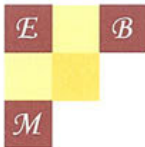


**CONSOLIDATED UTILITY DISTRICT
OF RUTHERFORD COUNTY, TENNESSEE
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**CONSOLIDATED UTILITY DISTRICT
OF RUTHERFORD COUNTY, TENNESSEE
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

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Edmondson, Betzler & Montgomery, PLLC
(Certified Public Accountants)

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Consolidated Utility District of Rutherford County, Tennessee

We have audited the accompanying financial statements of Consolidated Utility District of Rutherford County, Tennessee (the "District") as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which comprise the District's 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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, pension trend data, and post-employment data on pages 3 through 8 and pages 28 through 29 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 District's financial statements as a whole. The supplemental information section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The information, except for the portion marked "unaudited", on which we express no opinion, 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 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Edmondson, Betzler & Montgomery, PLLC

December 11, 2014

Consolidated Utility District of Rutherford County

Management's Discussion and Analysis

Year ended September 30, 2014

The management of Consolidated Utility District of Rutherford County (CUDRC) offers the readers of CUDRC's financial statements this narrative overview and analysis of the financial activities for the fiscal year ending September 30, 2014. We encourage readers to consider the information presented here in conjunction with the additional information furnished in this report.

Financial Highlights

- The assets plus deferred outflows of CUDRC exceeded its liabilities plus deferred inflows at the close of the most recent fiscal year by \$236,938,805 (*net position*). This includes Unrestricted Net Position in the amount of \$36,871,730 which may be used to meet CUDRC's ongoing obligations to customers, employees and creditors.
- CUDRC's total net position increased by \$13,667,343. This increase is substantially attributable to a one-time infusion of resources from contributions and tap fees.
- Net operating income for the fiscal year was \$6,453,706.

Financial Statement Overview

This discussion and analysis is intended to serve as an introduction to CUDRC's financial statements. Comparative data for the years 2013 & 2012 are also available in this year's MD&A. This report also contains other supplementary information in addition to the basic financial statements themselves.

The basic financial statements herein are comprised of the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows, and the accompanying Notes. The Statement of Net Position presents information on all of CUDRC's assets and deferred outflows, liabilities and deferred inflows, with the difference being reported as net position.

CUDRC, one of the largest utility districts in the state, provides water and decentralized sewer services to residents within Rutherford County. Costs are allocated to the two services, but financial statements for each service are not independently presented.

Financial Analysis

Net Position may serve over time as a useful indicator of CUDRC's financial position. By far the largest portion of CUDRC's net position (82 percent) reflects both assets contributed by developers and the agency's own investment in capital assets (e.g., infrastructure, land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. CUDRC uses these assets to provide services to customers; consequently, these assets are not available for future spending. It should be noted that the resources needed to repay the long-term debt must be provided from operating revenues, since the capital assets themselves cannot be used to liquidate these liabilities.

Consolidated Utility District of Rutherford County
Comparative Statement of Net Position
As of September 30
(In Thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$49,113	\$42,587	\$46,454
Capital assets	239,841	233,583	228,976
Total Assets	<u>\$288,954</u>	<u>\$276,170</u>	<u>\$275,430</u>
Deferred Outflows	<u>\$2,900</u>	<u>\$3,069</u>	<u>\$398</u>
Other liabilities	\$4,641	\$4,056	\$5,907
Long-term liabilities	47,551	49,055	54,595
Total Liabilities	<u>\$52,192</u>	<u>\$53,111</u>	<u>\$60,502</u>
Deferred Inflows	<u>\$2,723</u>	<u>\$2,856</u>	<u>\$1,235</u>
Net position:			
Invested in capital assets	\$193,165	\$185,099	\$173,233
Restricted for bond provisions	6,902	6,538	10,015
Unrestricted	36,872	31,634	30,843
Total net position	<u>\$236,939</u>	<u>\$223,271</u>	<u>\$214,091</u>

For all of the fiscal years presented, CUDRC is able to report positive balances in all categories of net assets.

Table 2
Condensed Statement of Revenues, Expenses,
And Changes in Net Position
For the Years ended September 30
(In Thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues:			
Operating revenue	\$27,525	\$26,133	\$26,014
Non-operating revenue	374	214	514
Total Revenue	<u>\$27,899</u>	<u>\$26,347</u>	<u>\$26,528</u>
Expenses:			
Depreciation	\$7,347	\$7,214	\$7,086
Other operating expense	13,724	13,046	13,081
Non-operating expense	1,793	2,469	2,894
Total expenses	<u>\$22,864</u>	<u>\$22,729</u>	<u>\$23,061</u>
Income before contributions	\$5,035	\$3,618	\$3,467
Other Contributions	8,632	5,563	4,018
Change in net position	<u>\$13,667</u>	<u>\$9,181</u>	<u>\$7,485</u>
Beginning net position	223,272	214,091	206,606
Ending net position	<u>\$236,939</u>	<u>\$223,272</u>	<u>\$214,091</u>

Operating revenues in 2014 totaling more than \$27 million and as shown in Figure 1, were derived principally from retail sales of water to an average of more than 45,900 customers during the fiscal year. The number of total active customers at year end was 46,649, indicating continued growth in customers served. Operating revenues increased by more than 5 percent over the previous year. This revenue growth is primarily attributed to growth in active customers served.

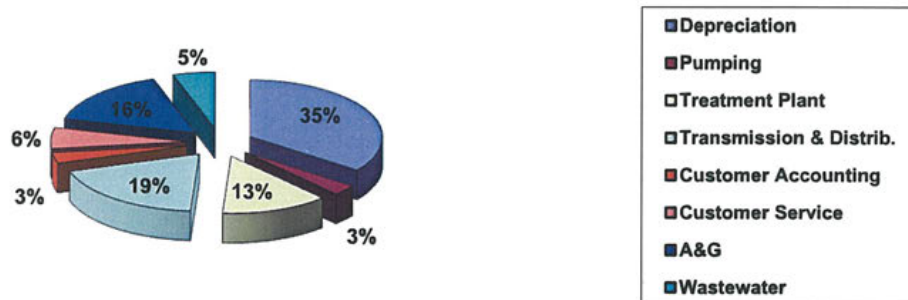
Revenue from sewer sales increased by more than 10 percent over the previous year, as the number of customers in these sewer systems increased from 3,703 to 4,058. Additional systems are nearing completion by developers, and others are in some stage of planning or construction. The 50 existing systems are designed to accommodate 6,843 homes.

Figure 1
Operating Revenues



Slight increases in outside services employed contributed to an increase in operating expenses of just over 3 percent over the previous year. Operating expenses totaled \$21 million, but increased revenue and developer contributions resulted in an increase in net position of more than \$13.7 million, an increase of 48 percent over the previous year. The table below presents each component of operating expenses as a percentage of the total.

Figure 2
Operating Expenses



Changes in Capital Assets

As shown in Table 3, CUDRC's investment in capital assets net of depreciation as of September 30, 2014 was more than \$239 million, and increased by just over \$6 million. Capital assets totaling \$5.9 million were installed and paid for by developers and others, then contributed to CUDRC.

Table 3
Capital Assets
Net of Accumulated Depreciation
Year ended September 30, 2014
(In Thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land and land rights	\$2,786	\$2,720	\$2,400
Pumping stations	5,686	2,168	2,356
Reservoirs	6,405	6,495	6,762
Trans & Dist Mains	162,627	157,030	158,723
Services & Meters	2,421	2,730	3,039
Buildings	8,803	9,179	9,555
Land Improvements	4	5	7
Water plant structures	11,913	12,331	12,748
Water plant equipment	399	374	412
Decentralized sewer systems	22,409	22,170	21,842
Office Equipment	532	540	738
Transportation Equipment	225	276	321
Tools and Garage Equipment	65	81	87
Heavy Equipment	475	824	825
Work in process, CUDRC	40	1,717	329
Work in process, subcontract	15,051	14,943	8,832
Total	<u>\$239,841</u>	<u>\$233,583</u>	<u>\$228,976</u>

CUDRC has several major projects on-going and scheduled through 2020 that are projected to cost an additional \$70-\$75 million. The District currently anticipates that additional funds may be borrowed at some point in the future to fund portions of these projects.

Long-term Debt

CUDRC had \$45,052,000 in long-term debt outstanding at year-end compared with \$46,930,000 in the prior year. Annual principal and interest requirements declined as a result of the 2014 refinancing, and will remain at approximately \$3.5 million through fiscal 2020, and gradually decline thereafter.

Economic Factors

Rutherford County, a part of the Nashville Metropolitan Statistical Area, reports an average unemployment rate of 5.3% in September 2014, compared with Tennessee's unemployment rate of 7.3% and the U.S. rate of 5.9%. We continue to see an substantial increase in multi-family housing construction, and have seen a significant resumption of single-family residential development throughout our service territory.

