

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

FINANCIAL STATEMENTS

June 30, 2010 and 2009

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

INTRODUCTORY SECTION

June 30, 2010 and 2009

TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee
June 30, 2010 and 2009

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Table of Contents.....	1
FINANCIAL SECTION	
Independent Auditors' Report.....	2
Management's Discussion and Analysis	3 – 5
Financial Statements:	
Statements of Net Assets.....	6 – 7
Statements of Revenues, Expenses, and Changes in Net Assets	8
Statements of Cash Flows	9 – 10
Notes to Financial Statements	11 – 27
Required Supplementary Information.....	28
SUPPLEMENTAL INFORMATION:	
Schedule of Capital Assets and Accumulated Depreciation.....	29
Schedule of Bonds Payable	30– 33
Schedule of Insurance in Force and Bonds on Principal Officials.....	34
Schedule of Water Rates and Number of Customers	35
Schedule of Unaccounted for Water	36
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.....	37 – 38

TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee

FINANCIAL SECTION

June 30, 2010 and 2009



Joe S. Ingram, CPA
Lonas D. Overholt, CPA
Robert L. Bean, CPA

428 Marilyn Lane
Alcoa, Tennessee 37701

Telephone
865-984-1040
Facsimile
865-982-1665

November 12, 2010

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Tellico Area Services Systems
Vonore, Tennessee

We have audited the accompanying financial statements of the business-type activities of Tellico Area Services Systems, Vonore, Tennessee, as of and for the years ended June 30, 2010 and 2009, which comprise the Systems' basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Tellico Area Services Systems' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Tellico Area Services Systems, Vonore, Tennessee, as of June 30, 2010 and 2009 and the changes in its financial position and its cash flows for the fiscal years 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 12, 2010, on our consideration of the Tellico Area Services Systems' internal control over financial reporting and 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 should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 3 through 5 and the Schedule of Pension Funding Progress on page 27 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We 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, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the business-type activities that comprise the Utility's basic financial statements. The accompanying financial information listed as supplemental information in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Tellico Area Services Systems. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Ingram, Overholt & Bean, P.C.



P.O. BOX 277 VONORE, TENNESSEE 37885 PHONE (423) 884-6400 OR (865) 856-3530

November 12, 2010

Our discussion and analysis of the Tellico Area Services Systems' financial performance provides an overview of the Utility's activities for the years ended June 30, 2010 and 2009. Please read it in conjunction with the Utility's financial statements, as listed in the Table of Contents.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets provide information about the Utility as a whole and present a long-term view of the Utility's finances.

THE STATEMENTS OF NET ASSETS AND STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

One of the most important questions asked about the Utility's finances is "Is the Utility better off or worse off as a result of this year's activities?" The Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets report information about the Utility and about its activities that help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the Utility's assets, liabilities, net assets and changes in them. You can think of the Utility's net assets – the difference between assets and liabilities – as one way to measure the Utility's financial health, or financial position. Over time, increases and decreases in the Utility's net assets are one indicator of whether its financial health is improving or deteriorating.

FINANCIAL HIGHLIGHTS

The operations of the Tellico Area Services Systems are primarily funded as follows:

	<u>2010</u>	<u>2009</u>
Water revenues	75.79%	61.63%
Capital contributions	5.40%	22.12%
Sewer revenues	12.46%	10.90%
Interest income	1.70%	1.76%
Forfeited discounts	1.19%	1.11%
Sprinkler system income	1.24%	0.97%
Customer service charges and miscellaneous income	<u>2.22%</u>	<u>1.51%</u>
Total Revenues	<u><u>100.00%</u></u>	<u><u>100.00%</u></u>

Operational costs for the Utility were \$2,971,526 and \$2,874,140 for the fiscal years ended June 30, 2010 and 2009 respectively.

ASSETS, LIABILITIES, AND NET ASSETS

The analysis below focuses on the assets, liabilities and net assets of the Utility.

	<u>2010</u>	<u>2009</u>
Current Assets	\$ 2,885,926	\$ 3,413,410
Capital Assets, net of depreciation	24,193,483	20,586,263
Restricted Assets	1,110,267	513,157
Other Assets	<u>14,025</u>	<u>14,948</u>
Total Assets	<u>28,203,701</u>	<u>24,527,778</u>
Current Liabilities	692,901	688,841
Long-Term Debt	10,997,003	7,854,556
Other Liabilities	<u>164,004</u>	<u>141,635</u>
Total Liabilities	<u>11,853,908</u>	<u>8,685,032</u>
Net Assets – Unrestricted	2,110,651	2,662,599
Invested in Capital Assets, net of related debt	13,128,875	12,666,990
Restricted for debt service	110,267	13,157
Restricted for replacements	<u>1,000,000</u>	<u>500,000</u>
Total Net Assets	<u>\$ 16,349,793</u>	<u>\$ 15,842,746</u>

The assets of the Utility increased by 14.99% during the current year. Net Assets of the Utility increased by 3.20%.

FINANCIAL RATIOS

The ratio of Working Capital demonstrates the continuing ability to finance operations with cash. The change in the current ratio indicates the Utility's ability to meet short-term debt obligations. The higher the ratio, the more liquid the Utility is.

	<u>2010</u>	<u>2009</u>
Working Capital (the amount by which current assets exceed current liabilities)	\$ 2,193,025	\$ 2,724,569
Current Ratio (compares current assets to liabilities-as an indicator of the ability to pay current obligations)	4.16	4.95
Return Assets (illustrates to what extent there will be sufficient funds to replace assets in the future)	1.92%	4.30%

CAPITAL ASSETS

At the fiscal year ended June 30, 2010, the Utility had \$31,866,518 invested in capital assets as outlined below (a 15.07% increase over the last year).

