

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

FINANCIAL STATEMENTS

AS OF JUNE 30, 2009

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

INDEX

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Balance sheet	2-3
Statement of revenues, expenses and changes in fund net assets	4
Statement of cash flows	5-6
Notes to financial statements	7-16
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of pension funding progress	17
SUPPORTING SCHEDULES:	
Schedule of total debt service payments	I
Schedule of investments	II
Schedule of insurance in force	III
Rates in force and number of customers	IV
Schedule of water loss	V
Schedule of principal officers	VI
Schedule of expenditures of federal awards	VII
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	

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INDEPENDENT AUDITOR'S REPORT

To the Members of the  
Lincoln County Board of Public Utilities:

I have audited the accompanying financial statements of the Lincoln County Board of Public Utilities, of Lincoln County, Tennessee, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Lincoln County Board of Public Utilities' management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1, the financial statements present only the Lincoln County Board of Public Utilities and do not purport to, and do not present fairly the financial position of Lincoln County, Tennessee as of June 30, 2009, and the changes in its financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Lincoln County Board of Public Utilities has elected not to present management's discussion and analysis (MD&A) as supplementary information as required by the Governmental Accounting Standards Board because it is not a required part of the basic financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lincoln County Board of Public Utilities of Lincoln County, Tennessee as of June 30, 2009, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 1, 2009 on my consideration of the Lincoln County Board of Public Utilities' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The pension funding information on page 17 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements of the Lincoln County Board of Public Utilities taken as whole. The other supplementary information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

December 1, 2009

DAVID A. KIDD

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

BALANCE SHEET

JUNE 30, 2009

ASSETS

CURRENT ASSETS:

Cash	\$ 600,210
Accounts receivable, net of allowance for doubtful accounts of \$2,200	211,335
Current portion of note receivable	20,833
Materials and supplies inventory	129,269
Prepaid expenses	6,572
	<u>968,219</u>

RESTRICTED ASSETS:

Cash	<u>632,256</u>
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WATER PLANT AND EQUIPMENT:

Water plant, buildings and equipment	32,804,429
Construction in progress	113,451
Less accumulated depreciation	<u>(11,591,728)</u>
	<u>21,326,152</u>

OTHER ASSETS:

Long-term portion of note receivable	20,834
Deposits	750
	<u>21,584</u>

Total assets \$ 22,948,211

(See accompanying notes to financial statements.)

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 75,836
Accrued liabilities	29,433
Advance payments from customers	39,800
Accrued interest	10,388
Accrued leave	13,120
Current maturities of long-term debt	520,381
Payable from restricted assets:	
Customer deposits	14,433
	<u>703,391</u>

LONG-TERM LIABILITIES:

Bonds and capital notes	8,364,575
Capital leases	31,256
Less current maturities	<u>(520,381)</u>
	7,875,450
Total liabilities	<u>8,578,841</u>

NET ASSETS:

Invested in capital assets, net of related debt	12,930,321
Restricted for debt service	617,823
Unrestricted	821,226
Total net assets	<u>14,369,370</u>
Total liabilities and net assets	<u>\$ 22,948,211</u>

(See accompanying notes to financial statements.)

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2009

OPERATING REVENUES:

Water sales	\$ 3,855,700
Penalties, service charges, and other	185,161
Connection fees	103,010
Total operating revenues	<u>4,143,871</u>

OPERATING EXPENSES:

Salaries and wages	1,110,218
Employee taxes and benefits	355,969
Water purchases	307,541
Water plant repair and maintenance	276,246
Utilities	266,342
Vehicle and equipment	175,629
Connection materials	29,323
Insurance	91,981
Professional fees	25,196
Water chemicals and testing	89,799
Office supplies	34,236
Postage	25,731
Telephone	20,393
Advertising	12,343
Miscellaneous	44,920
Provision for depreciation	860,935
Total operating expenses	<u>3,726,802</u>
Operating income	<u>417,069</u>

NON-OPERATING REVENUES (EXPENSES):

Interest income	31,194
Interest expense	<u>(378,629)</u>
Total non-operating revenues (expenses)	<u>(347,435)</u>
Increase in net assets before capital contributions	<u>69,634</u>

CAPITAL CONTRIBUTIONS:

Customer contributions	386,687
Capital grants	<u>333,005</u>
Total capital contributions	<u>719,692</u>
Increase in net assets	789,326
Net assets, beginning of period	13,580,044
Net assets, end of period	<u>\$ 14,369,370</u>

(See accompanying notes to financial statements.)