Request for Information

This financial report is designed to provide a general overview of CUDRC's finances for all those with an interest in the district's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller, CUDRC, 709 New Salem Hwy., P.O. Box 249, Murfreesboro, TN 37133-0249.

General information relating to CUDRC can be found at the utility's website, <http://www.cudrc.com>.

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2014 AND 2013

	2014	2013
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,505,278	\$ 5,969,582
Investments, at fair value	31,757,982	26,309,518
Accounts receivable, net of allowance for doubtful accounts, \$199,994 and \$200,000 for 2014 and 2013, respectively	2,948,458	2,876,856
Inventory	694,913	633,573
Interest receivable	67,529	45,097
Prepaid expenses	236,572	213,922
Total current assets	<u>42,210,732</u>	<u>36,048,348</u>
Restricted assets:		
Investments for debt service	6,902,018	6,538,242
Capital assets:		
Utility plant and equipment, net	<u>239,841,245</u>	<u>233,583,254</u>
Total assets	<u>288,953,995</u>	<u>276,169,844</u>
Deferred outflows of resources		
Deferred amount from debt refunding	<u>2,899,638</u>	<u>3,068,713</u>
Total assets and deferred outflows of resources	<u>\$ 291,853,633</u>	<u>\$ 279,238,557</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current liabilities:		
Current portion of long-term debt	\$ 1,801,193	\$ 1,766,629
Trade accounts payable	1,786,098	1,376,492
Retainage payable	16,365	-
Accrued interest payable	271,701	279,130
Accrued wages and payroll taxes	191,935	133,181
Accrued vacation	311,074	262,239
Other accrued liabilities	262,563	238,517
Total current liabilities	<u>4,640,929</u>	<u>4,056,188</u>
Long-term liabilities:		
Waterworks revenue bonds	45,052,122	46,930,314
Accrued sick leave	688,403	624,703
Post employment benefits	<u>1,810,863</u>	<u>1,499,598</u>
Total liabilities	<u>52,192,317</u>	<u>53,110,803</u>
Deferred inflows of resources		
Deferred amount from debt refunding	<u>2,722,511</u>	<u>2,856,292</u>
Net position:		
Net investment in capital assets	193,165,057	185,098,732
Restricted to meet bond indenture provisions	6,902,018	6,538,242
Unrestricted	<u>36,871,730</u>	<u>31,634,488</u>
Total net position	<u>236,938,805</u>	<u>223,271,462</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 291,853,633</u>	<u>\$ 279,238,557</u>

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

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITIONS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Operating revenues:		
Water and sewer revenues	\$ 25,292,678	\$ 24,167,493
Connection and other fees	<u>2,232,185</u>	<u>1,965,890</u>
Total operating revenues	<u>27,524,863</u>	<u>26,133,383</u>
Operating expenses:		
Pumping	554,875	526,910
Water treatment	2,789,137	2,534,088
Transmission and distribution	4,023,898	3,945,115
Customer accounting	672,268	586,845
Customer service	1,318,671	1,344,097
Wastewater (step sewer)	946,740	904,604
General and administrative	3,418,834	3,204,468
Depreciation and amortization	<u>7,346,734</u>	<u>7,214,354</u>
Total operating expenses	<u>21,071,157</u>	<u>20,260,481</u>
Net operating income	<u>6,453,706</u>	<u>5,872,902</u>
Non-operating revenues (expenses):		
Interest earned	340,480	141,496
Interest expense	(1,773,261)	(2,088,702)
Gain on sale of capital assets	15,191	66,388
Loss on abandoned inventory	(17,380)	-
Debt issuance costs	-	(377,439)
Other income	18,649	5,721
Other non-operating expenses	<u>(2,200)</u>	<u>(2,795)</u>
Total non-operating revenues (expenses)	<u>(1,418,521)</u>	<u>(2,255,331)</u>
Net income before contributions	5,035,185	3,617,571
Capital contributions:		
Contributions in aid of construction	<u>8,632,158</u>	<u>5,563,034</u>
Change in net position	13,667,343	9,180,605
Net position, beginning of year	<u>223,271,462</u>	<u>214,090,857</u>
Net position, end of year	<u>\$ 236,938,805</u>	<u>\$ 223,271,462</u>

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

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Receipts from customers	\$ 27,453,061	\$ 26,088,995
Payments to suppliers and others	(8,872,619)	(8,575,532)
Payments to employees	(4,443,718)	(4,486,937)
Net cash provided by operating activities	<u>14,136,724</u>	<u>13,026,526</u>
Cash flows from noncapital financial activities:		
Other income	18,649	5,721
Other non-operating expenses	(2,200)	(2,795)
Net cash provided by noncapital financing activities	<u>16,449</u>	<u>2,926</u>
Cash flows from capital and related financing activities:		
Contributions in aid of construction	2,743,822	1,869,283
Acquisition and construction of capital assets	(7,715,059)	(9,379,722)
Proceeds from sale of capital equipment	436,976	58,889
Proceeds from long-term borrowings	-	33,140,000
Premiums on issuance of debt	-	1,730,581
Deferred interest on issuance of debt	-	(2,802,068)
Principal paid on revenue bonds	(1,843,628)	(39,349,401)
Interest paid on revenue bonds	(1,745,396)	(2,181,779)
Debt issuance costs	-	(377,439)
Net cash used in capital and related financing activities	<u>(8,123,285)</u>	<u>(17,291,656)</u>
Cash flows from investing activities:		
Interest received on investments	318,048	195,066
Proceeds from maturity of investments	17,709,966	58,453,175
Purchases of investments	(23,522,206)	(54,599,524)
Net cash provided by (used in) investing activities	<u>(5,494,192)</u>	<u>4,048,717</u>
Net increase (decrease) in cash and cash equivalents	535,696	(213,487)
Cash and cash equivalents, beginning of year	<u>5,969,582</u>	<u>6,183,069</u>
Cash and cash equivalents, end of year	<u><u>\$ 6,505,278</u></u>	<u><u>\$ 5,969,582</u></u>
Non-cash capital and related financing activities:		
Developer contributions of utility plant	<u>\$ 5,888,336</u>	<u>\$ 3,693,751</u>
Capital additions included in accounts payable	<u>\$ 630,322</u>	<u>\$ 207,207</u>

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

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Reconciliation of operating income to net cash provided by operating activities:		
Net income from operations	\$ 6,453,706	\$ 5,872,902
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	7,346,734	7,214,354
Bad debt expense	85,038	56,946
Increase in accounts receivable	(156,840)	(101,334)
Increase in inventories	(78,720)	(185,523)
Increase in prepaid expenses	(22,650)	(23,374)
Increase (decrease) in trade accounts payable	2,856	(109,978)
Increase in accrued wages and payroll taxes	58,754	8,229
Increase in accrued compensated absences	112,535	19,388
Increase in post employment benefits payable	311,265	279,876
Increase (decrease) in other accrued liabilities	24,046	(4,960)
Net cash provided by operating activities	<u>\$ 14,136,724</u>	<u>\$ 13,026,526</u>

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

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated Utility District of Rutherford County, Tennessee, was created in 1968 pursuant to the public laws of the State of Tennessee and under the order of the County Judge of Rutherford County, Tennessee. The District includes those districts originally known as Double Springs Utility District, Stones River Utility District, Florence Utility District, and Rockvale Utility District of Rutherford County. The District was established under Tennessee Code Annotated § 7-82, also known as the Utility District law of 1937, and received its charter from the State of Tennessee in April, 1970. The District was created to provide water to areas of Rutherford County; however the District amended its charter on December 31, 1997, to include limited sewer service. The District is not a component unit of any other governmental entity, and it has no component units. The operation of the District is overseen by a five (5) member board of commissioners, each of whom serves a four (4) year term of office.

A summary of the District's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of Accounting and Presentation

The District's financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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

The District makes a distinction between operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with its principal ongoing operations. The principal operating revenues of the District are water and wastewater charges to customers. Operating expenses consist of salaries, benefits, utilities, operating contracts for maintenance, insurance and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

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

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting and Presentation (Continued)

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

Cash, 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 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. Realized gains or losses in the current period include unrealized amounts from prior periods. All investment income, including changes in the fair value of investments, is to be recognized in the operating statement.

Use of Estimates

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

Inventory

Inventory consists primarily of materials used in the construction and maintenance of the distribution facilities and is valued at lower of cost (on the first-in, first-out basis) or market.

Capital Assets

Capital assets are recorded at historical cost. Donated assets are valued at estimated fair value on the date received. Self-constructed assets are recorded based on the amount of direct labor, material, and certain indirect costs charged to the asset construction. Depreciation is calculated using the straight-line method over the following estimated useful lives:

	<u>Estimated Life</u>
Buildings and Structures	33 – 40 years
Transmission and Distribution Mains	40 – 50 years
Equipment	4 – 20 years
STEP Sewer Systems	40 – 50 years

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Depreciation expense aggregated \$7,346,734 and \$7,214,354 for the years ended September 30, 2014 and 2013, respectively, and is included with depreciation and amortization expense.

