

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

Lynchburg, Tennessee

June 30, 2009

WINNETT
Associates, PLLC

Certified Public Accountants and Consultants

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of net assets of Metropolitan Lynchburg - Moore County Water and Sewer Department as of June 30, 2009, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Metropolitan Lynchburg - Moore County Water and Sewer Department and are not intended to present fairly the financial position of Metropolitan Lynchburg - Moore County, Tennessee, and the results of its operations and changes in cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Metropolitan Lynchburg - Moore County Water and Sewer Department as of June 30, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2009, on our consideration of Metropolitan Lynchburg - Moore County Water and Sewer Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is 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* and important for assessing the results of our audit.

Metropolitan Lynchburg - Moore County Water and Sewer Department has not presented the management's discussion and analysis that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The budgetary, bond, insurance, and schedules of unaccounted for water, rates and number of customers are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Metropolitan Lynchburg - Moore County Water and Sewer Department. The budgetary, and bond information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the financial statements taken as a whole. The insurance and schedules of unaccounted for water, rates and number of customers have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Winnett Associates

November 19, 2009

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

June 30, 2009

<u>ASSETS</u>			
UTILITY PLANT:			
Utility plant in service - Notes B(2) and C	\$	14,163,181.65	
Less accumulated depreciation		(2,899,017.79)	
		\$ 11,264,163.86	
Construction in progress		589,730.42	\$ 11,853,894.28
CURRENT ASSETS:			
Cash - Note D	\$	233,183.90	
Accounts receivable, net of allowance for uncollectible accounts of \$1,940.64 - Notes B(3) and J		92,273.94	
Due from Metropolitan government - Note E		43,323.36	
Other receivables		8,051.50	
Unbilled water and sewer charges		85,374.48	
Inventories - Note B(4)		56,487.81	
		TOTAL CURRENT ASSETS	518,694.99
OTHER ASSETS:			
Utility deposits	\$	510.00	
Restricted cash - Note D		60,996.00	61,506.00
		TOTAL ASSETS	\$ 12,434,095.27
<u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES:			
Current maturities of long-term debt	\$	208,672.73	
Accounts payable		104,996.27	
Accrued wages, payroll taxes, and withholdings		12,224.61	
Accrued interest		10,385.18	
Accrued vacation pay		14,330.45	
Deferred fees		28,631.33	
Customer deposits - Note J		20,811.11	
		TOTAL CURRENT LIABILITIES	\$ 400,051.68
LONG-TERM DEBT:			
Revenue bonds - Note F	\$	4,448,641.22	
Less: Deferred loan costs-Note B(5)		(45,253.98)	
Current portion		(58,275.73)	
		NET REVENUE BONDS	\$ 4,345,111.51
Notes payable - Note G	\$	1,383,408.58	
Less current portion		(150,397.00)	
		NET NOTES PAYABLE	\$ 1,233,011.58
		NET LONG-TERM DEBT	5,578,123.09
		TOTAL LIABILITIES	\$ 5,978,174.77
NET ASSETS:			
Invested in capital assets, net of related debt	\$	6,001,405.47	
Restricted for debt retirement		60,996.00	
Unrestricted		393,519.03	
		TOTAL NET ASSETS	6,455,920.50
		TOTAL LIABILITIES AND NET ASSETS	\$ 12,434,095.27

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

For the year ended June 30, 2009

OPERATING REVENUES: - Note F

Water sales	\$ 1,206,541.72	
Sewer service charges	211,094.69	
Penalties	16,072.07	
Service fees	9,050.00	
Sanitation revenue	7,200.00	
Tap connection fees	55,021.38	
Pre-treatment income	9,952.08	
Surcharges	35,560.00	
Miscellaneous	2,747.65	
Uncollectible accounts	<u>(3,669.90)</u>	
	TOTAL OPERATING REVENUES	\$ 1,549,569.69

OPERATING EXPENSES:

General and administrative	\$ 253,760.37	
Water operating expenses	732,128.39	
Sewer operating expenses	137,853.69	
Utility maintenance	<u>128,127.78</u>	
	TOTAL OPERATING EXPENSES	<u>1,251,870.23</u>
	OPERATING INCOME	\$ 297,699.46

NONOPERATING REVENUES (EXPENSE):

Interest income	\$ 6,316.76	
Interest expense	(209,101.42)	
Loss on retirement of fixed assets	<u>(8,023.89)</u>	
	TOTAL NONOPERATING REVENUE (EXPENSES), NET	<u>(210,808.55)</u>
	INCOME (LOSS) BEFORE CONTRIBUTIONS, GRANTS, AND TRANSFERS	\$ 86,890.91

Tap fees in excess of cost		14,832.30
Contributions from developers		25,554.16
Grants		210,635.72
Transfers from Metropolitan Government		1,123,064.67
Transfers to Metropolitan Government		<u>(660.00)</u>
	CHANGE IN NET ASSETS	\$ 1,460,317.76
	TOTAL NET ASSETS - BEGINNING	<u>4,995,602.74</u>
	TOTAL NET ASSETS - ENDING	<u><u>\$ 6,455,920.50</u></u>

Provision for depreciation and amortization for the year totalled \$360,377.11.