	<u>2010</u>	<u>2009</u>
Land and land rights	\$ 324,700	\$ 324,700
Building and improvements	1,074,958	1,067,940
Distribution facilities	26,351,111	21,900,654
Office furniture and fixtures	106,908	142,947
Tools and equipment	573,596	547,139
Construction in progress	<u>3,435,245</u>	<u>3,708,610</u>
Totals	<u>\$ 31,866,518</u>	<u>\$ 27,691,990</u>

DEBT

The change in bonds and notes payable for the fiscal year ended June 30, 2010, is as follows:

	<u>Balance</u> <u>6/30/09</u>	<u>Proceeds</u>	<u>Retired</u>	<u>Balance</u> <u>6/30/10</u>
Monroe County Bonds	\$ 1,642,830	\$ -	\$ (19,852)	\$ 1,622,978
Loudon County Bonds	1,529,652	-	(18,457)	1,511,195
TRDA Note	1,253,122	-	(1,500)	1,251,622
SRF Note	<u>3,508,442</u>	<u>3,184,221</u>	<u>-</u>	<u>6,692,663</u>
Total	<u>\$ 7,934,046</u>	<u>\$ 3,184,221</u>	<u>\$ (39,809)</u>	<u>\$ 11,078,458</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens with a general view of the Utility's finances and to show the Utility's accountability for the revenues it receives. If you have any questions about this report or need additional financial information, contact the Systems Manager, PO Box 227, Vonore, Tennessee, 37885.

Respectfully submitted,



Mark Clinton
Systems Manager

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 STATEMENTS OF NET ASSETS – BUSINESS-TYPE ACTIVITIES

<u>ASSETS</u>	June 30, <u>2010</u>	June 30, <u>2009</u>
CAPITAL ASSETS:		
Non-depreciable.....	\$ 324,700	\$ 324,700
Depreciable, net of accumulated depreciation	<u>20,433,538</u>	<u>16,552,953</u>
	20,758,238	16,877,653
Construction in process	<u>3,435,245</u>	<u>3,708,610</u>
Net Capital Assets.....	<u>24,193,483</u>	<u>20,586,263</u>
CURRENT ASSETS:		
Certificate of Deposit	1,200,000	1,300,000
Cash	1,150,820	1,123,737
Accounts receivable	457,384	401,946
Other receivable	-	241,726
Due from Tennessee SRF	-	277,211
Prepaid expenses	-	339
Inventory	<u>77,722</u>	<u>68,451</u>
Total Current Assets	<u>2,885,926</u>	<u>3,413,410</u>
RESTRICTED ASSETS:		
Cash – Bond Fund.....	110,267	13,157
Certificate of Deposit – Replacement Fund.....	<u>1,000,000</u>	<u>500,000</u>
Total Restricted Assets.....	<u>1,110,267</u>	<u>513,157</u>
OTHER ASSETS:		
Utility deposits.....	175	175
Unamortized bond issue costs.....	<u>13,850</u>	<u>14,773</u>
Total other assets	<u>14,025</u>	<u>14,948</u>
Total Assets.....	<u>\$ 28,203,701</u>	<u>\$ 24,527,778</u>

(Continued)

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 STATEMENTS OF NET ASSETS – BUSINESS-TYPE ACTIVITIES (Continued)

<u>LIABILITIES AND NET ASSETS</u>	June 30, <u>2010</u>	June 30, <u>2009</u>
LONG-TERM DEBT:		
Note payable – TRDA.....	\$ 1,251,622	\$ 1,253,122
Note payable – State Revolving Fund.....	6,692,663	3,508,442
Bonds payable – Water Revenue, Series 1994 – Loudon County.....	667,792	682,589
Bonds payable – Water Revenue, Series 1995 – Monroe County.....	509,517	519,999
Bonds payable – Local Government Public Improvement Series IV-E-6 – Monroe County.....	477,500	477,500
Bonds payable – Local Government Public Improvement Series IV-E-6 – Loudon County.....	495,000	495,000
Bonds payable – Water Revenue and Tax Bonds Series 2000.....	297,006	301,671
Bonds payable – Water Revenue and Tax Bonds Series 2005 – Loudon County.....	348,403	352,063
Bonds payable – Water Revenue and Tax Bonds Series 2005 – Monroe County.....	338,955	343,660
Less: Bonds payable – Due within one (1) year	<u>(81,455)</u>	<u>(79,490)</u>
Total Long-Term Debt.....	<u>10,997,003</u>	<u>7,854,556</u>
CURRENT LIABILITIES:		
Accounts payable.....	533,494	600,321
Sales tax payable	10,209	9,030
Accrued interest.....	67,743	-
Bonds payable within one (1) year	<u>81,455</u>	<u>79,490</u>
Total Current Liabilities.....	<u>692,901</u>	<u>688,841</u>
OTHER LIABILITIES:		
Customer meter deposits	<u>65,172</u>	<u>50,850</u>
LONG-TERM LIABILITIES:		
Accrued compensated absences.....	<u>98,832</u>	<u>90,785</u>
Total Liabilities	<u>11,853,908</u>	<u>8,685,032</u>
NET ASSETS:		
Invested in capital assets, net of related debt.....	13,128,875	12,666,990
Restricted for debt service.....	110,267	13,157
Restricted for replacements	1,000,000	500,000
Unrestricted	<u>2,110,651</u>	<u>2,662,599</u>
Total Net Assets	<u>16,349,793</u>	<u>15,842,746</u>
Total Liabilities and Net Assets	<u>\$ 28,203,701</u>	<u>\$ 24,527,778</u>