Maintenance and repairs are charged to operations when incurred. Costs of assets sold or retired (and the related amounts of accumulated depreciation) are eliminated from the balance sheet in the year of sale or retirement, and the resulting gain or loss is recognized in operations.

Presentation of certain taxes

The District collects various taxes from customers and remits these amounts to applicable taxing authorities. The District's accounting policy is to exclude these taxes from revenues and cost of sales.

Receivables, revenues and unbilled revenues

Revenues are billed monthly to customers on a cyclical meter reading basis. Recognition has been given to unbilled revenue in the financial statements.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The District provides for estimated uncollectible receivables through bad debt expense 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.

Deferred outflows/inflows of resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources until then. The District has deferred charges on refunding resulting from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the life of the refunding debt.

Deferred inflows of resources represent the acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources until that time. The District has deferred premiums on bond issuances. This amount is deferred and amortized over the life of the bonds and recorded in interest expense.

**CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Employees of the District are entitled to paid vacation and sick days depending on the length of service and other factors. District employees who meet certain eligibility criteria are compensated for accrued sick leave upon retirement. The vested and earned vacation leave is recognized as current liability of the District at September 30, 2014 and 2013. The estimated liability for sick leave has been reflected in this report as a long-term liability, as it will not be paid to employees until termination.

Risk Management

The District is subject to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for these claims and for all other risks of loss. Settled claims have not exceeded the commercial coverage for the years ended September 30, 2014 and 2013.

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 2 - CASH AND INVESTMENTS

Cash and investments as of September 30, 2014 and 2013 are classified in the Balance Sheets as follows:

	2014	2013
Cash and cash equivalents	\$ 6,505,278	\$ 5,969,582
Investments	31,757,982	26,309,518
Restricted for debt service	<u>6,902,018</u>	<u>6,538,242</u>
	<u><u>\$ 45,165,278</u></u>	<u><u>\$ 38,817,342</u></u>

Cash and investments as September 30, 2014 and 2013 consist of the following:

	2014	2013
Cash on hand	\$ 1,350	\$ 1,350
Deposits with financial institutions	6,503,928	5,968,232
Investments - marketable securities	29,438,400	23,903,980
Local governmental investment pool	<u>9,221,600</u>	<u>8,943,780</u>
	<u><u>\$ 45,165,278</u></u>	<u><u>\$ 38,817,342</u></u>

Authorized Investments

The District is authorized by law to invest idle funds in various U.S. government or agency obligations as well as secured certificates of deposits at state and federal chartered banks and savings and loan associations. The District also may invest in repurchase agreements for U.S. Government or agency obligations and money market funds whose portfolio consist of any of the investments discussed above if those investments are approved by the state director of local finance. Finally, the District may invest in the local government investment pool established by Title 9, Chapter 4, Part 7, Tennessee Code Annotated. Authorized investments may not have a maturity of greater than four (4) years unless authorized by the state director of local finance. District regulations do not provide any further restrictions on investments.

Disclosures Relating to Interest Rate Risk and Credit Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in interest rates is. One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments. By timing cash flows from maturities so that a portion of the portfolio is maturing evenly over time, this provides the cash flow and liquidity needed for operations and capital expenditures.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk and Credit Risk (Continued)

As of September 30, 2014, the District had the following investments in marketable securities.

	Market Value	Maturity Date	Call Date	Rating as of Year End
Fannie Mae	\$ 6,002,040	11/1/2016	Quarterly	AAA
Federal Farm Credit Bank	1,001,320	11/13/2017	Quarterly	AAA
Federal National Mortgage Assn.	2,985,570	11/15/2016	Quarterly	AAA
Federal National Mortgage Assn.	2,990,820	12/19/2016	Quarterly	AAA
Federal National Mortgage Assn.	993,160	2/27/2017	Quarterly	AAA
Federal National Mortgage Assn.	498,490	9/18/2017	Quarterly	AAA
Federal National Mortgage Assn.	997,220	12/11/2017	Quarterly	AAA
Federal Home Loan Bank	1,997,840	5/15/2017	Quarterly	AAA
Federal Home Loan Bank	997,950	11/14/2017	Quarterly	AAA
Federal Home Loan Bank	999,980	11/20/2017	Quarterly	AAA
Federal Home Loan Bank	1,000,180	12/12/2017	Quarterly	AAA
Federal Home Loan Bank	1,000,060	2/8/2018	Quarterly	AAA
Federal Home Loan Bank	999,180	3/20/2018	Quarterly	AAA
Federal Home Loan Bank	1,000,030	7/23/2018	Quarterly	AAA
Federal Home Loan Bank	3,978,240	9/19/2018	Quarterly	AAA
Federal Home Loan Mortgage	996,040	3/20/2018	Quarterly	AAA
Freddie Mac	1,000,280	12/19/2017	Quarterly	AAA
	<u>\$ 29,438,400</u>			

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer that represents 5% or more of the total District investments are as follows:

Federal Home Loan Mtg. Corp.	Federal Agency Securities	\$ 996,040
Federal National Mortgage Assn.	Federal Agency Securities	\$ 8,465,260
Federal Home Loan Bank	Federal Agency Securities	\$ 11,973,460
Fannie Mae	Federal Agency Securities	\$ 6,002,040
Federal Farm Credit Bank	Federal Agency Securities	\$ 1,001,320
Freddie Mac	Federal Agency Securities	\$ 1,000,280

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a depositor will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, an investor will not be able to recover the value of its investment or collateral securities that regain the possession of another party. Tennessee Code Annotated requires that a financial institution secure deposits made by a state or local government unit by pledging securities in a collateral pool maintained by the State Treasurer, or by placing securities in an amount of 105% of the uninsured amount of the deposits in an escrow account in a second bank for the benefit of the government agency. Rules adopted by the Tennessee State Funding Board also require that investments must be held by a separate custodian (not the broker-dealer) in an account in the name of the government agency. At September 30, 2014 and 2013, and throughout the fiscal years, the District was in compliance with these requirements.

NOTE 3 - CAPITAL ASSETS

Components of utility plant and equipment for the year ended September 30, 2014 are as follows:

	Balance September 30, 2013	Additions	Retires	Transfers	Balance September 30, 2014
Capital assets not being depreciated					
Land and improvements	\$ 2,719,851	\$ 65,800	\$ -	\$ -	\$ 2,785,651
Construction in progress	16,658,740	7,497,377	-	(9,064,262)	15,091,855
	<u>19,378,591</u>	<u>7,563,177</u>	<u>-</u>	<u>(9,064,262)</u>	<u>17,877,506</u>
Capital assets being depreciated					
Structures and improvements	51,539,334	4,135	-	3,974,545	55,518,014
Transmission and distribution mains	210,760,169	5,471,629	-	5,063,593	221,295,391
STEP sewer systems	24,518,589	602,268	-	26,124	25,146,981
Equipment	8,250,397	385,302	(1,869,473)	-	6,766,226
	<u>295,068,489</u>	<u>6,463,334</u>	<u>(1,869,473)</u>	<u>9,064,262</u>	<u>308,726,612</u>
Total plant in service	314,447,080	14,026,511	(1,869,473)	-	326,604,118
Less accumulated depreciation	<u>(80,863,826)</u>	<u>(7,346,734)</u>	<u>1,447,687</u>	<u>-</u>	<u>(86,762,873)</u>
Net capital assets	<u>\$ 233,583,254</u>	<u>\$ 6,679,777</u>	<u>\$ (421,786)</u>	<u>\$ -</u>	<u>\$ 239,841,245</u>

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 4 - LONG-TERM DEBT

The long-term debt at September 30, 2014 and 2013 consisted of the following:

	2014	2013
Series 2000 revenue bonds; interest payable monthly at 4.75%, maturing in monthly installments through 2040.	\$ 841,137	\$ 857,755
Series 2009 revenue bonds; interest payable monthly at 4.125%, maturing in monthly installments through 2047.	1,262,178	1,280,188
Series 2009 revenue bonds; interest payable semi-annually at 2.5% to 4.5%, maturing in annual installments through 2030.	12,730,000	13,320,000
Series 2013 revenue refunding bonds; interest payable semi-annually at 2% to 4%, maturing in annual installments through 2036.	32,020,000	33,140,000
Prior bond issues paid off	<u>-</u>	<u>99,000</u>
 Total debt	 46,853,315	 48,696,943
Less current portion	<u>1,801,193</u>	<u>1,766,629</u>
Long-term portion, net	<u>\$ 45,052,122</u>	<u>\$ 46,930,314</u>

**CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Future debt service requirements of long-term debt are as follows:

Year Ending September 30,	Principal	Interest	Total
2015	\$ 1,801,193	\$ 1,702,340	\$ 3,503,533
2016	1,857,569	1,654,514	3,512,083
2017	1,919,913	1,596,669	3,516,582
2018	1,986,297	1,530,698	3,516,995
2019	2,078,164	1,451,744	3,529,908
2020-2024	11,451,443	5,950,019	17,401,462
2025-2029	12,917,800	3,427,611	16,345,411
2030-2034	9,264,185	1,364,892	10,629,077
2035-2039	3,089,953	230,157	3,320,110
2040-2044	312,121	67,661	379,782
2045-2049	174,677	9,916	184,593
	<u>\$ 46,853,315</u>	<u>\$ 18,986,221</u>	<u>\$ 65,839,536</u>

Long-term transactions for the year ended September 30, 2014 are as follows:

	Balance September 30, 2013	Proceeds	Payments	Balance September 30, 2014
Revenue bonds	\$ 15,556,943	\$ -	\$ 723,628	\$ 14,833,315
Refunding bonds	33,140,000	-	1,120,000	32,020,000
Total long-term debt	<u>\$ 48,696,943</u>	<u>\$ -</u>	<u>\$ 1,843,628</u>	<u>\$ 46,853,315</u>

Advance Refunding

On April 11, 2013, the District issued \$33,140,000 in Revenue Refunding Bonds at interest rates ranging from 2.0% to 4.0% to advance refund \$37,235,000 of outstanding Series 2004, 2005, and 2006 Revenue Bonds with interest rates ranging from 3.4% to 5.5%. The net proceeds of \$35,147,546 (including a premium of \$2,384,985 and after payment of \$377,439 in underwriting fees and other issue costs), along with \$3,332,356 of prior issue debt service reserve funds, \$550,085 of prior issue sinking funds, and \$1,955,440 of issuer funds was deposited in an irrevocable trust with an escrow agent and invested in Treasury Securities – State and Local Government Series in an amount sufficient to provide funds for the future debt service payments on the refunded bonds until the respective redemption dates. As a result, the Series 2004, 2005, and 2006 Revenue Bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 4 - LONG-TERM DEBT (CONTINUED)

The reacquisition price exceeded the net carrying amount of the old debt by \$2,802,068. This amount is being amortized over the remaining life of the refunding debt. The District refunded the Series 2004, 2005, and 2006 revenue bonds to reduce its total net debt service payments over 23 years by \$5,429,206 and to obtain an economic gain (difference between the present values of the net debt service payments on the old and new debt, adjusted for issuer contributions) of \$4,602,731.

NOTE 5 - EMPLOYEE BENEFIT PLAN

Tennessee Consolidated Retirement System (TCRS)

In July, 2007 Consolidated Utility District of Rutherford County (CUD), Tennessee, joined the Tennessee Consolidated Retirement System (TCRS), and provided the opportunity for existing employees to become members of this public employees' retirement system. Upon making this program available, approximately 70 percent of the employees elected to participate. All new employees are required to participate in this retirement program.

Plan Description

Employees of CUD are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Consolidated Utility District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy

CUD requires employees to contribute 5.0% of earnable compensation. CUD is required to contribute at an actuarially determined rate; the rate for the year ending June 30, 2014 was 11.83% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for CUD is established and may be amended by the TCRS Board of Trustees.

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 5 - EMPLOYEE BENEFIT PLAN (CONTINUED)

Annual Pension Cost

For the year ending June 30, 2014, CUD's annual pension cost of \$401,527 to TCRS was equal to CUD's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected 3.0 percent annual rate of inflation (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten year period. CUD's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 10 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2014	\$ 401,527	100%	\$ -
6/30/2013	\$ 416,107	100%	\$ -
6/30/2012	\$ 393,367	100%	\$ -

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 76.11% funded. The actuarial accrued liability for benefits was \$7.37 million, and the actuarial value of assets was \$5.61 million, resulting in an unfunded actuarial liability (UAAL) of \$1.76 million. The covered payroll (annual payroll of active employees covered by the plan) was \$3.38 million, and the ratio of the UAAL to the covered payroll was 52.0%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 5 - EMPLOYEE BENEFIT PLAN (CONTINUED)

Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with the Internal Revenue Service Code Section 457. The Plan, available to all District employees, permits employees to defer a portion of their salary until future years. Compensation deferred under this plan is not available to employees or their beneficiaries until termination, retirement, death, or unforeseeable emergency. Prior to the adoption of the TCRS plan, the District provided a matching contribution of up to 4% of total wages to all participating employees. Subsequent to July 1, 2007 no employer match is available to employees participating in TCRS. For those employees who elected not to participate in TCRS the District provides a contribution of 11.5% for all employees who elect to contribute at least 5% to this program. Employer contributions under this program for the years ended September 30, 2014 and 2013 were \$95,732 and \$106,633, respectively.

NOTE 6 - POST EMPLOYMENT HEALTH BENEFITS

Plan Description

The District administers a single-employer defined benefit healthcare plan (the "Retiree Health Plan"). The plan provides healthcare insurance for eligible retirees and their spouses until a retiree reaches age 65 through the District's group health insurance plan, which covers both active and retired members. Benefit provisions are established through the District's current healthcare insurance provider, Cigna. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy

The District pays 96% of the cost of current-year premiums for eligible retired plan members and their spouses. The District's contributions for retirees for the years ended September 30, 2014 and 2013 were \$15,092 and \$17,517, respectively.

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 6 - POST EMPLOYMENT HEALTH BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 315,677
Interest on net OPEB obligation	67,085
Adjustment to annual required contribution	<u>(56,405)</u>
Annual OPEB cost (expense)	326,357
Contributions made	<u>(15,092)</u>
Increase in net OPEB obligation	311,265
Net OPEB obligation, beginning of year	<u>1,499,598</u>
Net OPEB obligation, end of year	<u><u>\$ 1,810,863</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014, 2013 and 2012 is as follows:

<u>Ended</u>	<u>Cost</u>	<u>Cost Contributed</u>	<u>Obligation</u>
9/30/2014	\$ 326,357	\$15,092	\$ 1,810,863
9/30/2013	\$ 297,393	\$17,517	\$ 1,499,598
9/30/2012	\$ 379,519	\$16,862	\$ 1,219,722

Funded Status and Funding Progress

As of September 30, 2014 and 2013, the actuarial accrued liability for benefits was \$2,748,434 and \$2,510,000, respectively, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$4,485,119 and \$4,693,563, respectively, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 61.3 and 53.5 percent, respectively.

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 6 - POST EMPLOYMENT HEALTH BENEFITS (CONTINUED)

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

Methods and Assumptions

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

The following simplifying assumptions were made:

Retirement age for active employees – Based on the District's permitted retirement age, which is age 59 1/2, or at the first subsequent year in which the member would qualify for benefits.

Marital status – Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality – Not assumed to be a factor since member benefits end at age 65.

Turnover – Non-group-specific age-based turnover data from GASB 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 7.1 percent initially, reduced to an ultimate rate of 6.1 percent after five years, was used.

**CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

NOTE 6 - POST EMPLOYMENT HEALTH BENEFITS (CONTINUED)

Health insurance premiums – 2014 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate – The expected long-term inflation assumption of 3.0 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in the *2010 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

Payroll growth rate – The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the District's short-term investment portfolio, a discount rate of 5.5 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2014, was thirty years.

NOTE 7 - CONTINGENCIES

The District is involved in various lawsuits in the normal course of business operations. The District's management believes the outcome of these lawsuits will not have a material adverse effect on the District's financial statements.

NOTE 8 - DATE OF MANAGEMENT'S REVIEW

Management of CUD has evaluated events and transactions that occurred after September 30, 2014, through the date of the issued financial statements. During this period there were no material recognizable subsequent events that required recognition in the disclosures to the September 30, 2014 financial statements.

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
PENSION TRUST FUNDS
SCHEDULE OF FUNDING PROGRESS
SEPTEMBER 30, 2014

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
7/1/2013	\$ 5,606,000	\$ 7,365,000	\$ 1,759,000	76.11%	\$ 3,383,000	52.00%
7/1/2011	\$ 4,155,000	\$ 6,592,000	\$ 2,437,000	63.03%	\$ 3,133,000	77.81%
7/1/2009	\$ 2,438,000	\$ 5,026,000	\$ 2,588,000	48.51%	\$ 2,870,000	90.18%

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

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
POST-EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
SEPTEMBER 30, 2014

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
9/30/2014	\$ -	\$ 2,748,434	\$ 2,748,434	0%	\$ 4,485,119	61.28%
9/30/2013	\$ -	\$ 2,510,000	\$ 2,510,000	0%	\$ 4,693,563	53.48%
9/30/2012	\$ -	\$ 3,272,566	\$ 3,272,566	0%	\$ 4,676,255	69.98%

SUPPLEMENTAL INFORMATION

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE

SCHEDULE OF NET POSITION BY COMPONENT

LAST TEN FISCAL YEARS

(amounts expressed in thousands)