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers for sales and service charges	\$ 4,067,374
Payments to vendors for goods and services	(1,782,714)
Payments to employees for services	(1,108,378)
Received from customers for connections	103,010
Customer deposits returned	(389)
Net cash provided by operating activities	<u>1,278,903</u>

CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES:

Acquisition and construction of capital assets	(1,235,098)
Principal paid on notes, bonds and leases	(645,785)
Interest paid on notes, bonds and leases	(392,760)
Received from equipment disposition	2,000
Capital grants received	396,713
Developer contributions	102,515
Net cash used by capital and related financing activities	<u>(1,772,415)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on cash, certificates of deposit, and note receivable	33,194
Decrease in certificates of deposit	590,000
Principal received on note receivable	20,833
Net cash provided by investing activities	<u>644,027</u>

Increase in cash and restricted cash	150,515
Cash and restricted cash, beginning of period	1,081,951
Cash and restricted cash, end of period	<u>\$ 1,232,466</u>

(See accompanying notes to financial statements.)

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2009

RECONCILIATION OF OPERATING INCOME TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 417,069
Adjustments to reconcile operating income to net cash provided by operating activities:	
Provision for depreciation	860,935
Changes in assets and liabilities:	
Decrease in accounts receivable, net	26,513
Increase in inventory	(38,354)
Increase in prepaid expenses	(2,474)
Decrease in accrued liabilities	(17,587)
Increase in accounts payable	31,350
Decrease in customer deposits	(389)
Increase in accrued leave	1,840
Net cash provided by operating activities	<u>\$ 1,278,903</u>

NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:

Capitalized depreciation on equipment	\$ 12,285
Distribution lines transferred to the Board by developers	221,472
Total non-cash capital and related financing activities	<u>\$ 233,757</u>

(See accompanying notes to financial statements.)

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Organization and reporting entity** - The Lincoln County Board of Public Utilities (the "Board") is an enterprise fund established under Tennessee Code Annotated 5-16-101 by Lincoln County, Tennessee. The Board sells drinking water to residents of Lincoln County and has an ongoing program to expand its distribution system in an effort to provide public water to residents of the County not served by municipal systems. The Board is operated by a five member Board of Commissioners appointed by the Lincoln County Commission. The Board of Commissioners employs a Superintendent who is responsible for day-to-day operations of the water system including hiring its other employees. The Board is responsible for generating its own revenue and servicing its debt. The Board has the authority to acquire assets in the name of Lincoln County. The Lincoln County Commission has the authority to approve or reject budgets presented by the Board and to approve bonds issued by the Board. Some bonds issued for the Board are secured by a pledge of the taxing authority of Lincoln County.

The financial information of the Board is included as an enterprise fund in the Lincoln County, Tennessee Annual Financial Report. Complete financial statements of Lincoln County, Tennessee can be obtained directly from the County's administrative offices.

**Basis of accounting** - The Board is classified as a proprietary fund by the Government Accounting Standards Board (GASB) and is accounted for using a total economic resources measurement focus. The Board is intended to be operated in a manner whereby the costs of providing water distribution services and system expansion are recovered through user charges. The financial statements are prepared on the accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses are recognized when the related liability is incurred. As allowed by GASB Statement No. 20, the Board has elected to not follow pronouncements of the Financial Accounting Standards Board issued subsequent to November 30, 1989.

The principal operating revenues of the Board are charges to customers for water sales and related services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation of utility plant assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Water plant and equipment, depreciation and maintenance** - Water plant and equipment is depreciated on the group straight-line basis over its estimated useful life. Under the group depreciation method, gains and losses on asset dispositions are applied against accumulated depreciation and are not reflected as gains or losses in the statement of revenues, expenses and changes in net assets.