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

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

For the year ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers	\$ 1,544,355.94	
Payments to suppliers	(439,147.63)	
Payments to or on behalf of employees	(493,254.84)	
	NET CASH PROVIDED BY OPERATIONS	\$ 611,953.47

CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:

Transfers to Metropolitan Government		(660.00)
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	\$ (2,036,300.60)	
Bond costs	(12,200.00)	
Proceeds from long-term debt	1,033,000.00	
Borrowings repaid	(680,469.78)	
Contributions, grants, and transfers in aid of construction	1,359,623.97	
Interest paid	(209,002.55)	
	NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(545,348.96)

CASH FLOWS FROM INVESTING ACTIVITIES:

Redemption of certificate of deposit, net of reinvestment	\$ (75.71)	
Interest income	6,316.76	
	NET CASH PROVIDED BY INVESTING ACTIVITIES	6,241.05
	INCREASE IN CASH AND CASH EQUIVALENTS	\$ 72,185.56
	CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	115,202.47
	CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 187,388.03

RECONCILIATION OF OPERATING INCOME TO NET CASH

PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 297,699.46	
Depreciation and amortization	360,377.11	
Changes in operating assets and liabilities:		
Accounts receivable	(6,869.09)	
Other assets	(606.11)	
Accrued revenue	(13,626.96)	
Inventories	(4,979.31)	
Accounts payable	(1,053.73)	
Accrued wages and payroll taxes	3,100.01	
Accrued vacation pay	1,952.79	
Customer deposits and deferred fees	(24,040.70)	
	NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 611,953.47

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

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

June 30, 2009

NOTE A - GENERAL

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Department conform to generally accepted accounting principles as applicable to enterprise funds. The Department applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB, in which case, GASB prevails. A proprietary activity may also elect to apply all FASB statements and interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The Department has not elected this option. The following is a summary of significant policies:

(1) Accounting Method

These financial statements have been prepared on the accrual basis of accounting. The Department accrues the unbilled revenue from the dates of the most recent meter readings to the balance sheet date.

(2) Utility Plant and Depreciation

Utility plant in service is reported at cost and includes improvements, with a cost in excess of \$3,000.00, that significantly add to utility plant or extend useful lives. Cost of maintenance and repairs are charged to expense, as are tap connection costs.

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

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

(3) Allowance for Uncollectible Accounts

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

(4) Inventories

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

NOTES TO FINANCIAL STATEMENTS (CONT'D)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(5) Amortization of Deferred Loan Costs

Deferred loan costs are being amortized, on the straight-line method, over the life of the bonds.

(6) Compensated Absences

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

(7) Cash Equivalents

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

(8) Use of Estimates

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

(9) Capitalized Interest

Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

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

- (11) As a general rule, when both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTES TO FINANCIAL STATEMENTS (CONT'D)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2009

NOTE C - UTILITY PLANT ADDITIONS AND RETIREMENTS

	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions &</u> <u>Reclassifications</u>	<u>Retirements &</u> <u>Reclassifications</u>	<u>Balance</u> <u>June 30, 2009</u>
Capital assets not being depreciated or amortized				
Land and land rights	\$ 76,511.73			\$ 76,511.73
Construction in progress	<u>34,860.19</u>	<u>554,870.23</u>		<u>589,730.42</u>
Total capital assets not being depreciated or amortized	<u>\$ 111,371.92</u>	<u>\$ 554,870.23</u>	<u>\$ -</u>	<u>\$ 666,242.15</u>
Other capital assets:				
General	\$ 209,672.03	\$ -		\$ 209,672.03
Water	10,262,596.72	1,493,815.91	3,225.49	11,753,187.14
Sewer	1,684,837.63	14,571.85	7,500.00	1,691,909.48
Maintenance	224,512.68	4,600.00		229,112.68
Acquisition adjustment	<u>227,368.10</u>			<u>227,368.10</u>
Utility Plant	<u>\$ 12,608,987.16</u>	<u>\$ 1,512,987.76</u>	<u>\$ 10,725.49</u>	<u>\$ 14,111,249.43</u>
Less accumulated depreciation/amortization for:				
General	\$ 45,183.77	\$ 10,296.18		\$ 55,479.95
Water	1,446,132.53	279,593.09	\$ 889.10	1,724,836.52
Sewer	983,726.68	39,421.33	1,812.50	1,021,335.51
Maintenance	78,827.24	18,538.57		97,365.81
Acquisition Adjustment	13,211.10	11,368.41		24,579.51
Total accumulated depreciation/amortization	<u>\$ 2,567,081.32</u>	<u>\$ 359,217.58</u>	<u>\$ 2,701.60</u>	<u>\$ 2,923,597.30</u>
Other capital assets, net	<u>\$ 10,041,905.84</u>	<u>\$ 1,153,770.18</u>	<u>\$ 8,023.89</u>	<u>\$ 11,187,652.13</u>
Capital assets, net	<u>\$ 10,153,277.76</u>	<u>\$ 1,708,640.41</u>	<u>\$ 8,023.89</u>	<u>\$ 11,853,894.28</u>