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Invested in Capital Assets, net of related debt	\$ 193,165	\$ 185,099	\$ 173,233	\$ 163,894	\$ 161,897	\$ 174,056	\$ 165,173	\$ 132,515	\$ 115,449	\$ 110,270
Restricted to Meet Bond Indenture Provisions	6,902	6,538	10,015	9,790	8,036	7,310	6,919	6,149	5,667	4,865
Restricted for Capital Investments	-	-	-	-	-	-	-	5,413	9,915	1,833
Unrestricted	36,872	31,634	30,843	32,922	30,173	14,619	19,167	28,596	21,543	19,002
Total Net Position	\$ 236,939	\$ 223,271	\$ 214,091	\$ 206,606	\$ 200,108	\$ 195,985	\$ 191,259	\$ 172,673	\$ 152,574	\$ 135,970

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
SCHEDULE OF CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Operating Revenue:										
Water Sales	\$ 23,794	\$ 22,793	\$ 22,895	\$ 20,873	\$ 19,248	\$ 18,542	\$ 19,001	\$ 17,925	\$ 15,753	\$ 14,583
Sewer (Step) Sales	1,676	1,513	1,463	1,358	1,114	873	791	639	503	322
Late Payment Fees	677	622	608	583	563	546	566	555	496	463
Service Charges	1,344	1,147	1,063	1,016	1,105	926	947	1,009	988	771
Other	211	197	166	180	354	158	176	86	129	63
Less: Adjustments and Allowances	(177)	(139)	(181)	(228)	(259)	(322)	(336)	(238)	(259)	(167)
Total Operating Revenue	27,525	26,133	26,014	23,782	22,125	20,723	21,145	19,976	17,610	16,035
Operating Expenses:										
Pumping	555	527	525	540	524	539	514	450	412	389
Water Plant & Treatment	2,789	2,534	2,673	2,373	2,233	2,488	2,525	2,339	1,921	1,669
Transmission & Distribution	4,024	3,945	3,557	3,719	3,430	3,665	3,448	3,230	2,974	2,849
Customer Accounting	672	587	595	589	588	731	966	882	721	676
Customer Service	1,319	1,344	1,515	1,516	1,528	1,701	1,711	1,439	1,112	889
Wastewater (Step Systems)	947	905	877	936	925	830	724	518	441	311
Administrative & General	3,419	3,204	3,339	3,195	3,006	3,422	2,715	2,687	2,564	2,259
Depreciation & Amortization	7,347	7,214	7,087	6,954	6,766	6,512	6,004	5,001	4,275	3,423
Total Operating Expenses	21,072	20,260	20,168	19,822	19,000	19,888	18,607	16,546	14,420	12,465
Net Operating Revenue	6,453	5,873	5,846	3,960	3,125	835	2,538	3,430	3,190	3,570
Non-operating Revenue (Expenses)	(1,418)	(2,255)	(2,379)	(2,003)	(2,360)	(1,533)	(885)	(195)	(638)	(778)
Net Income before Contributions	5,035	3,618	3,467	1,957	765	(698)	1,653	3,235	2,552	2,792
Contributions:										
Growth Fees	-	-	-	-	-	-	709	1,454	1,773	1,514
Tap Fees - Net of Costs	2,744	1,856	1,582	808	1,197	839	708	1,145	1,420	1,849
Developer Contributions	5,888	3,129	1,551	3,470	2,112	3,991	9,713	13,141	10,813	10,866
Contributions - Others	-	578	885	266	46	594	5,803	1,125	46	-
Total Contributions	8,632	5,563	4,018	4,544	3,355	5,424	16,933	16,865	14,052	14,229
Change in Accounting Methods	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Change in Net Position	\$ 13,667	\$ 9,181	\$ 7,485	\$ 6,501	\$ 4,120	\$ 4,726	\$ 18,586	\$ 20,100	\$ 16,604	\$ 17,021

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
SCHEDULE OF OPERATING REVENUES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Actual	(Unaudited) Budget	Variance Favorable (Unfavorable)
Operating Revenues			
Water Sales	\$ 23,793,504	\$ 23,438,000	\$ 355,504
Sewer (Step) Sales	1,676,150	1,450,000	226,150
Late Payment Fees	677,402	605,000	72,402
Service Charges	1,343,625	1,041,000	302,625
Fire Protection	156,319	145,000	11,319
Miscellaneous Income	54,838	22,000	32,838
	<u>27,701,838</u>	<u>26,701,000</u>	<u>1,000,838</u>
Less: Adjustments and Allowances	<u>(176,975)</u>	<u>(240,000)</u>	<u>63,025</u>
Total Operating Revenues	<u><u>\$ 27,524,863</u></u>	<u><u>\$ 26,461,000</u></u>	<u><u>\$ 1,063,863</u></u>

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Actual	(Unaudited) Budget	Budget Remaining	% of Budget Used
Pumping				
Building and grounds	\$ 16,735	\$ 16,500	\$ (235)	101.42%
Contract services, maintenance	22,967	19,855	(3,112)	115.67%
Electricity	261,843	355,047	93,204	73.75%
Employee regular wages	108,300	109,625	1,325	98.79%
Employee overtime pay	15,949	18,000	2,051	88.61%
Employee bonus pay	1,088	1,040	(48)	104.62%
Employee vacation pay	9,007	7,950	(1,057)	113.30%
Employee sick pay	5,456	4,140	(1,316)	131.79%
Employee benefits, allocated	33,698	40,205	6,507	83.82%
Employee section 457	-	8,535	8,535	0.00%
Retirement contribution	7,712	8,025	313	96.10%
Employer payroll taxes	10,375	11,420	1,045	90.85%
Equipment/vehicle repair	561	11,000	10,439	5.10%
Insurance, workers comp	4,168	4,000	(168)	104.20%
Materials and supplies	954	2,200	1,246	43.36%
Outside services employed	115	11,000	10,885	1.05%
Postage/freight	470	990	520	47.47%
Rental expense	860	1,650	790	52.12%
Repair and maintenance	30,107	49,500	19,393	60.82%
School and education	1,170	2,882	1,712	40.60%
Telephone, data & fax	1,005	1,056	51	95.17%
Tools and equipment	987	3,080	2,093	32.05%
Transportation	19,764	17,600	(2,164)	112.30%
Travel	606	1,650	1,044	36.73%
Uniforms	978	2,200	1,222	44.45%
Total Pumping	554,875	709,150	154,275	78.25%
Water Treatment Plant				
Building and grounds	29,807	16,800	(13,007)	177.42%
Chemicals	593,159	690,000	96,841	85.97%
Computers and software	1,371	12,900	11,529	10.63%
Contract services, administrative	409,532	432,000	22,468	94.80%
Contract services, direct projects	5,254	6,000	746	87.57%
Contract services, maintenance	4,080	300	(3,780)	1360.00%
Contract services, management	39,661	56,100	16,439	70.70%
Contract services, operations	708,533	706,200	(2,333)	100.33%
Dues and subscriptions	372	600	228	62.00%
Electricity	620,362	683,400	63,038	90.78%
Equipment/vehicle repair	778	300	(478)	259.33%
Lab supplies	30,862	22,800	(8,062)	100.00%
Licenses and permits	330	1,200	870	100.00%
Materials and supplies	29,628	21,300	(8,328)	139.10%
Miscellaneous expenses	-	300	300	0.00%
Outside services employed	244,890	157,000	(87,890)	155.98%
Postage/freight	3,688	4,500	812	81.96%
Promotion & entertainment	55	-	(55)	0.00%

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
SCHEDULE OF OPERATING EXPENSES (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Actual	(Unaudited) Budget	Budget Remaining	% of Budget Used
Repair and maintenance	22,779	15,900	(6,879)	143.26%
School and education	3,263	1,200	(2,063)	271.92%
Telephone, data & fax	4,647	7,200	2,553	64.54%
Tools and equipment	30,645	4,500	(26,145)	681.00%
Transportation	3,902	2,100	(1,802)	185.81%
Uniforms	1,539	1,500	(39)	102.60%
Total Water Treatment Plant	<u>2,789,137</u>	<u>2,844,100</u>	<u>54,963</u>	<u>98.07%</u>
Transmission and Distribution				
Computers and software	300	4,958	4,658	6.05%
Contract services, maintenance	2,338	2,772	434	84.34%
Dues and subscriptions	535	638	103	83.86%
Employee regular wages	1,800,951	1,819,788	18,837	98.96%
Employee overtime pay	110,183	134,600	24,417	81.86%
Employee bonus pay	44,151	34,652	(9,499)	127.41%
Employee vacation pay	144,835	122,870	(21,965)	117.88%
Employee sick pay	77,400	69,451	(7,949)	111.45%
Employee benefits, allocated	581,979	702,000	120,021	82.90%
Employee section 457	23,993	39,660	15,667	60.50%
Retirement contribution	214,721	208,246	(6,475)	103.11%
Employer payroll taxes	161,539	169,885	8,346	95.09%
Equipment/vehicle repair	59,957	63,960	4,003	93.74%
Insurance, workers comp	67,866	62,450	(5,416)	108.67%
Lab supplies	2,593	4,752	2,159	54.57%
Licenses & permits	1,150	4,500	3,350	25.56%
Materials and supplies	9,551	54,635	45,084	17.48%
Miscellaneous expenses	-	2,475	2,475	0.00%
Office furniture/fixtures	7,774	5,600	(2,174)	138.82%
Outside services employed	16,749	40,443	23,694	41.41%
Postage/freight	1,842	4,460	2,618	41.30%
Promotion & entertainment	45	1,575	1,530	2.86%
Rental expense	3,551	5,525	1,974	64.27%
Repair and maintenance	386,923	502,265	115,342	77.04%
School and education	11,055	17,572	6,517	62.91%
Telephone, data & fax	23,118	26,627	3,509	86.82%
Tools and equipment	50,400	114,084	63,684	44.18%
Transportation	190,117	189,100	(1,017)	100.54%
Travel	9,531	23,850	14,319	39.96%
Uniforms	25,106	40,320	15,214	62.27%
	<u>4,030,253</u>	<u>4,473,713</u>	<u>443,460</u>	<u>90.09%</u>
Less: Indirect costs allocated	(6,355)	-	6,355	0.00%
Total Transmission and Distribution	<u>4,023,898</u>	<u>4,473,713</u>	<u>449,815</u>	<u>89.95%</u>