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	<u>FISCAL YEARS ENDED JUNE 30,</u>	
	<u>2010</u>	<u>2009</u>
OPERATING REVENUES:		
Metered water sales (net of uncollectible accounts of \$0 in 2010 and \$42,140 in 2009).....	\$ 2,739,425	\$ 2,478,609
Water tap fees	65,785	55,212
Metered sewer sales, sewer service charges and sewer tap fees.....	461,335	448,269
Customers' forfeited discounts.....	44,056	45,836
Sprinkler systems' income	45,798	39,687
Customer service charges and miscellaneous income	73,904	59,843
Total Operating Revenues	3,430,303	3,127,456
OPERATING EXPENSES:		
Salaries and wages	925,077	941,742
Payroll taxes	74,133	69,311
Laboratory supplies.....	28,380	34,331
Chemicals.....	163,728	106,803
Goodwill advertising.....	4,277	2,288
Utilities.....	274,107	291,331
Telephone	22,529	17,982
Office supplies, postage, and bank charges	35,769	37,282
Maintenance and plant expenses	102,237	120,724
Repairs	40,355	28,123
Commissioner's fee	21,300	21,600
Insurance	55,553	65,985
Employee benefits – Health insurance	269,000	267,384
Billing service.....	29,210	27,433
Legal and audit	6,400	11,303
Uniforms	2,023	1,970
Miscellaneous	20,528	30,459
Retirement benefits	63,586	52,362
Conferences and seminars	12,083	6,257
Professional consultants	61,823	61,726
Vehicle expenses.....	45,187	53,302
Depreciation	714,241	624,442
Total Operating Expenses	2,971,526	2,874,140
OPERATING INCOME	458,777	253,316
OTHER INCOME (EXPENSES):		
Interest earned.....	62,778	72,324
Interest expense	(222,010)	(198,800)
Amortization of bond issue cost.....	(923)	(2,252)
Capital contributions	200,079	830,557
Gain on sale of fixed asset.....	8,346	1,810
Net Other Income (Expense)	48,270	703,639
NET INCOME	507,047	956,955
NET ASSETS – July 1	15,842,746	14,885,791
NET ASSETS – June 30	\$ 16,349,783	\$ 15,842,746

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
STATEMENTS OF CASH FLOWS

	<u>FISCAL YEARS ENDED JUNE 30,</u>	
	<u>2010</u>	<u>2009</u>
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:		
Cash received from customers	\$ 3,374,865	\$ 3,203,388
Cash payments to suppliers for goods and services	(865,482)	(972,959)
Cash payments to employees for services	(925,077)	(941,742)
Net Cash Flows Provided By		
Operating Activities	1,584,306	1,288,687
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(4,323,649)	(4,571,743)
Proceeds from sale of capital assets	10,534	-
Proceeds from bonds and notes.....	3,184,221	3,508,442
Principal paid on bonds and notes.....	(39,809)	(348,275)
Interest paid on debt	(154,267)	(289,713)
Capital contribution.....	200,079	830,557
Net Cash Flows Provided (Used) By Capital and Related Financing Activities.....	(1,122,891)	(870,732)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:		
Interest received	62,778	72,324
Purchase of certificate of deposit	(400,000)	(300,000)
Net Cash Flows Provided (Used) by Investing Activities	(337,222)	(227,676)
NET INCREASE IN CASH AND CASH EQUIVALENTS	124,193	190,279
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR	1,136,894	946,615
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	\$ 1,261,087	\$ 1,136,894

(Continued)

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 STATEMENTS OF CASH FLOWS (Continued)

	<u>FISCAL YEARS ENDED JUNE 30,</u>	
	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING REVENUE TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income.....	\$ 458,777	\$ 253,316
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	714,241	624,442
Change in assets and liabilities:		
Accounts receivable, trade	(55,438)	75,932
Other receivable.....	241,726	-
Due from Tennessee SRF.....	277,211	(277,211)
Prepaid expenses	339	31,206
Inventory.....	(9,271)	13,084
Customer meter deposits	14,322	6,750
Accounts payable.....	(66,827)	483,578
Sales tax payable	1,179	9,030
Compensated absences.....	8,047	68,560
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,584,306	\$ 1,288,687
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
TO THE BALANCE SHEET:		
Current assets – cash.....	\$ 1,150,820	\$ 1,123,737
Restricted assets:		
Bond Fund.....	110,267	13,157
Ending Cash and Cash Equivalents	\$ 1,261,087	\$ 1,136,894

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1 – REPORTING ENTITY:

The Tellico Area Services Systems is a jointly owned and operated system of Loudon County, Tennessee, acting through the Loudon County Board of Public Utilities, a public body organized and created pursuant to TCA 5-1601 et set, and Monroe County, Tennessee, acting through Monroe County Board of Public Utilities, a public body organized and created pursuant to TCA 5-1601 et set. The agreement between Loudon County, Tennessee, and Monroe County, Tennessee, was signed on December 3, 1970.

The water plant was constructed on land owned by the Tennessee Valley Authority. A permanent easement was granted to Tellico Area Services Systems by the Tennessee Valley Authority on June 11, 1974. Said agreement was delivered to, and accepted by, Tellico Area Services Systems on August 22, 1974.

The Department of Housing and Urban Development (HUD) administered the grants and contracts awarded for the financing and construction of the complete water system of Tellico Area Services Systems.