NOTE D - CASH AND RESTRICTED FUNDS

The following is a summary of cash and restricted funds at June 30, 2009:

	<u>Cash Equivalents</u>	<u>Certificates of</u> <u>Deposit</u>	<u>Total</u>
Cash for general use:	\$179,358.07	\$51,791.87	\$231,149.94
Restricted funds:			
Construction account	2,033.96		2,033.96
Bond reserve fund	<u>5,996.00</u>	<u>55,000.00</u>	<u>60,996.00</u>
	<u>\$187,388.03</u>	<u>\$106,791.87</u>	<u>\$294,179.90</u>

The Bond Reserve fund is restricted for future bond and interest payments. The Department has also designated \$160,060.70 to be used to fund capital asset replacements.

Legal Provisions: All deposits with financial institutions must be secured by one of two methods depending on whether the financial institution participates in the bank collateral pool

NOTES TO FINANCIAL STATEMENTS (CONT'D)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2009

NOTE D - CASH AND RESTRICTED FUNDS (CONT'D)

administered by the state treasurer. Participating banks determine the aggregate balance of their public funds accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure. For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the Department.

Types of investments authorized: State statutes authorize the entity to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; the metropolitan government's own legally issued bonds or notes; the State Treasurer's Investment Pool; and repurchase agreements.

NOTE E - DUE FROM METROPOLITAN GOVERNMENT

The Metropolitan government has agreed to provide funding for a water service expansion project. At June 30, 2009, the Department had incurred \$1,154,519.87 toward this project with \$43,323.36 remaining to be reimbursed by the Metropolitan government.

NOTE F - REVENUE BONDS

A summary of transactions for the year ended June 30, 2009, includes the following:

Balance - beginning of year	\$ 3,945,472.90
New bond	558,000.00
Bond payments	<u>(54,831.68)</u>
	\$ 4,448,641.22
Less current maturities	<u>(58,275.73)</u>
Revenue bonds, less current maturities - end of year	<u>\$ 4,390,365.49</u>

Details of water and sewer revenue bonds are as follows:

Series 1992 Water Revenue and Tax Bonds, 6.625%, payable \$301 per month including principal and interest with final maturity in 2030	\$40,420.19
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NOTES TO FINANCIAL STATEMENTS (CONT'D)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2009

NOTE F - REVENUE BONDS (CONT'D)

Series 1992A Water Revenue and Tax Bonds, 6.375%, payable \$138 per month including principal and interest with final maturity in 2029	18,676.23
Series 1994 Water Revenue and Tax Bonds, 5.5%, payable \$462 per month including principal and interest with final maturity in 2032	71,444.45
Series 1997 Water Revenue and Tax Bonds, 4.875%, payable \$1,459 per month including principal and interest with final maturity in 2036	258,707.51
Series 2000 Water Revenue and Tax Bonds, 4.75% payable \$1,711 per month including principal and interest with final maturity in 2038	322,027.30
Series 2001 Water Revenue and Tax Bonds, 4.75% payable \$1,012 per month including principal and interest with final maturity in 2040	195,749.04
Series 2006 Water Revenue and Tax Bonds, 4.25% payable \$4,652 per month including principal and interest with final maturity in 2045	1,021,407.71
Series 2008 Water Revenue and Tax Bonds, 4.12% payable \$8,700 per month Including principal and interest with final maturity in 2046	1,962,208.79
Series 2008 Water Revenue and Tax Bonds, 4.625% payable \$2,606 per month Including principal and interest with final maturity in 2047	558,000.00
	<u>\$4,448,641.22</u>

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

The annual requirements to amortize principal and interest for all revenue bonds as of June 30, 2009 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 58,276.00	\$ 194,132.00
2011	61,133.00	191,275.00
2012	63,907.00	188,501.00
2013	66,804.00	185,604.00
2014	69,839.00	182,569.00
2015-2019	399,774.00	862,265.00
2020-2024	499,478.00	762,562.00
2025-2029	623,958.00	637,604.00
2030-2034	733,131.00	489,467.00
2035-2039	800,076.00	316,493.00
2040-2044	817,037.00	147,346.00
2045-2046	255,228.00	12,766.00
	<u>\$4,448,641.00</u>	<u>\$4,170,584.00</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2009

NOTE F - REVENUE BONDS (CONT'D)

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

(a) Revenue Fund

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

(b) Operation and Maintenance Fund

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

(c) Bond Funds

The next monies available are to be used to establish bond funds to be used to pay the principal and interest on the bonds as such payments are due. As part of the Bond Funds, Debt Service Reserve Accounts are also to be funded in the amount of \$3,612.00 for the 1992 series, \$1,656.00 for the 1992A Series, \$5,544.00 for the 1994 series, \$17,508.00 for the 1997 series, \$20,532.00 for the 2000 series, and \$12,144.00 for the 2001 series. All reserve accounts were funded as required at June 30, 2009.