Plant assets and buildings are depreciated over 25-50 years, while vehicles and equipment are depreciated over 6-10 years. Repairs and maintenance are expensed as incurred.

Extensions and betterments are capitalized at cost, which includes payroll and related benefits, materials, and equipment costs related to plant construction. Contributed waterlines are capitalized at estimated current cost of construction. The Board capitalizes equipment additions with a cost in excess of \$500 and plant additions in excess of \$2,000.

**Materials and supplies inventory** - Inventory consists of repair and maintenance supplies and extension materials and is stated at the lower of first in-first out cost or market.

**Contributions in aid of construction** - Connection fees charged to customers (including developers) in excess of the actual cost of installation of new services are reflected as non-operating revenues in the period of new service installation. Amounts contributed related to new line construction are reflected as capital contributions in the period of construction completion.

**Revenues** - Revenues from water sales are recognized based on meter reading dates. No asset is recorded for water delivered between the last meter reading in the period and the end of the period. Revenues from connection fees and developer charges are recognized when service is activated.

**Construction period interest** - Interest on construction financing directly related to plant construction, net of interest earned on temporary investment of financing proceeds, is capitalized until such plant is substantially complete and placed into service. Interest capitalized in the year ended June 30, 2009 was \$13,000.

**Unamortized debt premium and issuance expenses** - Debt premiums and issuance expenses of outstanding bonds are amortized over the remaining terms of the applicable debt issues using the bonds outstanding method, which approximates the interest method. Unamortized debt premiums are presented in the financial statements as an addition to the carrying cost of the related long-term debt. The unamortized debt issuance costs are presented as other assets.

**Allowance for doubtful accounts** - The Board charges doubtful accounts arising from water sales receivable to bad debts when it is probable that the account will be uncollectible. Bad debts offset against water sales revenues in 2009 were \$28,113.

**Budgets** - State law requires the Board to adopt a budget for submission to the Lincoln County Board of Commissioners prior to the start of each fiscal year. The Board adopts its budget considering all cash receipts and disbursements.

**Compensated employee absences** - Employees accrue twelve days sick leave each year with no accumulation limit. Sick leave does not vest, and accordingly, employees can be paid sick leave only when sick. Since the employees' accumulating rights to receive compensation for future illnesses are contingent upon the absences being caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements. Employees accrue vacation leave in varying amounts based on years of service. In the event of termination, an employee is reimbursed for any unused accumulated leave. Vacation leave is used or lost if not taken by each employee's employment anniversary date. The amount of accrued leave was \$13,120 at June 30, 2009, all of which was considered a current liability.

**Cash flows** - For purposes of the statement of cash flows, the Board considers all checking, savings and investment accounts with original maturities of three months or less to be cash or cash equivalents.

**(2) NET ASSETS:**

Net assets are classified as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, grantors, or laws or regulations of other governments.
- Unrestricted net assets – This component of net assets consists of assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**(3) LONG - TERM DEBT:**

Bonds and notes are payable from revenues of the Board and are also secured by Lincoln County property taxes for the Series 2002, 2004, 2007, and 2008 issues. All debt may be prepaid except for the Series 2002 Refunding bonds. Parity bonds may be issued if net revenues of the Board are at least 120% of scheduled bond payments. The Board’s net revenues exceeded this requirement in the year ended June 30, 2009.

The Board had the following bonds and notes outstanding at June 30, 2009 –

Water Revenue and Tax Bonds, Series 2007, issued April 23, 2008, due monthly to USDA in annual principal and interest amounts of \$90,360 through 2046 at 4.125%	\$1,708,420
Water Revenue and Tax Capital Outlay Note, Series 2008, issued May 14, 2008, due in annual principal installments of \$30,000 to \$45,000 through 2020 with interest at 3.98%	395,000
Water Revenue and Tax Bonds, Series 2004, issued September 22, 2005, due monthly to USDA in annual principal and interest amounts of \$73,308 through 2043 at 4.25%	1,319,221
Waterworks Revenue and Tax Bonds, Series 2002, issued March 27, 2003, due monthly to USDA in annual principal and interest amounts of \$21,384 through 2041 at 4.75%	349,124
Water Revenue and Tax Refunding Bonds, Series 2002, issued November 1, 2002 with a face value of \$2,590,000, final annual payment due on January 1, 2010 at 4.0%	350,000

