843	\$ 2,063,940

See independent auditor's report.

SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2020

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Final Maturity Date	Outstanding 07/01/19	Issued During Period	Paid and/or		Outstanding 6/30/2020
							Matured During Period	Refunded During Period	
Business-Type Activities									
OTHER LOANS PAYABLE									
State Revolving Loan Fund	\$ 979,353	2.95%	03/14/00	11/05/24	\$ 294,765	\$ -	\$ 51,240	\$ -	\$ 243,525
State Revolving Loan Fund	1,292,000	0.00%	12/02/10	01/15/36	1,087,338	-	64,752	-	1,022,586
Ally Bank	211,534	4.14, 5.39%	07/19/19	07/20/23	-	211,534	58,685	-	152,849
					<u>\$ 1,382,103</u>	<u>\$ 211,534</u>	<u>\$ 174,677</u>	<u>\$ -</u>	<u>\$ 1,418,960</u>
BONDS PAYABLE									
Revenue Bond - Water Fund	\$ 302,000	4.875%	06/03/97	06/03/35	\$ 192,174	\$ -	4,098	\$ 188,076	\$ -
	213,000	4.75%	07/10/01	12/10/39	158,188	-	2,328	155,860	-
	1,050,000	4.25%	01/24/07	01/24/45	867,074	-	7,870	859,204	-
	2,000,000	4.125%	10/17/07	10/17/45	1,672,485	-	14,683	1,657,802	-
	558,000	4.625%	06/04/09	04/04/47	488,703	-	4,345	484,358	-
	1,436,000	2.25%	10/26/16	09/26/54	1,369,961	-	25,792	-	1,344,169
	485,000	2.25%	03/14/17	02/14/55	466,303	-	8,629	-	457,674
	264,000	1.60%	12/20/19	06/01/22	-	264,000	55,000	-	209,000
	107,000	3.00%	12/20/19	06/01/23	-	107,000	-	-	107,000
	110,000	3.00%	12/20/19	06/01/24	-	110,000	-	-	110,000
	114,000	3.00%	12/20/19	06/01/25	-	114,000	-	-	114,000
	117,000	3.00%	12/20/19	06/01/26	-	117,000	-	-	117,000
	121,000	3.00%	12/20/19	06/01/27	-	121,000	-	-	121,000
	124,000	3.00%	12/20/19	06/01/28	-	124,000	-	-	124,000
	128,000	3.00%	12/20/19	06/01/29	-	128,000	-	-	128,000
	552,000	3.00%	12/20/19	06/01/33	-	552,000	-	-	552,000
	580,000	3.00%	12/20/19	06/01/37	-	580,000	-	-	580,000
	450,000	3.00%	12/20/19	06/01/40	-	450,000	-	-	450,000
	625,000	2.875%	12/20/19	06/01/44	-	625,000	-	-	625,000
					<u>\$ 5,214,888</u>	<u>\$ 3,292,000</u>	<u>\$ 122,745</u>	<u>\$ 3,345,300</u>	<u>\$ 5,038,843</u>

AWWA Free Water Audit Software: Reporting Worksheet

WAS v5.0
American Water Works Association
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Water Audit Report for: Metropolitan Lynchburg Moore County Utility Department (TN0000416)
Reporting Year: 2020 7/2019 - 6/2020

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

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.

WATER SUPPLIED

← Enter grading in column 'E' and 'J' →

Volume from own sources:	+ ? 8	294.036	MG/Yr
Water imported:	+ ? 8	17.500	MG/Yr
Water exported:	+ ? n/a	0.000	MG/Yr

Master Meter and Supply Error Adjustments

	Pcnt:		Value:	
+ ? 9	0.00%	<input checked="" type="radio"/> <input type="radio"/>		MG/Yr
+ ? 9	0.00%	<input type="radio"/> <input checked="" type="radio"/>		MG/Yr
+ ?		<input type="radio"/> <input type="radio"/>		MG/Yr