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

	<u>June 30, 2008</u>	<u>June 30, 2009</u>
Revenue	\$142,187.70	\$229,358.07
Operation and Maintenance	1716.16	1,791.87
Bond	78,000.65	60,996.00

NOTE G - NOTES PAYABLE

Interest rates and repayment schedules for loans the Department has with Farmers Bank are as follows:

	Office Building 3.23%		2008 Dodge Truck 2.63%	
	<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2010	\$ 12,475.37	\$ 1,582.62	\$ 9,351.63	\$ 364.52
2011	12,886.73	1,173.55	8,774.53	113.88
2012	13,309.18	751.10		
2013	13,745.51	314.77		
2014	2,266.01	6.12		
	<u>\$ 54,682.80</u>	<u>\$ 3,828.16</u>	<u>\$ 18,126.16</u>	<u>\$ 478.40</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2009

NOTE G - NOTES PAYABLE (CONT'D)

Interest rates and repayment schedules for loans the Department has with Moore County Bank are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 31,315.58	\$ 7,363.06	\$ 7,527.01	\$ 1,499.51
2011	32,445.05	6,233.09	7,744.89	1,281.63
2012	33,615.39	5,061.63	7,969.08	1,057.44
2013	34,830.43	3,848.21	8,199.76	826.76
2014	36,086.70	2,591.94	8,434.83	590.49
2015-2016	53,353.64	1,449.69	16,042.19	438.43
	<u>\$ 221,646.79</u>	<u>\$ 26,547.62</u>	<u>\$ 55,917.76</u>	<u>\$ 5,694.26</u>

The notes are secured by the full faith and credit of the Metropolitan Government of Lynchburg/Moore County and bear interest rates of 3.55% and 2.86% respectively.

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

	<u>Principal</u>	<u>Interest</u>
2010	\$ 38,251.21	\$ 21,196.79
2011	39,395.00	20,053.00
2012	40,573.00	18,875.00
2013	41,786.23	17,661.77
2014	43,035.74	16,412.26
2015-2019	235,268.61	61,971.39
2020-2024	272,611.33	24,628.67
2025-2030	25,052.17	187.29
Total	<u>\$735,973.29</u>	<u>\$180,986.17</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2009

NOTE G - NOTES PAYABLE (CONT'D)

The Department has purchased water lines from Lincoln County Utility Board and Winchester Utilities under agreements which require the following payments.

	<u>Lincoln County Utility Board</u>		<u>Winchester Utilities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Principal</u>
2010	\$ 19,166.68	\$ 1,666.67	\$ 18,103.20	\$ 14,206.32
2011	20,833.30	833.34	18,103.20	14,206.32
2012			18,103.20	14,206.32
2013			18,103.20	14,206.32
2014			18,103.20	14,206.32
2015-2018			42,240.40	53,273.80
Total	<u>\$ 39,999.98</u>	<u>\$ 2,500.01</u>	<u>\$ 132,756.40</u>	<u>\$ 124,305.40</u>

The obligations bear interest rates of 4% and 0%.

Notes payable activity for the year ended June 30, 2009, is as follows:

<u>Balance</u>			<u>Balance</u>
<u>June 30, 2008</u>	<u>Draws</u>	<u>Repayments</u>	<u>June 30, 2009</u>
\$1,534,046.68	\$ 475,000.00	\$625,638.10	\$1,383,408.58

The Department capitalized \$784.00 of interest cost during the current year.

NOTE H - RISK MANAGEMENT

The Department is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The Department obtains insurance coverage covering the above risks of loss through a public risk entity pool, Tennessee Risk Management Trust (TRMT), which reinsures through commercial insurance companies for claims exceeding \$200,000.00 for each insured event. An annual loss fund is established based on TRMT's known losses. If this amount is exhausted, TRMT will pay the additional amount in self-insured retentions from surplus. If loss fund payments exceed available surplus, assessments to members could be possible. No estimate of any possible future assessments has been made.

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

NOTE I - INCOME TAXES

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

NOTES TO FINANCIAL STATEMENTS (CONT'D)
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2009

NOTE J - SIGNIFICANT CONCENTRATIONS

The Department operates principally to distribute water to residents of Moore County, Tennessee. The Department grants credit to its customers, which at June 30, 2009, totaled \$94,214.58. Deposits from these customers, totaling \$20,811.11 at June 30, 2009, are held as security for these accounts receivable.

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

NOTE K - ENVIRONMENTAL CONTINGENCY

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

NOTE L - LOAN APPROVAL

The Department has been approved for a loan in the amount of \$1,250,000.00 from the State Revolving Loan Fund for sewer system improvements. Personnel reviewing the Department's request have recommended that the Department generate additional revenue in order to service the loan. The Department plans to implement rate increases over a three-year period to generate the additional revenue needed.

NOTE M - COMMITMENTS

The status of construction contracts awarded for the federally funded projects is as follows:

<u>Contractor</u>	<u>Amount of Contract</u>	<u>Cost Incurred Through June 30, 2009</u>
B & W Excavating, LLC	\$ 129,556.03	\$ 129,556.03
Phoenix Fabricators and Erectors, Inc.	647,542.00	514,024.10

Under an agreement with Winchester Utilities dated July 1, 2009, the Department acquired water mains, service lines, and the right to service customers for a purchase price of \$113,755.00, payable over 120 months in the amount of \$947.96 per month.