Governmental Accounting Standards Board (GASB) Statement No. 14 – “The Financial Reporting Entity”, as amended by GASB Statement No. 39 – “Determining Whether Certain Organizations are Component Units” defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of a component unit's Board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

The financial statements of the Utility (primary government) provide an overview of the entity based on financial accountability. The primary government consists of all the organizations that make up its legal entity – all funds, departments, and offices that are not legally separate. The Utility meets the criteria defined for a primary government in GASB No. 14, as amended by GASB Statement No. 39 as follows:

- a. Separate legal standing through legislation authorizing its creation
- b. Fiscally independent of other state and local governments

A component unit is defined as a legally separate organization for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on the criteria applicable to GASB No. 14, as amended by GASB Statement No. 39 for component units, the Utility has no financial accountability for any component units. Therefore, the financial reporting entity is limited to those funds, departments, and offices which comprise the Utility's legally adopted jurisdictions.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES:

(a) Accounting Method:

Tellico Area Services Systems is accounted for as an enterprise fund type and uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business and where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. Per Governmental Accounting Standards Board Statement No. 20, the Utility has not opted to follow Financial Accounting Standards Board pronouncements issued subsequent to November 30, 1989.

(b) Cash and Cash Equivalents:

The Utility considers all highly liquid investments with an original maturity of three (3) months or less to be "cash equivalents".

(c) Accounts Receivable:

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is uncollectible. Estimated unbilled revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based upon the month's billing following the close of the fiscal year.

(d) Inventories:

Inventories on hand are limited to chemicals, lab supplies, and line materials and are stated at cost, using the first-in, first-out inventory valuation method.

(e) Utility Plant and Depreciation:

The cost of additions to utility plant and the cost of renewals and betterments greater than \$1,500 are capitalized. Cost includes labor, materials and services. The cost of current repairs and minor replacements is charged to operating expense currently.

Depreciation is calculated using the straight-line method based upon estimated service lives. Depreciation rates vary from 2% to 20%.

(f) Construction Period Interest:

It is the Utility's policy to capitalize interest on debt used to finance the acquisition of fixed assets during the construction period.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued):

(g) Compensated Absences:

The employees of Tellico Area Services Systems can accumulate one-half (1/2) day per month up to forty-five (45) days of sick leave. The employees earn one (1) week of vacation after one year of service, two (2) weeks after two years service, three (3) weeks after five years services and four (4) weeks after fifteen years service.

The Utility accrues the amounts employees are entitled to receive for future absences, in accordance with Governmental Accounting Standards Board Statement Number 16.

(h) Use of Estimates:

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

(i) Use of Resources:

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

(j) Classification of Revenues and Expenses:

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing goods and services of the fund's principal ongoing operations. Operating expenses include the cost of providing the goods and services, administrative expenses, and depreciation on capital assets. Non-operating revenues and expenses are items such as investment income and interest expense, which are not a result of the direct operations of the activity.

NOTE 3 – CASH AND INVESTMENTS:

In order to provide a safe temporary medium for investment of idle funds, utilities are authorized by TCA 6-56-106 to invest in the following:

- (1) Bonds, notes, or treasury bills of the United States;
- (2) Non-convertible debt securities of certain issuers;
- (3) Other obligations which are guaranteed as to principal and interest by the United States or any of its agencies;
- (4) Certificates of Deposit at state and federal chartered banks and savings and loan associations;

TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 3 – CASH AND INVESTMENTS (Continued):

- (5) Obligations of the United States or its agencies under a repurchase agreement if approved as an authorized investment by the State Director of Local Finance;
- (6) Money market funds whose portfolios consist of any of the foregoing investments if approved as an authorized investment by the State Director of Local Finance; and
- (7) The Local Government Investment Pool under which local monies are transferred to and invested with the State Treasurer's cash portfolio.

Cash and investments include bank balances and investments that at the balance sheet date were either entirely insured or collateralized with securities held by the Tennessee Investment Collateral Pool.

Total cash and investments at a carrying amount of \$3,461,087 and \$2,936,894 at June 30, 2010 and 2009, respectively, are classified as follows:

<u>Type</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Petty cash	\$ 100	\$ 100
Local financial institutions -		
Checking accounts	1,234,729	1,112,395
Local financial institutions:		
Savings	26,258	24,399
Certificates of Deposit.....	<u>2,200,000</u>	<u>1,800,000</u>
 Total	 <u>\$ 3,461,087</u>	 <u>\$ 2,936,894</u>

Custodial Credit Risk – The Utility has no formal policy regarding custodial credit risk. However, as of June 30, 2010 and 2009, total cash in financial institutions in the amount of \$3,485,297 and \$3,091,692, respectively, were either entirely insured or collateralized by the Tennessee Investment Collateral Pool.

NOTE 4 – ACCOUNTS RECEIVABLE:

Accounts receivable are comprised of the following:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Metered water sales:		
Billed revenue	\$ 250,885	\$ 144,084
Unbilled revenue	<u>206,499</u>	<u>257,862</u>
 Total.....	 <u>\$ 457,384</u>	 <u>\$ 401,946</u>