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
SCHEDULE OF OPERATING EXPENSES (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Actual	(Unaudited) Budget	Budget Remaining	% of Budget Used
Customer Accounting				
Contract services, maintenance	3,359	-	(3,359)	100.00%
Employee regular wages	281,511	278,762	(2,749)	100.99%
Employee overtime pay	11,557	12,000	443	96.31%
Employee bonus pay	4,921	4,754	(167)	103.51%
Employee vacation pay	20,718	19,090	(1,628)	108.53%
Employee sick pay	61,790	10,525	(51,265)	587.08%
Employee benefits, allocated	96,380	120,000	23,620	80.32%
Employee section 457	5,749	5,720	(29)	100.51%
Retirement contribution	33,497	33,160	(337)	101.02%
Employer payroll taxes	25,015	25,310	295	98.83%
Equipment/vehicle repair	614	500	(114)	122.80%
Insurance, workers comp	9,933	10,500	567	94.60%
Materials and supplies	605	4,000	3,395	15.13%
Miscellaneous expenses	-	250	250	0.00%
Office furniture/fixtures	432	1,100	668	39.27%
Outside services employed	53,688	90,000	36,312	59.65%
Postage/freight	452	1,200	748	37.67%
Promotion & entertainment	-	900	900	0.00%
Rental expense	-	200	200	0.00%
Repair and maintenance	1,158	900	(258)	128.67%
School and education	2,241	4,000	1,759	56.03%
Telephone, data & fax	5,529	4,000	(1,529)	138.23%
Tools and equipment	1,516	3,000	1,484	50.53%
Transportation	43,630	60,000	16,370	72.72%
Travel	3,388	6,500	3,112	52.12%
Uniforms	4,585	8,000	3,415	57.31%
Total Customer Accounting	672,268	704,371	32,103	95.44%
Customer Service				
Computers and software	38	-	(38)	100.00%
Contract services, maintenance	319	-	(319)	100.00%
Dues and subscriptions	50	50	-	100.00%
Employee regular wages	579,709	589,570	9,861	98.33%
Employee overtime pay	2,182	10,000	7,818	21.82%
Employee bonus pay	16,163	13,517	(2,646)	119.58%
Employee vacation pay	40,501	37,820	(2,681)	107.09%
Employee sick pay	-	22,445	22,445	0.00%
Employee benefits, allocated	225,502	273,000	47,498	82.60%
Employee section 457	9,407	17,540	8,133	53.63%
Retirement contribution	66,662	62,145	(4,517)	107.27%
Employer payroll taxes	49,688	52,855	3,167	94.01%
Insurance, workers comp	1,253	1,320	67	94.92%
Materials and supplies	2,100	7,000	4,900	30.00%
Miscellaneous expenses	-	250	250	0.00%
Office furniture/fixtures	328	1,000	672	32.80%
Outside services employed	103,797	120,000	16,203	86.50%

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
SCHEDULE OF OPERATING EXPENSES (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Actual	(Unaudited) Budget	Budget Remaining	% of Budget Used
Postage/freight	206,408	196,000	(10,408)	105.31%
Promotion & entertainment	514	1,000	486	51.40%
Repair and maintenance	237	500	263	47.40%
School and education	365	8,200	7,835	4.45%
Telephone, data & fax	1,776	2,100	324	84.57%
Tools and equipment	550	750	200	73.33%
Transportation	-	500	500	0.00%
Travel	3,814	12,000	8,186	31.78%
Uniforms	7,308	8,000	692	91.35%
Total Customer Service	1,318,671	1,437,562	118,891	91.73%
Wastewater (Step Systems)				
Building and grounds	88,149	103,000	14,851	85.58%
Contract services, maintenance	-	18,000	18,000	0.00%
Dues and subscriptions	-	500	500	0.00%
Electricity	103,720	111,200	7,480	93.27%
Employee regular wages	283,108	337,572	54,464	83.87%
Employee overtime pay	33,484	29,500	(3,984)	113.51%
Employee bonus pay	3,263	4,240	977	76.96%
Employee vacation pay	17,251	22,280	5,029	77.43%
Employee sick pay	13,718	12,695	(1,023)	108.06%
Employee benefits, allocated	96,525	130,000	33,475	74.25%
Employee section 457	25,747	29,185	3,438	88.22%
Retirement contribution	25,794	30,665	4,871	84.12%
Employer payroll taxes	27,988	33,315	5,327	84.01%
Equipment/vehicle repair	471	3,500	3,029	13.46%
Insurance, workers comp	10,884	11,000	116	98.95%
Lab supplies	3,166	-	(3,166)	0.00%
Licenses & permits	27,160	32,000	4,840	84.88%
Materials and supplies	4,202	25,000	20,798	16.81%
Miscellaneous expenses	-	1,000	1,000	0.00%
Office furniture/fixtures	252	1,000	748	25.20%
Outside services employed	749	14,000	13,251	5.35%
Postage/freight	556	800	244	69.50%
Promotion & entertainment	-	1,500	1,500	0.00%
Professional fees: sewer	4,653	6,200	1,547	75.05%
Repair and maintenance	87,140	70,000	(17,140)	124.49%
School and education	1,735	3,500	1,765	49.57%
Telephone, data & fax	40,228	38,820	(1,408)	103.63%
Tools and equipment	9,252	4,500	(4,752)	205.60%
Transportation	33,000	30,000	(3,000)	110.00%
Travel	298	2,500	2,202	11.92%
Uniforms	4,247	7,000	2,753	60.67%
Total Wastewater (Step Systems)	946,740	1,114,472	167,732	84.95%

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
SCHEDULE OF OPERATING EXPENSES (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Actual	(Unaudited) Budget	Budget Remaining	% of Budget Used
Administration and General				
Bad Debts, net of recoveries	85,038	162,000	76,962	52.49%
Banking services, retail	18,000	28,000	10,000	64.29%
Banking services, investment	7,908	7,000	(908)	112.97%
Building and grounds	153,901	130,000	(23,901)	118.39%
Computers and software	81,937	125,700	43,763	65.18%
Contract services, maintenance	276,662	227,000	(49,662)	121.88%
Dues and subscriptions	90,696	92,250	1,554	98.32%
Employee regular wages	674,745	746,211	71,466	90.42%
Employee regular wages: Board	23,700	25,200	1,500	94.05%
Employee overtime pay	15,162	17,800	2,638	85.18%
Employee bonus pay	7,725	7,910	185	97.66%
Employee vacation pay	48,760	43,545	(5,215)	111.98%
Employee sick pay	14,411	26,790	12,379	53.79%
Employee benefits, allocated	153,576	210,000	56,424	73.13%
Employee benefits, allocated: Board	59,941	75,000	15,059	79.92%
Employee section 457	30,836	32,220	1,384	95.70%
Retirement contribution	52,689	64,705	12,016	81.43%
Employer payroll taxes	58,307	66,900	8,593	87.16%
Employer payroll taxes: Board	2,849	3,000	151	94.97%
Post-employment health care - ARC	326,418	450,000	123,582	72.54%
Equipment/vehicle repair	26,161	4,000	(22,161)	654.03%
Insurance, general	173,854	185,000	11,146	93.98%
Insurance, workers comp	1,590	1,775	185	89.58%
Inventory adjustments	-	6,000	6,000	0.00%
Licenses & permits	5,875	2,500	(3,375)	235.00%
Materials and supplies	68,453	79,500	11,047	86.10%
Miscellaneous expenses	8,460	15,000	6,540	56.40%
Office furniture/fixtures	3,520	5,000	1,480	70.40%
Outside services employed	217,649	235,000	17,351	92.62%
Postage/freight	5,227	5,500	273	95.04%
Promotion & entertainment	16,606	20,250	3,644	82.00%
Promotion & entertainment: Board	591	500	(91)	118.20%
Professional fees, accounting	35,080	36,000	920	97.44%
Professional fees, engineering	61,514	45,000	(16,514)	136.70%
Professional fees, legal	206,756	240,000	33,244	86.15%
Rental expense	2,430	3,000	570	81.00%
Repair and maintenance	1,242	20,000	18,758	6.21%
School and education	5,379	26,500	21,121	20.30%
School and education: Board	3,410	8,000	4,590	42.63%
Telephone, data & fax	72,936	55,300	(17,636)	131.89%
Tools and equipment	21,813	18,500	(3,313)	117.91%
Transportation	3,911	10,000	6,089	39.11%
Travel	9,593	17,000	7,407	56.43%
Travel: Board	6,625	10,000	3,375	66.25%
Tuition assistance	26,091	24,000	(2,091)	108.71%