SUPPLEMENTARY INFORMATION

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

Year ended June 30, 2009

	Budget	Actual	Favorable (Unfavorable)
REVENUES			
Water sales	\$ 1,227,493.00	\$ 1,206,541.72	\$ (20,951.28)
Surcharges	34,000.00	35,560.00	1,560.00
Sewer service charges	209,663.00	211,094.69	1,431.69
Penalties	16,502.00	16,072.07	(429.93)
Pre-treatment income	10,000.00	9,952.08	(47.92)
Miscellaneous	2,920.00	2,747.65	(172.35)
Service fees	9,800.00	9,050.00	(750.00)
Sanitation revenue	7,200.00	7,200.00	0.00
Tap connection fees	34,000.00	55,021.38	21,021.38
Uncollectible accounts	(3,000.00)	(3,669.90)	(669.90)
TOTAL REVENUES	<u>\$ 1,548,578.00</u>	<u>\$ 1,549,569.69</u>	<u>\$ 991.69</u>
OPERATING EXPENSES			
General and administrative	\$ 250,115.00	\$ 253,760.37	\$ (3,645.37)
Water operating expenses	721,445.00	732,128.39	(10,683.39)
Sewer operating expenses	138,575.78	137,853.69	722.09
Utility maintenance expenses	223,810.00	128,127.78	95,682.22
TOTAL OPERATING EXPENSES	<u>\$ 1,333,945.78</u>	<u>\$ 1,251,870.23</u>	<u>\$ 82,075.55</u>
Operating income	\$ 214,632.22	\$ 297,699.46	\$ 83,067.24
NONOPERATING INCOME (EXPENSE)			
Interest income	\$ 5,000.00	\$ 6,316.76	\$ 1,316.76
Interest expense	(211,835.41)	(209,101.42)	2,733.99
Loss on retirement of fixed assets		(8,023.89)	(8,023.89)
Total nonoperating income (expense), net	<u>\$ (206,835.41)</u>	<u>\$ (210,808.55)</u>	<u>\$ (3,973.14)</u>
NET INCOME (LOSS) BEFORE			
CONTRIBUTIONS, GRANTS, AND TRANSFERS	\$ 7,796.81	\$ 86,890.91	\$ 79,094.10
Tap fees in excess of cost	50,000.00	14,832.30	(35,167.70)
Contributions		25,554.16	25,554.16
Grants		210,635.72	210,635.72
Transfers from Metropolitan Government		1,123,064.67	1,123,064.67
Transfers to Metropolitan Government		(660.00)	(660.00)
	<u>\$ 57,796.81</u>	<u>\$ 1,460,317.76</u>	<u>\$ 1,402,520.95</u>

See independent auditor's report.

SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL

METROPOLITAN LYNCHBURG - MOORE COUNTY

WATER AND SEWER DEPARTMENT

Year Ended June 30, 2009

	Budget	Actual	Favorable (Unfavorable)
GENERAL AND ADMINISTRATIVE:			
Salaries and wages	\$ 131,608.00	\$ 133,589.79	\$ (1,981.79)
Payroll taxes and employee benefits	38,712.00	37,452.12	1,259.88
Telephone	5,200.00	6,358.84	(1,158.84)
Utilities	4,800.00	4,681.11	118.89
Depreciation and amortization	20,480.00	22,824.12	(2,344.12)
Insurance	1,000.00	922.25	77.75
Surety bond	330.00	330.00	0.00
Postage	9,150.00	9,175.18	(25.18)
Advertising	300.00	22.64	277.36
Office equipment service contract	5,000.00	4,966.00	34.00
Legal and professional fees	7,465.00	7,628.00	(163.00)
Maintenance and repair	2,400.00	2,578.14	(178.14)
Fuel	5,500.00	5,281.97	218.03
Supplies	9,000.00	10,682.34	(1,682.34)
General services	2,500.00	2,532.00	(32.00)
Vehicle maintenance and repair	3,000.00	1,124.93	1,875.07
Dues and subscriptions	2,400.00	2,394.37	5.63
Miscellaneous	1,270.00	1,216.57	53.43
GENERAL AND ADMINISTRATIVE	\$ 250,115.00	\$ 253,760.37	\$ (3,645.37)
WATER:			
Plant operations:			
Salaries and wages	\$ 93,560.00	\$ 94,982.10	\$ (1,422.10)
Payroll taxes and employee benefits	22,240.00	21,608.27	631.73
Telephone	3,500.00	3,172.44	327.56
Electricity	87,350.00	95,416.53	(8,066.53)
Treated water	44,800.00	49,026.43	(4,226.43)
Education	375.00	377.41	(2.41)
Chemicals	53,500.00	53,641.74	(141.74)
Depreciation	280,000.00	279,593.09	406.91
Maintenance and repair	12,900.00	10,880.13	2,019.87
Raw water	790.00	4,569.00	(3,779.00)
Postage	60.00	79.24	(19.24)
Advertising	650.00	653.73	(3.73)
Insurance	13,650.00	13,540.75	109.25
Lab expense	4,400.00	4,556.50	(156.50)
State fees	2,500.00	2,562.00	(62.00)
Miscellaneous supplies	3,500.00	2,950.02	549.98
Subscriptions and dues	200.00	70.00	130.00
	\$ 623,975.00	\$ 637,679.38	\$ (13,704.38)
Distribution:			
Electricity	\$ 19,600.00	\$ 21,759.97	\$ (2,159.97)
Meters and parts	4,800.00	1,615.40	3,184.60
Maintenance and repair	16,500.00	15,934.23	565.77
Tap connection and construction expense	55,270.00	53,137.41	2,132.59
Engineering fee	500.00	1,080.00	(580.00)
Lab fees	300.00	920.00	(620.00)
State fees	500.00	0.00	500.00
Miscellaneous supplies	0.00	2.00	(2.00)
	\$ 97,470.00	\$ 94,449.01	\$ 3,020.99
WATER OPERATING EXPENSES	\$ 721,445.00	\$ 732,128.39	\$ (10,683.39)