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010 and 2009

NOTE 5 – CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2010 was as follows:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2010</u>
Capital Assets, non-depreciable:				
Land.....	\$ 324,700	\$ -	\$ -	\$ 324,700
Other Capital Assets:				
Water lines and appurtenances	12,288,642	11,355	-	12,299,997
Fire hydrants	122,888	-	-	122,888
Meters.....	920,324	180,680	(64,047)	1,036,957
Water treatment plant	5,195,528	297,985	-	5,493,513
Office building	1,027,922	7,018	-	1,034,940
Water storage tanks	979,354	90,651	-	1,070,005
Grading and surfacing	10,978	-	-	10,978
Office furniture and fixtures.....	142,947	244	(36,283)	106,908
Tools and equipment	235,662	6,329	-	241,991
Transportation equipment	311,477	68,923	(48,795)	331,605
Fencing	29,040	-	-	29,040
Pump station	365,380	17,697	-	383,077
Collection system	5,974	13,415	-	19,389
Sewer lines.....	1,574,122	-	-	1,574,122
Wastewater treatment plant.....	<u>448,442</u>	<u>3,904,236</u>	<u>(1,515)</u>	<u>4,351,163</u>
Total Other Capital Assets at Historical Cost.....	<u>23,658,680</u>	<u>4,598,533</u>	<u>(150,640)</u>	<u>28,106,573</u>
Less Accumulated Depreciation for:				
Water lines and appurtenances	(2,601,991)	(247,469)	-	(2,849,460)
Fire hydrants	(56,475)	(2,458)	-	(58,933)
Meters.....	(241,809)	(31,173)	62,294	(210,688)
Water treatment plant	(2,825,745)	(167,371)	-	(2,993,116)
Office building	(74,849)	(24,573)	-	(99,422)
Water storage tanks	(498,437)	(31,927)	-	(530,364)
Grading and surfacing	(10,978)	-	-	(10,978)
Office furniture and fixtures.....	(115,080)	(12,533)	35,844	(91,769)
Tools and equipment	(201,947)	(10,100)	-	(212,047)
Transportation equipment	(190,592)	(45,874)	48,795	(187,671)
Fencing	(28,557)	(108)	-	(28,665)
Pump station	(21,622)	(21,357)	-	(42,979)
Collection system	(1,132)	(1,497)	-	(2,629)
Sewer lines.....	(120,682)	(31,487)	-	(152,169)
Wastewater treatment plant.....	<u>(115,831)</u>	<u>(86,314)</u>	<u>-</u>	<u>(202,145)</u>
Total Accumulated Depreciation.....	<u>(7,105,727)</u>	<u>(714,241)</u>	<u>146,933</u>	<u>(7,673,035)</u>
Other Capital Assets, net	<u>16,552,953</u>	<u>3,884,292</u>	<u>(3,707)</u>	<u>20,433,538</u>
Construction in Progress.....	<u>3,708,610</u>	<u>3,624,135</u>	<u>(3,897,500)</u>	<u>3,435,245</u>
Total Capital Assets, net.....	<u>\$ 20,586,263</u>	<u>\$ 7,508,427</u>	<u>\$ (3,901,207)</u>	<u>\$ 24,193,483</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 5 – CAPITAL ASSETS (Continued):

Capital assets activity for the year ended June 30, 2009 was as follows:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital Assets, non-depreciable:				
Land.....	\$ 324,700	\$ -	\$ -	\$ 324,700
Other Capital Assets:				
Water lines and appurtenances	11,176,950	1,111,692	-	12,288,642
Fire hydrants.....	122,614	274	-	122,888
Meters	805,310	115,014	-	920,324
Water treatment plant.....	4,930,856	264,782	-	5,195,528
Office building	1,027,922	-	-	1,027,922
Water storage tanks.....	912,445	66,909	-	979,354
Grading and surfacing.....	10,978	-	-	10,978
Office furniture and fixtures	138,927	4,020	-	142,947
Tools and equipment.....	223,208	12,454	-	235,662
Transportation equipment	339,815	35,676	(64,014)	311,477
Fencing	29,040	-	-	29,040
Pump station.....	15,810	349,570	-	365,380
Collection system	5,974	-	-	5,974
Sewer lines	1,574,122	-	-	1,574,122
Wastewater treatment plant	<u>448,442</u>	<u>-</u>	<u>-</u>	<u>448,442</u>
Total Other Capital Assets at Historical Cost	<u>21,762,413</u>	<u>1,960,281</u>	<u>(64,014)</u>	<u>23,658,680</u>
Less Accumulated Depreciation for:				
Water lines and appurtenances	(2,358,748)	(243,243)	-	(2,601,991)
Fire hydrants.....	(54,022)	(2,453)	-	(56,475)
Meters	(216,641)	(25,168)	-	(241,809)
Water treatment plant.....	(2,672,850)	(152,895)	-	(2,825,745)
Office building	(50,652)	(24,197)	-	(74,849)
Water storage tanks.....	(469,364)	(29,073)	-	(498,437)
Grading and surfacing.....	(10,975)	(3)	-	(10,978)
Office furniture and fixtures	(102,076)	(13,004)	-	(115,080)
Tools and equipment.....	(190,003)	(11,944)	-	(201,947)
Transportation equipment	(216,578)	(38,028)	64,014	(190,592)
Fencing	(28,450)	(107)	-	(28,557)
Pump station.....	(3,055)	(18,567)	-	(21,622)
Collection system	(555)	(577)	-	(1,132)
Sewer lines	(89,200)	(31,482)	-	(120,682)
Wastewater treatment plant	<u>(82,130)</u>	<u>(33,701)</u>	<u>-</u>	<u>(115,831)</u>
Total Accumulated Depreciation.....	<u>(6,545,299)</u>	<u>(624,442)</u>	<u>64,014</u>	<u>(7,105,727)</u>
Other Capital Assets, net.....	<u>15,217,114</u>	<u>1,335,839</u>	<u>-</u>	<u>16,552,953</u>
Construction in Progress	<u>1,095,338</u>	<u>3,699,414</u>	<u>(1,086,142)</u>	<u>3,708,610</u>
Total Capital Assets, net	<u>\$ 16,637,152</u>	<u>\$ 5,035,253</u>	<u>\$ (1,086,142)</u>	<u>\$ 20,586,263</u>

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010 and 2009

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES:

A Summary of Long-Term Debt is presented below:

Balance June 30, 2009	\$ 7,934,046
Additions	3,184,221
Retirements – debt paid	<u>(39,809)</u>
Balance June 30, 2010	<u>\$ 11,078,458</u>

Water Revenue and Tax Bonds, Series 2000, in the amount of \$332,000, were issued through Monroe County, Tennessee. The bonds were issued in the Monroe County's name and the county is liable for repayment if the Utility defaults. The bonds are payable over thirty-eight (38) years. The monthly payments of \$1,577 include interest at 4.75%. As of June 30, 2010, the balance of the bonds was \$297,006.