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
SCHEDULE OF OPERATING EXPENSES (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Actual	(Unaudited) Budget	Budget Remaining	% of Budget Used
Unemployment tax	11,622	12,000	378	96.85%
Uniforms	7,545	9,500	1,955	79.42%
Utilities	113,142	130,000	16,858	87.03%
Vehicles - non-capital	118,498	180,000	61,502	65.83%
Total Administration and General	<u>3,418,834</u>	<u>3,946,056</u>	<u>527,222</u>	<u>86.64%</u>
Depreciation and Amortization				
Depreciation	7,346,734	7,882,800	536,066	93.20%
Amortization	-	12,000	12,000	0.00%
Total Depreciation and Amortization	<u>7,346,734</u>	<u>7,894,800</u>	<u>548,066</u>	<u>93.06%</u>
Total Operating Expense	<u>\$21,071,157</u>	<u>\$23,124,224</u>	<u>\$2,053,067</u>	<u>91.12%</u>

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY

AS OF SEPTEMBER 30, 2014

Fiscal Year	All Bond Issues			2013 Refunding Revenue 2%-4%		2009 Water Revenue 2.50%-4.50%	
	Total	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 3,503,539	\$ 1,801,193	\$ 1,702,346	\$ 1,165,000	\$ 1,111,381	\$ 600,000	\$ 499,675
2016	3,512,082	1,857,569	1,654,513	1,200,000	1,081,731	620,000	482,875
2017	3,516,582	1,919,913	1,596,669	1,230,000	1,045,281	650,000	463,825
2018	3,516,995	1,986,297	1,530,698	1,275,000	1,001,331	670,000	443,188
2019	3,529,907	2,078,164	1,451,743	1,335,000	949,131	700,000	418,300
2020	3,504,157	2,134,884	1,369,273	1,390,000	894,631	700,000	392,050
2021	3,466,407	2,182,144	1,284,263	1,405,000	838,731	730,000	365,200
2022	3,474,107	2,279,277	1,194,830	1,470,000	781,231	760,000	335,400
2023	3,481,907	2,381,507	1,100,400	1,530,000	721,231	800,000	303,200
2024	3,474,882	2,473,631	1,001,251	1,600,000	658,631	820,000	268,775
2025	3,475,057	2,576,266	898,791	1,670,000	593,231	850,000	234,350
2026	3,479,807	2,688,812	790,995	1,730,000	525,231	900,000	197,100
2027	3,472,932	2,796,476	676,456	1,805,000	454,531	930,000	155,925
2028	2,954,057	2,379,083	574,974	1,365,000	397,956	950,000	113,625
2029	2,963,557	2,477,163	486,394	1,410,000	356,331	1,000,000	69,750
2030	2,969,457	2,575,207	394,250	1,455,000	313,356	1,050,000	23,625
2031	1,905,414	1,583,389	322,025	1,510,000	267,938	-	-
2032	1,912,367	1,641,574	270,793	1,565,000	219,891	-	-
2033	1,907,757	1,690,189	217,568	1,610,000	170,281	-	-
2034	1,934,082	1,773,826	160,256	1,690,000	116,606	-	-
2035	1,945,864	1,847,629	98,235	1,760,000	58,388	-	-
2036	991,820	941,526	50,294	850,000	14,344	-	-
2037	127,476	95,759	31,717	-	-	-	-
2038	127,476	100,106	27,370	-	-	-	-
2039	127,476	104,933	22,543	-	-	-	-
2040	97,873	79,273	18,600	-	-	-	-
2041	70,476	54,672	15,804	-	-	-	-
2042	70,476	56,970	13,506	-	-	-	-
2043	70,476	59,365	11,111	-	-	-	-
2044	70,476	61,836	8,640	-	-	-	-
2045	70,476	64,484	5,992	-	-	-	-
2046	70,476	67,195	3,281	-	-	-	-
2047	43,646	43,003	643	-	-	-	-
Totals	<u>\$65,839,539</u>	<u>\$46,853,315</u>	<u>\$18,986,224</u>	<u>\$32,020,000</u>	<u>\$12,571,394</u>	<u>\$12,730,000</u>	<u>\$ 4,766,863</u>

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY (CONTINUED)

AS OF SEPTEMBER 30, 2014

Fiscal Year	2008 Rural Development 4.125%		2000 Rural Development 4.75%	
	Principal	Interest	Principal	Interest
2015	\$ 18,763	\$ 51,716	\$ 17,430	\$ 39,574
2016	19,406	51,070	18,163	38,837
2017	20,766	49,709	19,147	37,854
2018	21,221	49,255	20,076	36,924
2019	22,113	48,363	21,051	35,949
2020	22,910	47,566	21,974	35,026
2021	24,005	46,471	23,139	33,861
2022	25,014	45,462	24,263	32,737
2023	26,066	44,410	25,441	31,559
2024	27,041	43,435	26,590	30,410
2025	28,299	42,177	27,967	29,033
2026	29,488	40,988	29,324	27,676
2027	30,728	39,748	30,748	26,252
2028	31,912	38,564	32,171	24,829
2029	33,361	37,115	33,802	23,198
2030	34,764	35,712	35,443	21,557
2031	36,225	34,251	37,164	19,836
2032	37,656	32,820	38,918	18,082
2033	39,331	31,145	40,858	16,142
2034	40,985	29,491	42,841	14,159
2035	42,708	27,768	44,921	12,079
2036	44,430	26,046	47,096	9,904
2037	46,371	24,105	49,388	7,612
2038	48,320	22,156	51,786	5,214
2039	50,352	20,124	54,581	2,419
2040	52,418	18,059	26,855	541
2041	54,672	16,804	-	-
2042	56,970	13,506	-	-
2043	59,365	11,111	-	-
2044	61,836	8,640	-	-
2045	64,484	5,992	-	-
2046	67,195	3,281	-	-
2047	43,003	643	-	-
Totals	<u>\$ 1,262,178</u>	<u>\$ 1,036,703</u>	<u>\$ 841,137</u>	<u>\$ 611,264</u>

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
SCHEDULE OF HISTORICAL DEBT SERVICE COVERAGE

(Unaudited)

(dollar amounts expressed in thousands)

	Fiscal Year										
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	
Operating Revenues	\$27,525	\$26,133	\$26,014	\$23,782	\$22,125	\$20,723	\$21,145	\$19,976	\$17,610	\$16,035	
Operating Expenses	21,072	20,260	20,168	19,822	19,000	19,888	18,607	16,546	14,420	12,465	
Net Operating Income	6,453	5,873	5,846	3,960	3,125	835	2,538	3,430	3,190	3,570	
Non-Operating Income(Expense)	(1,418)	(2,255)	(2,379)	(2,003)	(2,360)	(1,533)	(886)	(195)	(638)	(778)	
Net Income Before Contributions	5,035	3,618	3,467	1,957	765	(698)	1,652	3,235	2,552	2,792	
Add: Contributed Capital - Cash	2,744	1,863	1,632	1,074	1,243	1,434	1,417	3,724	3,239	3,363	
Depreciation	7,347	7,214	7,087	6,954	6,766	6,512	6,004	5,001	4,275	3,423	
Interest Expense	1,773	2,089	2,465	2,529	2,544	2,295	2,143	2,189	1,751	1,123	
Net Available for Debt Service	\$16,899	\$14,784	\$14,651	\$12,514	\$11,318	\$9,543	\$11,216	\$14,149	\$11,817	\$10,701	
Annual Debt Requirements	\$3,512	\$3,513	\$4,545	\$4,011	\$3,437	\$3,525	\$3,445	\$3,385	\$2,470	\$1,610	
Debt Service Coverage (times)	4.81	4.21	3.22	3.12	3.29	2.71	3.26	4.18	4.78	6.65	

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
CUSTOMERS AND RATE SCHEDULE
YEAR ENDED SEPTEMBER 30, 2014
(Unaudited)

As of September 30, 2014, Consolidated Utility District served approximately 46,650 water customers and had approved the following rate structure for the coming year:

Water Rates	
First 500 gallons	\$12.78
Each additional 1,000 gallons from 501 - 5,000	\$6.29
Each additional 1,000 gallons from 5,001 - 10,000	\$6.79
Each additional 1,000 gallons from 10,001 - 20,000	\$7.29
Each additional 1,000 gallons from 20,001 - 100,000	\$7.79
Each additional 1,000 gallons in excess of 100,000 gallons	\$6.79

As of September 30, 2014, Consolidated Utility District served approximately 4,050 customers on STEP sewer systems and had approved the following rate structure for the coming year:

Sewer Rates	
Customer Charge	\$28.00
All consumption, per 1,000 gallons	\$2.00

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
TOP TEN CUSTOMERS BY REVENUE
(Unaudited)

For the Years Ended September 30

<u>Customer</u>	2014			2004		
	<u>Annual</u> <u>Water Sales</u>	<u>Rank</u>	<u>Percentage</u> <u>of Total</u> <u>Water Sales</u>	<u>Annual</u> <u>Water Sales</u>	<u>Rank</u>	<u>Percentage</u> <u>of Total</u> <u>Water Sales</u>
Rutherford County Board of Education	\$ 148,789	1	0.63%			
University Gables College Park	117,572	2	0.50%			
Embassy Suites Hotel	107,708	3	0.46%			
Hawthorne Park South Apartments	104,897	4	0.44%			
Stoneridge Farms at Hillwood	102,416	5	0.43%			
Arium Parkside, LLC	93,618	6	0.40%			
Cason Estates CCPM	90,733	7	0.38%			
Westbury Farms, LLC	85,581	8	0.36%			
Bell Murfreesboro, LLC	84,840	9	0.36%			
Woodgate Farms, LLC	79,775	10	0.34%			
Vintage at the Park Apartments				79,956	1	0.61%
Indian Park Apartments				78,108	2	0.60%
Summerlake Apartments				55,248	3	0.42%
The Paddock Club Apartments				53,316	4	0.41%
Bill Rice Ranch				38,268	5	0.29%
Holly Park Apartments				35,952	6	0.28%
Waterford Place Apartments				32,160	7	0.25%
National Car Wash				27,492	8	0.21%
Blackman High School				24,528	9	0.19%
Alvin C. York Medical Center				18,948	10	0.15%

CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
OPERATING INFORMATION
SEPTEMBER 30,
(Unaudited)

	Fiscal Year				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Average Daily Demand	10.17	9.79	10.10	10.11	9.69
Maximum Daily Demand	14.16	12.72	16.73	15.47	13.21
Average Active Customers	45,944	44,639	43,527	43,110	42,602

	Fiscal Year				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Average Daily Demand	10.12	10.68	9.96	9.39	8.54
Maximum Daily Demand	14.07	15.25	15.51	14.32	10.45
Average Active Customers	41,889	40,992	38,976	36,238	33,279

NOTE: Demand numbers are in million gallons per day

AVERAGE MONTHLY WATER USAGE (gals)		Fiscal Year				
		<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Sold to Customers		233,355,934	221,244,772	234,406,261	228,270,341	228,417,585
	<i>percent sold</i>	77%	74%	76%	74%	77%
Non-Metered Consumption (Fire, flushing, etc.)		11,348,818	15,428,754	9,175,919	8,755,512	13,726,579
	<i>percent non-metered</i>	4%	5%	3%	3%	5%
Unaccounted for		58,686,626	60,615,378	64,499,487	70,762,480	52,647,987
	<i>percent unaccounted for</i>	19%	20%	21%	23%	18%
Average Monthly Water Pumped		<u>303,391,378</u>	<u>297,288,904</u>	<u>308,081,667</u>	<u>307,788,333</u>	<u>294,792,151</u>

AVERAGE MONTHLY WATER USAGE (gals)		Fiscal Year				
		<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Sold to Customers		224,684,150	233,962,207	224,530,620	202,094,382	191,710,836
	<i>percent sold</i>	74%	79%	74%	71%	73%
Non-Metered Consumption (Fire, flushing, etc.)		18,133,181	24,882,254	22,274,060	19,468,637	16,346,406
	<i>percent non-metered</i>	6%	8%	7%	7%	6%
Unaccounted for		64,953,244	59,076,083	56,181,624	63,242,007	53,670,336
	<i>percent unaccounted for</i>	21%	20%	19%	22%	21%
Average Monthly Water Pumped		<u>307,770,575</u>	<u>317,920,544</u>	<u>302,986,304</u>	<u>284,805,026</u>	<u>261,727,578</u>

WAS v4.2

[Back to Instructions](#)

 Click to access definition

Water Audit Report for:	Consolidated Utility District		(September 2014)
Reporting Year:	2014	10/2013 - 9/2014	

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of

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

WATER SUPPLIED

<< Enter grading in column 'E'

Volume from own sources:	?	?	3,640.697	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	?	9	0.218	under-registered MG/Yr
Water imported:	?	n/a	0.000	MG/Yr
Water exported:	?	10	21.014	MG/Yr
WATER SUPPLIED:			3,619.901	MG/Yr


AUTHORIZED CONSUMPTION

Billed metered:	7	2,779.567	MG/Yr
Billed unmetered:	n/a	0.000	MG/Yr
Unbilled metered:	10	24.641	MG/Yr
Unbilled unmetered:		45.249	MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied

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

AUTHORIZED CONSUMPTION:	2	2,849.457	MG/Yr
-------------------------	---	-----------	-------

Click here:  for help using option buttons below

Pcnt: 1.25% Value:

Use buttons to select percentage of water supplied
OR
value

WATER LOSSES (Water Supplied - Authorized Consumption)

770.444 MG/Yr

Apparent Losses

Unauthorized consumption:	?	9.050	MG/Yr
Default option selected for unauthorized consumption - a grading of 5 is applied			
Customer metering inaccuracies:	?	6	16.143
Systematic data handling errors:	?	6	0.300
			MG/Yr

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

Customer metering inaccuracies:	?	6	16.143	MG/Yr
Systematic data handling errors:	?	6	0.300	MG/Yr

Apparent Losses: ? 25.493

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses:	7	744.951	MG/Yr
WATER LOSSES:		770.444	MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: ? 840,334 MG/Yr

$$= \text{Total Water Loss} + \text{Unbilled Metered} + \text{Unbilled Unmetered}$$

SYSTEM DATA

Length of mains:	?	10	1,301.0	miles
Number of <u>active AND inactive</u> service connections:	?	10	50,510	
Connection density:			39	conn./mile main
Average length of customer service line:	?	10	0.0	ft (pipe length between curbside and customer meter or property boundary)
Average operating pressure:	?	6	83.5	psi

COST DATA

Total annual cost of operating water system:	7	10	\$23,239,902	\$/Year
Customer retail unit cost (applied to Apparent Losses):	7	10	\$8.57	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	7	10	\$498.77	\$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	23.2%
Non-revenue water as percent by cost of operating system:	2.7%
Annual cost of Apparent Losses:	\$218,473
Annual cost of Real Losses:	\$371,559

Operational Efficiency Indicators

Apparent Losses per service connection per day:	1.38	gallons/connection/day
Real Losses per service connection per day*:	40.41	gallons/connection/day
Real Losses per length of main per day*:	N/A	
Real Losses per service connection per day per psi pressure:	0.48	gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):	445.43	million gallons/year
From Above, Real Losses - Current Annual Real Losses (CARL):	744.95	million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]:	1.67	

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

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 81 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: Billed metered |
| 3: Customer metering inaccuracies |

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

**CONSOLIDATED UTILITY DISTRICT OF RUTHERFORD COUNTY, TENNESSEE
DISTRICT OFFICIALS AND MANAGEMENT
YEAR ENDED SEPTEMBER 30, 2014
(Unaudited)**

John L. Batey, Jr.	Commissioner, President
William A. Waite	Commissioner, Vice President
Craig Lynch	Commissioner, Secretary-Treasurer
Rosemary Owens	Commissioner
Carter Woodruff	Commissioner
Lynnisie Patrick	Advisor
Hassel B. Smith, III	Advisor
William Dunnill, P.E.	General Manager
Mark Elgin	Assistant Manager Maintenance
Kevin Hickerson	Assistant Manager Customer Accounting
E. Paul Long, CPA	Comptroller
Judy Bowling	Office Manager
Cindy Judkins	Administrative Assistant
David Jones	Wastewater Manager
Bryant Bradley	Project Manager
Jennifer Wood	Engineering Manager
James C. Cope	Attorney
James C. Hailey, Jr., P.E.	Consultant Engineer



Edmondson, Betzler & Montgomery, PLLC
(Certified Public Accountants)

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Consolidated Utility District of Rutherford County, 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 Consolidated Utility District of Rutherford County, Tennessee as of and for the year ended September 30, 2014, and the related notes to the financial statements and have issued our report thereon dated December 11, 2014.

Internal Control Over Financial Reporting

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

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 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 over financial reporting 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 the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONTINUED)**

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 District's internal control or on compliance. This report is an integral part of an audit performed in Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Edmondson, Betzler & Montgomery, PLLC

December 11, 2014