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

WATER SUPPLIED: 311.536 MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	+ ? 8	171.308	MG/Yr
Billed unmetered:	+ ? n/a	0.000	MG/Yr
Unbilled metered:	+ ? 8	1.226	MG/Yr
Unbilled unmetered:	+ ?	3.894	MG/Yr

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

AUTHORIZED CONSUMPTION: 176.428 MG/Yr

Click here: for help using option buttons below

	Pcnt:		Value:	
1.25%	<input checked="" type="radio"/> <input type="radio"/>			MG/Yr

Use buttons to select percentage of water supplied OR value

	Pcnt:		Value:	
0.25%	<input type="radio"/> <input checked="" type="radio"/>			MG/Yr

	Pcnt:		Value:	
0.25%	<input type="radio"/> <input type="radio"/>			MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption)

135.108 MG/Yr

Apparent Losses

Unauthorized consumption: 0.779 MG/Yr

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

Customer metering inaccuracies:	+ ? n/a	0.000	MG/Yr
Systematic data handling errors:	+ ?	0.428	MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: 1.207 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: 133.901 MG/Yr

WATER LOSSES: 135.108 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 140.228 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	+ ? 6	233.0	miles
Number of active AND inactive service connections:	+ ? 6	2,498	
Service connection density:	+ ?	11	conn./mile main

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

(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: 100.0 psi

COST DATA

Total annual cost of operating water system:	+ ? 9	\$1,939,564	\$/Year
Customer retail unit cost (applied to Apparent Losses):	+ ? 9	\$20.00	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	+ ? 8	\$2,000.00	\$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 78 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.
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Water Audit Report for: Metropolitan Lynchburg Moore County Utility Department (TN0000416)
Reporting Year: 2020 7/2019 - 6/2020

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 78 out of 100 ***

System Attributes:

Apparent Losses:	1.207	MG/Yr	
+	Real Losses:	133.901	MG/Yr
=	Water Losses:	135.108	MG/Yr
?	Unavoidable Annual Real Losses (UARL):	59.69	MG/Yr
	Annual cost of Apparent Losses:	\$24,142	
	Annual cost of Real Losses:	\$267,801	

Valued at **Variable Production Cost**
Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial:	{	Non-revenue water as percent by volume of Water Supplied:	45.0%	
		Non-revenue water as percent by cost of operating system:	15.6%	
Operational Efficiency:	{	Apparent Losses per service connection per day:	1.32	gallons/connection/day
		Real Losses per service connection per day:	N/A	gallons/connection/day
		Real Losses per length of main per day*:	1,574.47	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):				
	?	Infrastructure Leakage Index (ILI) [CARL/UARL]:	133.90	million gallons/year
			2.24	

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

SCHEDULE OF RATES AND NUMBER OF CUSTOMERS
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

Year ended June 30, 2020

RESIDENTIAL RATES

Water	\$ 7.70 service charge and \$9.65 per 1000 gallons
Sewer	\$ 5.38 service charge and \$11.00 per 1000 gallons

COMMERCIAL RATES

Water	\$ 7.70 service charge and \$12.28 per 1000 gallons
Sewer	\$ 5.38 service charge and \$14.00 per 1000 gallons

INDUSTRIAL RATES

Water	\$ 7.70 service charge and \$13.94 per 1000 gallons
-------	---

Number of customers at June 30, 2020:

Water	2,530
Sewer	310

See independent auditor's report.

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

Members of Utility Board
Metropolitan Lynchburg - Moore County
Water and Sewer Department
Lynchburg, 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 Metropolitan Lynchburg - Moore County Water and Sewer Department (the Department) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Department's financial statements, and have issued our report thereon dated June 23, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing 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 the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department'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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings that we consider to be a material weakness: 2020-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings as item 2020-002.