Waterworks Revenue Bond, Series 2000, issued October 18, 2001, due monthly to USDA in annual principal and interest amounts of \$60,888 through 2039 at 4.375%	1,018,888
Waterworks Revenue Bond, Series 1998, issued January 13, 2000, due monthly to USDA in annual principal and interest amounts of \$42,756 through 2038 at 4.75%	665,380
Waterworks Revenue Bond, Series 1996, issued August 22, 1997, due monthly to USDA in annual principal and interest amounts of \$173,880 through 2035 at 4.875%	2,558,542
<b>Total</b>	<u><u>\$8,364,575</u></u>

Changes in principal balances during the year ended June 30, 2009 are summarized as follows:

Beginning balance	\$8,995,683
Principal paid	(627,308)
Amortization of bond premium	(3,800)
	<u><u>\$8,364,575</u></u>

Selected principal and interest payments on bonds and notes outstanding at June 30, 2009 are summarized as follows:

<u>FISCAL YEAR</u>	<u>PAYABLE MONTHLY TO USDA</u>	<u>BONDS PAYABLE ANNUALLY</u>	<u>CAPITAL NOTES</u>	<u>TOTAL PRINCIPAL</u>	<u>TOTAL INTEREST</u>	<u>DEBT SERVICE TOTAL</u>
2010	\$ 120,969	\$ 350,000	\$ 30,000	\$ 500,969	\$ 364,328	\$ 865,297
2011	126,621	0	30,000	156,621	350,482	507,103
2012	131,774	0	30,000	161,774	344,135	505,909
2013	138,694	0	35,000	173,694	336,021	509,715
2014	145,175	0	35,000	180,175	328,147	508,322
2015-2019	833,470	0	190,000	1,023,470	1,511,648	2,535,118
2020-2024	1,047,140	0	45,000	1,092,140	1,267,531	2,359,671
2025-2029	1,317,326	0	0	1,317,326	995,554	2,312,880
2030-2034	1,656,688	0	0	1,656,688	656,192	2,312,880
2035-2039	1,246,684	0	0	1,246,684	301,948	1,548,632
2040-2044	699,070	0	0	699,070	100,081	799,151
2045-2046	155,964	0	0	155,964	6,120	162,084
	<u>\$ 7,619,575</u>	<u>\$ 350,000</u>	<u>\$ 395,000</u>	<u>\$ 8,364,575</u>	<u>\$ 6,562,187</u>	<u>\$14,926,762</u>

**(4) CAPITAL LEASES:**

The Board has previously purchased construction equipment by financing a total of \$91,097 through two capital leases. The leased equipment has been capitalized and depreciated along with the Board's other equipment. The leases bear interest at the rates of 5.76% and 4.375% and require 60 monthly payments of \$750 and \$973, respectively. Principal paid on capital leases in 2009 was \$18,477. Scheduled future payments on the leases are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$18,492	\$ 1,210	\$19,702
2011	10,535	412	10,947
2012	2,229	21	2,250
	-----	-----	-----
	<u>\$31,256</u>	<u>\$ 1,643</u>	<u>\$32,899</u>

**(5) RESTRICTED ASSETS:**

Cash and certificates of deposits are held in sinking fund reserve funds which are to be accumulated up to the maximum annual debt service and used for bond payments in the event funds are not otherwise available. These funds are mandated by bond covenants for the 1996, 1998, and 2001 revenue bonds, and by agreement with Lincoln County for the Refunding Bond. The Board pays scheduled bond payments from unrestricted funds leaving bond reserve funds intact. Restricted assets also include amounts held for payment of customer deposits. Balances in the restricted funds at June 30, 2009 were:

Sinking fund reserve fund - 1996 Bond	\$173,880
Sinking fund reserve fund - 1998 Bond	40,262
Sinking fund reserve fund - 2001 Bond	46,681
Sinking fund reserve fund - Refunding Bond	357,000
Customer deposits	14,433
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	<u>\$632,256</u>