Maturities and interest requirements of the bonds are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Bond</u> <u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 4,892	\$ 14,032	\$ 18,924
2012	5,129	13,795	18,924
2013	5,377	13,547	18,924
2014	5,639	13,285	18,924
2015	<u>5,913</u>	<u>13,011</u>	<u>18,924</u>
Subtotal	<u>26,950</u>	<u>67,670</u>	<u>94,620</u>
2016	6,200	12,724	18,924
2017	6,500	12,424	18,924
2018	6,817	12,107	18,924
2019	7,147	11,777	18,924
2020	<u>7,494</u>	<u>11,430</u>	<u>18,924</u>
Subtotal	<u>34,158</u>	<u>60,462</u>	<u>94,620</u>
2021	7,858	11,066	18,924
2022	8,240	10,684	18,924
2023	8,639	10,285	18,924
2024	9,059	9,865	18,924
2025	<u>9,499</u>	<u>9,425</u>	<u>18,924</u>
Subtotal	<u>43,295</u>	<u>51,325</u>	<u>94,620</u>
2026	9,960	8,964	18,924
2027	10,443	8,481	18,924
2028	10,951	7,973	18,924
2029	11,482	7,442	18,924
2030	<u>12,039</u>	<u>6,885</u>	<u>18,924</u>
Subtotal	<u>54,875</u>	<u>39,745</u>	<u>94,620</u>
2031	12,624	6,300	18,924
2032	13,237	5,687	18,924
2033	13,879	5,045	18,924
2034	14,553	4,371	18,924
2035	<u>15,260</u>	<u>3,664</u>	<u>18,924</u>
Subtotal	<u>69,553</u>	<u>25,067</u>	<u>94,620</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES (Continued):

Maturities and interest requirements of the bonds are as follows (Continued):

Year Ending <u>June 30,</u>	<u>Bond Principal</u>	<u>Interest</u>	<u>Total</u>
2036	16,001	2,923	18,924
2037	16,777	2,147	18,924
2038	17,592	1,332	18,924
2039	<u>17,805</u>	<u>1,118</u>	<u>18,923</u>
Subtotal	<u>68,175</u>	<u>7,520</u>	<u>75,695</u>
Total	<u>\$ 297,006</u>	<u>\$ 251,789</u>	<u>\$ 548,795</u>

Local Government Public Improvement Bonds, Adjustable Rate Series IV-E-6, in the amount of \$1,200,000 were issued through Loudon County, Tennessee, and Monroe County, Tennessee. The bonds were issued in the above mentioned counties names and the counties are liable for repayment of the bonds if the Utility defaults. The bonds are payable over twenty-five (25) years at a variable interest rate. Amortization requires principal reductions between \$15,000 to \$90,000 annually. The balance of the bonds as of June 30, 2010 was \$972,500.

Maturities and interest requirements of the bond are as follows:

Year Ending <u>June 30,</u>	<u>Bond Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 40,000	\$ 57,000	\$ 97,000
2012	45,000	54,600	99,600
2013	45,000	51,900	96,900
2014	50,000	49,200	99,200
2015	<u>50,000</u>	<u>46,200</u>	<u>96,200</u>
Subtotal	<u>230,000</u>	<u>258,900</u>	<u>488,900</u>
2016	55,000	43,200	98,200
2017	60,000	39,900	99,900
2018	60,000	36,300	96,300
2019	65,000	32,700	97,700
2020	<u>70,000</u>	<u>28,800</u>	<u>98,800</u>
Subtotal	<u>310,000</u>	<u>180,900</u>	<u>490,900</u>
2021	75,000	24,600	99,600
2022	80,000	20,100	100,100
2023	80,000	15,300	95,300
2024	85,000	10,500	95,500
2025	<u>112,500</u>	<u>5,400</u>	<u>117,900</u>
Subtotal	<u>432,500</u>	<u>75,900</u>	<u>508,400</u>
	<u>\$ 972,500</u>	<u>\$ 515,700</u>	<u>\$ 1,488,200</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES
(Continued):

Water Revenue Bonds, Series 1994, in the amount of \$809,000, were issued through Loudon County. The bonds were issued in Loudon County's name and it is liable for repayment if the Utility defaults. The bonds are payable over thirty-eight (38) years. The semi-annual payments of \$24,683 include interest at 5.25%. As of June 30, 2010, the balance of the bonds was \$667,792.

Maturities and interest requirements of the bonds are as follows:

Year Ending June 30,	Bond Principal	Interest	Total
2011	\$ 15,583	\$ 33,783	\$ 49,366
2012	16,413	32,953	49,366
2013	17,285	32,081	49,366
2014	18,204	31,162	49,366
2015	<u>19,173</u>	<u>30,193</u>	<u>49,366</u>
Subtotal	<u>86,658</u>	<u>160,172</u>	<u>246,830</u>
2016	20,193	29,173	49,366
2017	21,267	28,099	49,366
2018	22,398	26,968	49,366
2019	23,589	25,777	49,366
2020	<u>24,844</u>	<u>24,522</u>	<u>49,366</u>
Subtotal	<u>112,291</u>	<u>134,539</u>	<u>246,830</u>
2021	26,166	23,200	49,366
2022	27,557	21,809	49,366
2023	29,023	20,343	49,366
2024	30,567	18,799	49,366
2025	<u>32,193</u>	<u>17,173</u>	<u>49,366</u>
Subtotal	<u>145,506</u>	<u>101,324</u>	<u>246,830</u>
2026	33,905	15,461	49,366
2027	35,708	13,658	49,366
2028	37,607	11,759	49,366
2029	39,608	9,758	49,366
2030	<u>41,715</u>	<u>7,651</u>	<u>49,366</u>
Subtotal	<u>188,543</u>	<u>58,287</u>	<u>246,830</u>
2031	43,933	5,433	49,366
2032	46,270	3,096	49,366
2033	<u>44,591</u>	<u>4,109</u>	<u>48,700</u>
Subtotal	<u>134,794</u>	<u>12,638</u>	<u>147,432</u>
	<u>\$ 667,792</u>	<u>\$ 466,960</u>	<u>\$ 1,134,752</u>