See independent auditors' report.

SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL (CONT'D)

METROPOLITAN LYNCHBURG - MOORE COUNTY

WATER AND SEWER DEPARTMENT

Year Ended June 30, 2009

	Budget	Actual	Favorable (Unfavorable)
SEWER:			
Plant Operations:			
Salaries and wages	\$ 30,565.00	\$ 31,565.70	\$ (1,000.70)
Payroll taxes and employee benefits	6,450.00	6,658.02	(208.02)
Telephone	1,500.00	1,438.52	61.48
Electricity	24,775.00	24,435.55	339.45
Education	200.00	165.00	35.00
Chemicals	8,400.00	9,886.29	(1,486.29)
Depreciation	39,735.78	39,421.33	314.45
Maintenance and repair	3,200.00	829.47	2,370.53
Vehicle maintenance and repair	200.00	201.48	(1.48)
Insurance	3,500.00	3,397.25	102.75
Postage	50.00	16.51	33.49
Miscellaneous supplies	1,500.00	1,892.88	(392.88)
Fuel	150.00	203.14	(53.14)
State fees	1,600.00	250.00	1,350.00
Pre-treatment expense	5,000.00	2,862.00	2,138.00
	<u>\$ 126,825.78</u>	<u>\$ 123,223.14</u>	<u>\$ 3,602.64</u>
Collection:			
Electricity	\$ 10,000.00	\$ 11,225.67	\$ (1,225.67)
Maintenance and repair	1,000.00	380.91	619.09
Engineering	0.00	1,140.00	(1,140.00)
Tap connections	750.00	1,883.97	(1,133.97)
	<u>\$ 11,750.00</u>	<u>\$ 14,630.55</u>	<u>\$ (2,880.55)</u>
SEWER OPERATING EXPENSES	<u>\$ 138,575.78</u>	<u>\$ 137,853.69</u>	<u>\$ 722.09</u>
UTILITY MAINTENANCE			
Salaries and wages	\$ 129,450.00	\$ 131,245.98	\$ (1,795.98)
Payroll taxes and employee benefits	44,610.00	43,552.24	1,057.76
Insurance	2,700.00	2,508.75	191.25
Maintenance and repair	500.00	485.10	14.90
Education	500.00	443.64	56.36
Vehicle maintenance and repair	6,000.00	9,777.62	(3,777.62)
Depreciation	19,000.00	18,538.57	461.43
Fuel	7,350.00	6,637.49	712.51
Miscellaneous supplies	8,200.00	8,685.01	(485.01)
Utility maintenance tools	5,500.00	4,327.86	1,172.14
Allocable expenses	0.00	(98,074.48)	98,074.48
	<u>\$ 223,810.00</u>	<u>\$ 128,127.78</u>	<u>\$ 95,682.22</u>
UTILITY MAINTENANCE EXPENSES	<u>\$ 223,810.00</u>	<u>\$ 128,127.78</u>	<u>\$ 95,682.22</u>
TOTAL OPERATING EXPENSES	<u>\$ 1,333,945.78</u>	<u>\$ 1,251,870.23</u>	<u>\$ 82,075.55</u>

See independent auditors' report.