(6) CAPITAL ASSETS:

Major classes of utility plant are as follows:

	Balance June 30, 2008	Additions	Disposals and Adjustments	Transfers	Balance June 30, 2009
Non-depreciable:					
Land	\$ 318,195	\$ 202,000	\$ -	\$ 7,500	\$ 527,695
Construction in progress	659,978	825,839	-	(1,372,366)	113,451
	-----	-----	-----	-----	-----
	978,173	1,027,839	-	(1,364,866)	641,146
Depreciable:					
Distribution lines and tanks	24,220,649	221,472	-	892,707	25,334,828
Wells and treatment plant	4,116,625	2,103	-	472,159	4,590,887
Buildings and equipment	2,381,027	40,616	(70,624)	-	2,351,019
	-----	-----	-----	-----	-----
	30,718,301	264,191	(70,624)	1,364,866	32,276,734
	-----	-----	-----	-----	-----
Total	\$31,696,474	\$1,292,030	\$ (70,624)	\$ -	\$32,917,880
	=====	=====	=====	=====	=====

Accumulated depreciation of major classes of utility plant is as follows:

Distribution and tanks	\$ 8,207,330	\$ 628,170	\$ -	\$ -	\$ 8,835,500
Wells and treatment plant	899,190	102,460	-	-	1,001,650
Buildings and equipment	1,680,612	142,590	(68,624)	-	1,754,578
	-----	-----	-----	-----	-----
	\$10,787,132	\$ 873,220	\$ (68,624)	\$ -	\$11,591,728
	=====	=====	=====	=====	=====

(7) DEPOSITS AND INVESTMENTS:

State law and bond covenants in general restrict the Board's investments to either United States Treasury or Agency obligations or to certificates of deposit insured or collateralized by direct United States Treasury obligations. In 2009 the Board invested only in certificates of deposit with maturities of one year or less, which were carried at cost.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned to it. The laws of the State of Tennessee require that collateral be pledged at 105% of the value of uninsured deposits. The Board does not have a policy regarding custodial credit risks. At June 30, 2009 all of the Board's deposits were insured by the FDIC or on deposit with a bank that participates in the State Collateral Pool. However, during the period of July 1, 2008 to October 3, 2008 up to approximately \$72,500 of the Board's bank balances were exposed to custodial credit risk because they were uninsured and collateralized with securities held by the pledging financial institution's agent but not in the Board's name.

**(8) PENSION PLAN:**

**PLAN DESCRIPTION:**

Effective October 1, 2001, the Board's employees became 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 year 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 become vested after five 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 Lincoln County Board of Public Utilities 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 [www.tn.gov/treasury/tcrs/PS/](http://www.tn.gov/treasury/tcrs/PS/).

**FUNDING POLICY:**

Lincoln County Board of Public Utilities requires employees to contribute 5.0 percent of earnable compensation.

Lincoln County Board of Public Utilities is required to contribute at an actuarially determined rate. The rate for the fiscal year ending June 30, 2009 was 10.97% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Lincoln County Board of Public Utilities is established and may be amended by the TCRS Board of Trustees.

ANNUAL PENSION COST:

For the year ending June 30, 2009, Lincoln County Board of Public Utilities' annual pension cost of \$123,042 to TCRS was equal to Lincoln County Board of Public Utilities' required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen liability actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increases in the Social Security wage base, and (d) projected post-retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. Lincoln County Board of Public Utilities' unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 14 years. An actuarial valuation was performed as of July 1, 2007 which established a contribution rate effective July 1, 2008.