Department's Response to Finding

Metropolitan Lynchburg - Moore County Water and Sewer Department's response to the findings identified in our audit is included in the accompanying management's corrective action plan. Metropolitan Lynchburg - Moore County Water and Sewer Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Winnett Associates, PLLC

June 23, 2021

**SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT**

Year ended June 30, 2020

Financial Statement Findings

Finding Number	Finding Title	Status
2019-001	Inadequate system of checks and balances (original finding # 2016-003)	Repeated
2019-002	Current expenses in excess of budgeted amounts (original finding # 2015-002)	Corrected

¹ In accordance with transition guidance

See independent auditor's report.

SCHEDULE OF FINDINGS
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2020

Finding 2020-001 Financial reporting

Criteria: Governments must make decisions based on financial information provided by their accounting systems and be able to provide a full accounting of the handling of financial resources on behalf of others. The usefulness of financial reports depends on both the accuracy of the underlying account balances and the timeliness of the reports.

Cause and Condition: The Department does not have an adequate system of checks and balances to detect errors in recording transactions so that they can be corrected timely. This resulted in errors that were not corrected until several months after the year-end.

Effect: There is a risk that internally generated statements used for budgeting, management and board oversight, or provided to outside parties do not provide the information needed to make the best decisions or demonstrate how the Department is managing the resources entrusted to it.

Recommendation: Department personnel should reconcile the general ledger asset and liability accounts to the underlying supporting information on a monthly basis.

Finding 2020-002 Noncompliance

Criteria: Section 9-2-102, *Tennessee Code Annotated* provides that local governments subject to the audit requirements of the comptroller of the treasury close their official accounting records and have those records available for audit no later than two months after the close of their fiscal year.

Cause and Condition: The Department's internal control does not adequately address key controls such as periodic balancing procedures (as noted in Finding 2020-001), oversight, evaluation, and written procedures. As a result, the official accounting records were not available for audit until several months after year-end.

Effect: The local government was not in compliance with Section 9-2-102, *Tennessee Code Annotated* for the year ended June 30, 2020.

Recommendation: Management of the Department should address key controls to ensure that the accounting records are reliable and available for audit by August 31 each year.



Russell Sell – General Manager
Brooke Fanning – Office Manager

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June 23, 2021

Management's Corrective Action Plan
Re: 2019-2020 Audit Findings

Finding 2020-001 – Financial reporting

Plan:

We agree with the auditors' comments, and the following action will be taken to improve the situation. Metro Utility staff will meet weekly to discuss all projects in progress. This action will enable staff to verify all documentation needed is turned in a prompt way to assist the reconciliation of the general ledger asset and liability accounts monthly. Thusly this will also improve the checks and balances within the department.

Expected Implementation Date:

June 30, 2021

Finding 2020-002 – Noncompliance


Plan:

We agree with the auditors' comments, and the following action will be taken to improve the situation. Metro Utility staff has recently gone through an accounting software change that slowed the audit process due to complications in the change. Although Metro Utilities strives to be as efficient as possible, we understand that there are always ways to improve. Management will take steps to have the general ledger asset and liability accounts reconciled monthly as noted in previous finding 2020-001. This will ensure that all accounting records will be made available for audit on August 31st of each year.

Expected Implementation Date:

June 30, 2021

Respectfully Submitted,


Russell Sells
General Manager

WINNETT Associates, PLLC

Certified Public Accountants and Consultants

514 Elm Street, P. O. Box 745
Shelbyville, Tennessee 37162

Members of Utility Board
Metropolitan Lynchburg - Moore County
Water and Sewer Department
Lynchburg, Tennessee

We have audited the financial statements of Metropolitan Lynchburg - Moore County Water and Sewer Department for the year ended June 30, 2020, and have issued our report thereon dated June 23, 2021. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 17, 2020, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements presented by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Metropolitan Lynchburg - Moore County Water and Sewer Department are described in Note B to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2020. We noted no transactions entered into by the Department during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Management has corrected all financial statement misstatements identified during the audit that were material, both individually, and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 23, 2021.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Members of Utility Board and management of Metropolitan Lynchburg - Moore County Water and Sewer Department and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

WINNETT ASSOCIATES, PLLC

Winnett Associates, PLLC

June 23, 2021