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010 and 2009

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES
(Continued):

Water Revenue Bonds, Series 1995 in the amount of \$616,000 were issued through Monroe County, Tennessee, as part of the Utility's relocation of a line along Highway 411. The bonds were issued in Monroe County's name and it is liable for repayment if the Utility defaults on payments. The bonds are payable over thirty-eight (38) years. The monthly payments of \$3,074 include interest at 5.125%. As of June 30, 2010 the balance of the bonds was \$509,517.

Maturities and interest requirements of the bonds are as follows:

Year Ending June 30,	Bond Principal	Interest	Total
2011	\$ 11,032	\$ 25,856	\$ 36,888
2012	11,611	25,277	36,888
2013	12,220	24,668	36,888
2014	12,860	24,028	36,888
2015	<u>13,536</u>	<u>23,352</u>	<u>36,888</u>
Subtotal	<u>61,259</u>	<u>123,181</u>	<u>184,440</u>
2016	14,246	22,642	36,888
2017	14,993	21,895	36,888
2018	15,781	21,107	36,888
2019	16,609	20,279	36,888
2020	<u>17,480</u>	<u>19,408</u>	<u>36,888</u>
Subtotal	<u>79,109</u>	<u>105,331</u>	<u>184,440</u>
2021	18,397	18,491	36,888
2022	19,363	17,525	36,888
2023	20,379	16,509	36,888
2024	21,448	15,440	36,888
2025	<u>22,573</u>	<u>14,315</u>	<u>36,888</u>
Subtotal	<u>102,160</u>	<u>82,280</u>	<u>184,440</u>
2026	23,758	13,130	36,888
2027	25,004	11,884	36,888
2028	26,316	10,572	36,888
2029	27,697	9,191	36,888
2030	<u>29,150</u>	<u>7,738</u>	<u>36,888</u>
Subtotal	<u>131,925</u>	<u>52,515</u>	<u>184,440</u>
2031	30,680	6,208	36,888
2032	32,290	4,598	36,888
2033	33,984	2,904	36,888
2034	35,767	1,121	36,888
2035	<u>2,343</u>	<u>15</u>	<u>2,358</u>
Subtotal	<u>135,064</u>	<u>14,846</u>	<u>149,910</u>
	<u>\$ 509,517</u>	<u>\$ 378,153</u>	<u>\$ 887,670</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES
(Continued):

Water Revenue Bonds, Series 2005, in the amount of \$360,000 were issued through Monroe County. The bonds were issued in Monroe County's name and it is liable for repayments if the Utility defaults. The bonds are payable over thirty-eight (38) years. The monthly payments of \$1,566 include interest at 4.125%. As of June 30, 2010 the balance of the bonds was \$338,955.

Maturities and interest requirements of the bonds are as follows:

Year Ending <u>June 30,</u>	<u>Bond Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 4,902	\$ 13,890	\$ 18,792
2012	5,108	13,684	18,792
2013	5,323	13,469	18,792
2014	5,547	13,245	18,792
2015	<u>5,780</u>	<u>13,012</u>	<u>18,792</u>
Subtotal	<u>26,660</u>	<u>67,300</u>	<u>93,960</u>
2016	6,023	12,769	18,792
2017	6,276	12,516	18,792
2018	6,540	12,252	18,792
2019	6,815	11,977	18,792
2920	<u>7,101</u>	<u>11,691</u>	<u>18,792</u>
Subtotal	<u>32,755</u>	<u>61,205</u>	<u>93,960</u>
2021	7,400	11,392	18,792
2022	7,711	11,081	18,792
2023	8,035	10,757	18,792
2024	8,373	10,419	18,792
2025	<u>8,725</u>	<u>10,067</u>	<u>18,792</u>
Subtotal	<u>40,244</u>	<u>53,716</u>	<u>93,960</u>
2026	9,092	9,700	18,792
2027	9,474	9,318	18,792
2028	9,872	8,920	18,792
2029	10,287	8,505	18,792
2030	<u>10,720</u>	<u>8,072</u>	<u>18,792</u>
Subtotal	<u>49,445</u>	<u>44,515</u>	<u>93,960</u>
2031	11,170	7,622	18,792
2032	11,640	7,152	18,792
2033	12,129	6,663	18,792
2034	12,639	6,153	18,792
2035	<u>13,170</u>	<u>5,622</u>	<u>18,792</u>
Subtotal	<u>60,748</u>	<u>33,212</u>	<u>93,960</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010 and 2009

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES
(Continued):

Maturities and interest requirements of the bonds are as follows (continued):

Year Ending <u>June 30,</u>	Bond <u>Principal</u>	<u>Interest</u>	<u>Total</u>
2036	13,724	5,068	18,792
2037	14,301	4,491	18,792
2038	14,902	3,890	18,792
2039	15,529	3,263	18,792
2040	<u>16,181</u>	<u>2,611</u>	<u>18,792</u>
Subtotal	<u>74,637</u>	<u>19,323</u>	<u>93,960</u>
2041	16,862	1,930	18,792
2042	17,571	1,221	18,792
2043	18,309	483	18,792
2044	<u>1,724</u>	<u>7</u>	<u>1,731</u>
Subtotal	<u>54,466</u>	<u>3,641</u>	<u>58,107</u>
Total	<u>\$ 338,955</u>	<u>\$ 282,912</u>	<u>\$ 621,867</u>

Water Revenue Bonds, Series 2005, in the amount of \$370,000 were issued through Loudon County. The bonds were issued in Loudon County's name and it is liable for repayments if the Utility defaults. The bonds are payable over thirty-eight (38) years. The monthly payments of \$1,610 include interest at 4.125%. As of June 30, 2010 the balance of the bonds was \$348,403.