TREND INFORMATION:

<u>FISCAL YEAR</u> <u>ENDING</u>	<u>ANNUAL PENSION</u> <u>COST (APC)</u>	<u>PERCENTAGE OF</u> <u>APC CONTRIBUTED</u>	<u>NET PENSION</u> <u>OBLIGATION</u>
June 30, 2009	\$123,042	100%	\$0.00
June 30, 2008	105,875	100%	\$0.00
June 30, 2007	95,585	100%	\$0.00

As of July 1, 2007, the most recent actuarial valuation date, the plan was 77.86% funded. The actuarial accrued liability for benefits was \$1,057,000, and the actuarial value of assets was \$823,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$234,000. The covered payroll (annual payroll of active employees covered by the plan) was \$899,000, and the ratio of the UAAL to the covered payroll was 26.03%.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs 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. (Dollar amount in thousands)

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Plan Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u> <u>-Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b) - (a)</u>	<u>Funded</u> <u>Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a)/c)</u>
July 01, 2007	\$823	\$1,057	\$234	77.85%	\$899	26.03%

**(9) WATER SOURCES:**

The Board's primary sources of water are the Taft and Flintville well fields with additional sources being the Elora well field and the City of Fayetteville. The City of Fayetteville is the sole supplier of water to 9% of the Board's customers and is a supplemental and primary backup source of water for the remaining customers.

**(10) RISK MANAGEMENT AND LIABILITY:**

The Board is exposed to various risks of loss related to torts, loss of assets, errors and omissions, and employee injuries. During 2009, the Board participated in a public entity risk pool for coverage of general liability, property, and workers' compensation losses. The Board participated in the Local Government Fund, a public entity risk pool established by an association of Tennessee local governments. The Board pays an annual premium to the pool for the insurance coverage. The pool is created to be self-sustaining through member premiums.

The Board is self-insured for employee health claims between \$250 and \$2,500 per year per covered individual. Employees are responsible for the first \$250 of covered claims, with commercial insurance responsible for amounts over \$2,500. The plan liability at year-end is determined based on subsequent payments. The change in the liability for medical benefits for the years ended June 30, 2008 and 2009 is as follows:

	<u>2008</u>	<u>2009</u>
Balance, beginning of year	\$ 207	\$ 0
Payments made	(8,978)	(13,637)
Incurred claims	8,771	17,559
	-----	-----
Balance, end of year	\$ -	\$ 3,922
	=====	=====

The Board continues to carry commercial insurance for other risks of loss, including employee bonds and employee health and accident losses above the \$2,500 level. Settled claims from these losses have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(11) ASSET SALE AND RELATED LOAN RECEIVABLE:**

On July 27, 2004 the Board sold its water lines located in Moore County, Tennessee to Metropolitan Lynchburg/Moore County for \$150,000 with \$25,000 paid at closing and \$125,000 to be paid over six years with interest accruing at 4%. Remaining amounts due under the loan are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$20,833	\$1,667	\$22,500
2011	20,834	833	21,667
	-----	-----	-----
	\$41,667	\$2,500	\$44,167
	=====	=====	=====

**(12) CURRENT AND PLANNED PROJECTS:**

A portion of water system additions and improvements in 2009 were constructed by the Board's employees. Capitalized amounts include employee labor and benefit costs as well as materials and equipment expense.

During the year ended June 30, 2009, the Board completed a development project at the Taft well field. Total project expenditures were \$466,160 and were funded by a Capital Outlay Note of \$425,000 issued in the prior year.

The State of Tennessee is improving Highway 64 East which has required the relocation of waterlines owned by the Board. The Board has paid \$69,570 for inspection costs and a deposit with the State for the Board's share of the waterline relocation cost. The State will transfer the relocated lines to the Board at project completion. The Board does not anticipate significant future costs on this project.

During the year ended June 30, 2009, the Board completed the Phase IV Project which included various line extensions, the Taft treatment plant upgrade, and new storage tanks on the Boonshill-Petersburg Road and Crystal Ridge. The project cost of \$2,233,000 was funded by a Rural Utilities Service loan of \$1,731,000 and grant funds of \$502,000.

The Board is seeking permission from the State of Tennessee to construct a water treatment plant on the Elk River. The plant would enhance the water available from the Board's current wells that are the primary source of water to approximately 91% of the Board's customers. At June 30, 2009 the Board had incurred costs of \$208,540 related to site acquisition. Roadway and other site development costs of approximately \$75,000 are anticipated to be incurred in the near-term while actual plant construction is not expected to begin within the next four years.

The Board plans to seek approval from the Lincoln County Commission to proceed with plans for the Phase V and VI projects which will consist of the replacement of approximately 22 miles of waterline in various locations. The projects will require Rural Utility Service bond and grant financing of approximately \$6,500,000 with project timing dependent of availability of funding. No significant costs related to this project are anticipated until the 2011 fiscal year.