SCHEDULE OF REVENUE BOND PRINCIPAL AND INTEREST REQUIREMENTS

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

June 30, 2009

Year Ending June 30,	Series 1992		Series 1992A		Series 1994		Series 1997	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	966	2,646	490	1,166	1,673	3,871	5,014	12,494
2011	1,031	2,581	522	1,134	1,767	3,777	5,264	12,244
2012	1,102	2,510	557	1,099	1,867	3,677	5,526	11,982
2013	1,177	2,435	593	1,063	1,972	3,572	5,802	11,706
2014	1,258	2,354	632	1,024	2,084	3,460	6,091	11,417
2015	1,343	2,269	673	983	2,201	3,343	6,395	11,113
2016	1,435	2,177	718	938	2,325	3,219	6,714	10,794
2017	1,533	2,079	765	891	2,456	3,088	7,048	10,460
2018	1,638	1,974	815	841	2,595	2,949	7,400	10,108
2019	1,750	1,862	868	788	2,741	2,803	7,768	9,740
2020	1,869	1,743	926	730	2,896	2,648	8,156	9,352
2021	1,997	1,615	986	670	3,059	2,485	8,562	8,946
2022	2,133	1,479	1,051	605	3,232	2,312	8,989	8,519
2023	2,279	1,333	1,120	536	3,414	2,130	9,437	8,071
2024	2,435	1,177	1,194	462	3,607	1,937	9,908	7,600
2025	2,601	1,011	1,272	384	3,810	1,734	10,402	7,106
2026	2,779	833	1,355	301	4,025	1,519	10,920	6,588
2027	2,968	644	1,444	212	4,252	1,292	11,465	6,043
2028	3,171	441	1,539	117	4,492	1,052	12,036	5,472
2029	3,388	224	1,156	22	4,746	798	12,636	4,872
2030	1,567	26			5,013	531	13,266	4,242
2031					5,296	248	13,928	3,580
2032					1,921	16	14,622	2,886
2033							15,351	2,157
2034							16,116	1,392
2035							16,920	588
2036							2,972	11
2037								
2038								
2039								
2040								
2041								
2042								
2043								
2044								
2045								
2046								
	\$ 40,420	\$ 33,413	\$ 18,676	\$ 13,966	\$ 71,444	\$ 52,461	\$ 258,708	\$ 199,483

See independent auditors' report.

<u>Series 2000</u>		<u>Series 2001</u>		<u>Series 2006</u>		<u>Series 2008</u>		<u>Totals</u>	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
5,353	15,179	2,909	9,235	12,562	43,262	29,309	106,279	58,276	194,132
5,613	14,919	3,050	9,094	13,106	42,718	30,780	104,808	61,133	191,275
5,885	14,647	3,199	8,945	13,674	42,150	32,097	103,491	63,907	188,501
6,171	14,361	3,354	8,790	14,267	41,557	33,468	102,120	66,804	185,604
6,471	14,061	3,517	8,627	14,885	40,939	34,901	100,687	69,839	182,569
6,785	13,747	3,687	8,457	15,530	40,294	36,394	99,194	73,008	179,400
7,114	13,418	3,866	8,278	16,203	39,621	37,951	97,638	76,326	176,083
7,460	13,072	4,054	8,090	16,905	38,919	39,574	96,014	79,795	172,613
7,822	12,710	4,251	7,893	17,638	38,186	41,267	94,321	83,426	168,982
8,202	12,330	4,457	7,687	18,402	37,422	43,032	92,556	87,220	165,188
8,600	11,932	4,674	7,470	19,200	36,624	44,873	90,715	91,194	161,214
9,017	11,515	4,901	7,243	20,032	35,792	46,793	88,795	95,347	157,061
9,455	11,077	5,138	7,006	20,900	34,924	48,796	86,792	99,694	152,714
9,914	10,618	5,388	6,756	21,806	34,018	50,884	84,704	104,242	148,166
10,395	10,137	5,649	6,495	22,751	33,073	53,062	82,526	109,001	143,407
10,900	9,632	5,924	6,220	23,737	32,087	55,332	80,256	113,978	138,430
11,429	9,103	6,211	5,933	24,766	31,058	57,701	77,887	119,186	133,222
11,984	8,548	6,513	5,631	25,839	29,985	60,170	75,418	124,635	127,773
12,566	7,966	6,829	5,315	26,959	28,865	62,745	72,843	130,337	122,071
13,176	7,356	7,161	4,983	28,127	27,697	65,432	70,156	135,822	116,108
13,816	6,716	7,508	4,636	29,346	26,478	68,133	67,455	138,649	110,084
14,486	6,046	7,873	4,271	30,618	25,206	71,154	64,434	143,355	103,785
15,190	5,342	8,255	3,889	31,945	23,879	71,200	64,388	143,133	100,400
15,927	4,605	8,656	3,488	33,329	22,495	77,376	58,212	150,639	90,957
16,700	3,832	9,076	3,068	34,774	21,050	80,689	54,899	157,355	84,241
17,511	3,020	9,517	2,627	36,281	19,543	84,144	51,444	164,373	77,222
18,361	2,171	9,979	2,165	37,853	17,971	87,747	47,841	156,912	70,159
19,252	1,280	10,463	1,681	39,493	16,331	91,505	44,083	160,713	63,375
16,472	331	10,971	1,173	41,205	14,619	95,424	40,164	164,072	56,287
		11,504	540	42,991	12,833	99,511	36,077	154,006	49,450
		7,215	108	44,854	10,970	103,772	31,816	155,841	42,894
				46,797	9,027	108,217	27,371	155,014	36,398
				48,826	6,998	112,852	22,736	161,678	29,734
				50,942	4,882	117,686	17,902	168,628	22,784
				53,149	2,675	122,727	12,861	175,876	15,536
				31,716	848	127,985	7,603	159,701	8,451
						65,963	2,960	65,963	2,960
						29,563	1,354	29,563	1,354
\$ 322,027	\$ 269,671	\$ 195,749	\$ 175,794	\$ 1,021,408	\$ 964,996	\$ 2,520,209	\$ 2,460,800	\$ 4,448,641	\$ 4,170,584