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED

SCHEDULE OF PENSION FUNDING PROGRESS

JUNE 30, 2009

For the year ended June 30, 2009 the Lincoln County Board of Public Utilities' employees participated in the Political Subdivision Pension Plan administered by the Tennessee Consolidated Retirement System. Funding progress of the pension plan is summarized as follows:

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
July 1, 2007	\$823	\$1,057	\$234	77.86%	\$899	26.03%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare this schedule using the entry age actuarial cost method. The requirement to present this schedule using the entry age actuarial cost method change was made during the year of the most recent actuarial valuation date, therefore only the most current year is presented.

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES  
SCHEDULE OF TOTAL DEBT SERVICE PAYMENTS BY ISSUE  
JUNE 30, 2009

FISCAL YEAR	<u>SERIES 2006</u>		<u>CAPITAL NOTES</u>		<u>SERIES 2004</u>		<u>SERIES 2002</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2010	\$20,265	\$70,095	\$30,000	\$15,721	\$17,575	\$55,733	\$4,903	\$16,481
2011	21,117	69,243	30,000	14,527	18,337	54,971	5,142	16,242
2012	21,816	68,544	30,000	13,333	19,132	54,176	5,347	16,037
2013	22,922	67,438	35,000	12,139	19,961	53,347	5,651	15,733
2014	23,885	66,475	35,000	10,746	20,826	52,482	5,925	15,459
2015	24,890	65,470	35,000	9,353	21,728	51,580	6,213	15,171
2016	25,758	64,602	35,000	7,960	22,670	50,638	6,473	14,911
2017	27,019	63,341	40,000	6,567	23,652	49,656	6,829	14,555
2018	28,155	62,205	40,000	4,975	24,678	48,630	7,160	14,224
2019	29,338	61,022	40,000	3,383	25,747	47,561	7,508	13,876
2020-2046	1,463,255	957,829	45,000	1,791	1,104,915	663,417	287,973	172,846
<b>TOTAL</b>	<b>\$1,708,420</b>	<b>\$1,616,264</b>	<b>\$395,000</b>	<b>\$100,495</b>	<b>\$1,319,221</b>	<b>\$1,182,191</b>	<b>\$349,124</b>	<b>\$325,535</b>

FISCAL YEAR	<u>SERIES 2002 REFUNDING</u>		<u>SERIES 2001</u>		<u>SERIES 1998</u>		<u>SERIES 1996</u>		<u>TOTAL</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	
2010	\$350,000	\$7,000	\$16,627	\$44,261	\$11,384	\$31,372	\$50,215	\$123,665	\$865,297
2011	0	0	17,370	43,518	11,937	30,819	52,718	121,162	507,103
2012	0	0	18,027	42,861	12,433	30,323	55,019	118,861	505,909
2013	0	0	18,950	41,938	13,120	29,636	58,090	115,790	509,715
2014	0	0	19,796	41,092	13,757	28,999	60,986	112,894	508,322
2015	0	0	20,679	40,209	14,425	28,331	64,026	109,854	506,929
2016	0	0	21,494	39,394	15,049	27,707	66,924	106,956	505,536
2017	0	0	22,562	38,326	15,856	26,900	70,554	103,326	509,143
2018	0	0	23,569	37,319	16,626	26,130	74,072	99,808	507,551
2019	0	0	24,621	36,267	17,433	25,323	77,765	96,115	505,959
2020-2046	0	0	815,193	414,607	523,360	262,838	1,928,173	854,101	9,495,298
<b>TOTAL</b>	<b>\$350,000</b>	<b>\$7,000</b>	<b>\$1,018,888</b>	<b>\$819,792</b>	<b>\$665,380</b>	<b>\$548,378</b>	<b>\$2,558,542</b>	<b>\$1,962,532</b>	<b>\$14,926,762</b>

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES  
 SCHEDULE OF INVESTMENTS  
 JUNE 30, 2009

At June 30, 2009 the Lincoln County Board of Public Utilities' non-operating funds were in a liquid funds account which has a variable interest rate and allows access to funds. Information on this account is summarized as follows:

<u>BANK</u>	<u>RATE</u>	<u>TERM</u>	<u>AMOUNT</u>
First National Bank of Pulaski	1.0%	N/A	<u>\$1,095,946</u>

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES  
SCHEDULE OF INSURANCE IN FORCE  
JUNE 30, 2009

		<u>Coverage</u>	<u>Expiration</u>
Coverage obtained through Lincoln County:			
Local Government Property and Casualty Fund	Buildings and tanks	\$20,522,000	07-01-09
	Contents	\$ 1,405,894	
	Equipment and vehicles	Value	
	General and vehicle liability	\$ 1,000,000	
	Errors and omissions	\$ 1,000,000	
	Employee blanket bond	\$ 150,000	
Local Government Workers' Compensation Fund	Workers' compensation	Statutory	07-01-09
Other coverage:			
State Automobile Mutual Insurance	Employee dishonesty bond- Superintendent and Chairman	\$ 475,000	10-07-09
	ERISA	\$ 25,000	06-14-10

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES  
 RATES IN FORCE AND NUMBER OF CUSTOMERS  
 JUNE 30, 2009

<u>Type</u>	<u>Customers</u>	<u>Gallons</u>	<u>Rates in Force Rate/1,000</u>
Residential and Commercial	8,316	First 1,000	\$22.49
		Next 4,000	4.02
		Over 5,000	4.05
Multi-user (Total of 505 units. Rates are based on usage for each unit.	145	First 1,000	\$18.49
		Next 4,000	4.02
		Over 5,000	4.05
	-----		
Total	<u>8,461</u>		

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES  
 SCHEDULE OF UNACCOUNTED FOR WATER  
 JUNE 30, 2009

Water Treated and Purchased:	(All Amounts are in Gallons)	
Water pumped (potable)	675,894,081	
Water purchased	98,913,622	
Total Water Treated and Purchased		774,807,703
Accounted for Water		
Water sold	478,162,814	
Metered for consumption-in house usage	171,400	
Fire department usage	417,280	
Flushing	1,682,940	
Tank cleaning/filling	-	
Street cleaning	-	
Bulk sales	-	
Water bill adjustments	-	
Total Accounted for Water		480,434,434
Unaccounted for Water		294,373,269
Percent Unaccounted for Water		37.99%

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable a "-" is shown.

Gallonge information is based on readings from the Board's meters and supplier's meters.

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES  
SCHEDULE OF PRINCIPAL OFFICERS  
JUNE 30, 2009

## LINCOLN COUNTY:

Peggy Bevels	County Executive	8-31-10
Anne Underwood	County Clerk	8-31-10
Mary Jane Porter	County Trustee	8-31-10

## BOARD:

Ronald Shepard	Board Chairman	6-30-11
Wade Williams	Board Vice-Chairman	6-30-12
Larry Craig	Board Secretary	6-30-10
David Gordon	Board Member	6-30-12
Hugh Moffett	Board Member	6-30-10
Billy Wiley	Superintendent	-

LINCOLN COUNTY BOARD OF PUBLIC UTILITIES  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2009

<u>Federal Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Type/Amount</u>	<u>Federal Expenditures</u>
U. S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760	Phase IV Grant/\$502,000	\$ 333,005
			----- \$ 333,005 =====

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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

December 1, 2009

To the Members of the  
Lincoln County Board of Public Utilities:

I have audited the financial statements of the Lincoln County Board of Public Utilities as of and for the year ended June 30, 2009, and have issued my report thereon dated December 1, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Lincoln County Board of Public Utilities' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the effectiveness of the Lincoln County Board of Public Utilities' internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Lincoln County Board of Public Utilities' internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lincoln County Board of Public Utilities' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain other matters that I reported to management of the Board in a separate letter dated December 1, 2009.

This report is intended solely for the information and use of management, Board members, the Lincoln County Tennessee Board of Commissioners, and the United States Department of Agriculture, and is not intended to be and should not be used by anyone other than these specified parties.

DAVID A. KIDD