SCHEDULES
METROPOLITAN LYNCHBURG - MOORE COUNTY
WATER AND SEWER DEPARTMENT

June 30, 2009

Schedule of Unaccounted For Water
(All amounts in gallons)

Water Treated and Purchased	
Water Pumped (potable)	182,600,283
Water Purchased	19,172,500
Total Water Pumped and Purchased	201,772,783
Accounted for Water	
Water Sold	141,703,620
Metered for Consumption (in house usage)	38,100
Fire Department/Public Usage	159,000
Flushing	2,938,118
Tank Cleaning/Filling	-0-
Street Cleaning	-0-
Bulk Sales	-0-
Water Bill Adjustments plus/minus	3,507,082
Total Accounted for Water	148,345,920
Unaccounted for Water	53,426,863
Percent Unaccounted for Water	26.5%

All amounts included in this schedule are supported by documentation on file at the Department. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

Schedule of Rates and Number of Customers

WATER RATES

First 2,000 gallons	\$ 20.35
All over 2,000 gallons	\$6.70 per gallon

SEWER RATES

First 2,000 gallons	\$ 12.79
	\$6.39 per gallon

Number of customers at June 30, 2009:

Water	2,175
Sewer	308

See independent auditors' report.

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

June 30, 2009

Property	\$7,636,228
General Liability:	
Per occurrence for loss not limited by the tort liability act	1,000,000
Workman's Compensation	Statutory
Employers' Liability	1,000,000
Commercial Crime:	
Employee fidelity, depositors' forgery, and money orders and counterfeit papers	150,000
Business Auto:	
Liability - per occurrence for loss limited by the tort liability act	1,000,000
Physical damage	ACV
Public Official Liability (Errors or Omissions)	1,000,000
Electronic Data Processing	500,000
Boiler and machinery	5,000,000

See independent auditors' report.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
METROPOLITAN LYNCHBURG-MOORE COUNTY WATER AND SEWER DEPARTMENT**

Year ended June 30, 2009

<u>Grantor Agency</u>	<u>Program Name</u>	<u>CFDA Number</u>
<u>FEDERAL AWARDS</u>		
United States Department of Agriculture Rural Development	Water and Waste Disposal Systems for Rural Communities	10.760

The schedule is presented using the accrual basis of accounting.

Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
\$ (3,450.28)	\$ 766,041.00	\$ 770,156.05	\$ (7,565.33)

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

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

We have audited the financial statements of Metropolitan Lynchburg - Moore County Water and Sewer Department (the Department) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 19, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 Department'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 Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting.

Condition, Criteria, Cause and Effect: The Department does not employ anyone with training in preparing financial statements for external reporting in accordance with generally accepted accounting principles.

Recommendation: Management of the Department should determine whether it would be feasible to train or hire someone to be able to prepare financial statements in accordance with generally accepted accounting principles.

Management Response: At this time we do not believe the benefit of addressing this control deficiency would exceed the cost.

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 Department's internal control.

Our 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 identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the deficiency described above is a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Department'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*.

Metropolitan Lynchburg - Moore County Water and Sewer Department's response to the finding identified in our audit is described above. We did not audit Metropolitan Lynchburg - Moore County Water and Sewer Department's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Utility Board, management, Metropolitan Council and oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

Winnett Associates

November 19, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB *CIRCULAR A-133***

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

Compliance

We have audited the compliance of Metropolitan Lynchburg – Moore County Water and Sewer Department (the Department) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Department’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department’s management. Our responsibility is to express an opinion on the Department’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department’s compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department’s internal control over compliance with the requirements that could have a direct and material effect on a

major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Winnett Associates

November 19, 2009

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

June 30, 2009

I. Summary of auditors' results:

Type of report issued on the financial statements - unqualified

The audit disclosed no noncompliance, which is material to the financial statements of the auditee.

Type of report issued on compliance for major programs - unqualified

The audit disclosed no audit findings required to be reported under Section - .510.

Major program: Water and Waste Disposal Systems for Rural Communities

The threshold for distinguishing Types A and B programs was \$300,000.00.

Metropolitan Lynchburg-Moore County Water and Sewer Department was not determined to be a low-risk auditee.

II. The audit of the financial statements of the Metropolitan Lynchburg-Moore County Water and Sewer Department disclosed a material weakness in internal control.

III. Findings and questioned costs for Federal awards - none

WINNETT Associates, PLLC

Certified Public Accountants and Consultants

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

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

We have audited the financial statements of Metropolitan Lynchburg - Moore County Water and Sewer Department for the year ended June 30, 2009, and have issued our report thereon dated November 19, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 3, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements presented by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

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

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Metropolitan Lynchburg - Moore County Water and Sewer Department are described in Note B to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2009. We noted no transactions entered into by the Department during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Management has represented that they believe the effects of the uncorrected financial statement misstatements identified during the audit are immaterial, both individually, and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 19, 2009.

Other Audit Findings or Issues

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

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

Sincerely,

Winnett Associates

WINNETT ASSOCIATES, PLLC

November 19, 2009