Maturities and interest requirements of the bonds are as follows:

Year Ending <u>June 30,</u>	Bond <u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 5,046	\$ 14,274	\$ 19,320
2012	5,258	14,062	19,320
2013	5,479	13,841	19,320
2014	5,709	13,611	19,320
2015	<u>5,949</u>	<u>13,371</u>	<u>19,320</u>
Subtotal	<u>27,441</u>	<u>69,159</u>	<u>96,600</u>
2016	6,199	13,121	19,320
2017	6,460	12,860	19,320
2018	6,731	12,589	19,320
2019	7,015	12,305	19,320
2020	<u>7,309</u>	<u>12,011</u>	<u>19,320</u>
Subtotal	<u>33,714</u>	<u>62,886</u>	<u>96,600</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010 and 2009

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES
(Continued):

Year Ending June 30,	Bond Principal	Interest	Total
2021	7,617	11,703	19,320
2022	7,937	11,383	19,320
2023	8,271	11,049	19,320
2024	8,618	10,702	19,320
2025	<u>8,980</u>	<u>10,340</u>	<u>19,320</u>
Subtotal	<u>41,423</u>	<u>55,177</u>	<u>96,600</u>
2026	9,358	9,962	19,320
2027	9,751	9,569	19,320
2028	10,161	9,159	19,320
2029	10,589	8,731	19,320
2030	<u>11,034</u>	<u>8,286</u>	<u>19,320</u>
Subtotal	<u>50,893</u>	<u>45,707</u>	<u>96,600</u>
2031	11,498	7,822	19,320
2032	11,981	7,339	19,320
2033	12,485	6,835	19,320
2034	13,009	6,311	19,320
2035	<u>13,556</u>	<u>5,764</u>	<u>19,320</u>
Subtotal	<u>62,529</u>	<u>34,071</u>	<u>96,600</u>
2036	14,126	5,194	19,320
2037	14,720	4,600	19,320
2038	15,339	3,981	19,320
2039	15,984	3,336	19,320
2040	<u>16,656</u>	<u>2,664</u>	<u>19,320</u>
Subtotal	<u>76,825</u>	<u>19,775</u>	<u>96,600</u>
2041	17,356	1,964	19,320
2042	18,085	1,235	19,320
2043	18,846	474	19,320
2044	<u>1,291</u>	<u>3</u>	<u>1,294</u>
Subtotal	<u>55,578</u>	<u>3,676</u>	<u>59,254</u>
Total	<u>\$ 348,403</u>	<u>\$ 290,451</u>	<u>\$ 638,854</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010 and 2009

NOTE 6 – BONDS PAYABLE AND NOTES TO MONROE AND LOUDON COUNTIES
(Continued):

Total interest incurred on the Utility's debt for the years ended June 30, 2010, and June 30, 2009, was \$220,010 and \$198,800, respectively.

NOTE 7 – NOTES PAYABLE:

East Coast Tellico Parkway Sewer Line:

An agreement was entered into on August 28, 2003 between the Tellico Reservoir Development Agency (TRDA), Monroe County, Loudon County, and Tellico Area Services Systems.

TRDA agreed to be responsible for the costs of construction of a new sewer line and associated pump stations generally extending from U. S. Highway 411 near the 411 Bridge in Monroe County to the Rarity Pointe Development on Highway 321 in Loudon County, near Fort Loudoun Dam. The amount actually expended for said project was \$1,574,122. This note is payable to TRDA without interest as follows:

Tellico Area Services Systems will pay TRDA on a quarterly basis \$1,500 of each tap fee for each qualified tap made during said quarter until the full cost of construction is paid. The balance of this note as of June 30, 2010 is \$1,251,622.

State Revolving Fund Loan Program:

During the year ended June 30, 2009, Tellico Area Services System entered into a loan agreement through the State of Tennessee Revolving Fund Loan Program. The total amount of the loan agreement is \$9,416,068 to be used for the construction of a new wastewater treatment plant. Draws will be made on the loan as funds are needed. Tellico Area Services System is currently making interest only payments on the outstanding balance. The balance on the loan as of June 30, 2010 is \$6,692,663.

Total Long Term debt is as follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Long-term debt.....	\$ 11,078,458	\$ 7,934,046
Interest	<u>2,185,965</u>	<u>2,349,165</u>
Total Debt and Interest	<u>\$ 13,264,423</u>	<u>\$ 10,283,211</u>

NOTE 8 – EMPLOYEES' RETIREMENT SYSTEM:

(A) PLAN DESCRIPTION:

Employees of Tellico Area Services Systems are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 (five) years of service or at any age with 30 years of service. A reduced retirement benefits is available to vested members

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2006

NOTE 8 – EMPLOYEES' RETIREMENT SYSTEM (Continued):

(A) PLAN DESCRIPTION (Continued)

at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after 5 (five) years of service and members joining prior to July 1, 1979 were vested after 4 (four) 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 Tellico Area Services Systems participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

(B) FUNDING POLICY:

Tellico Area Services Systems requires employees to contribute 5.0 percent of earnable compensation.

Tellico Area Services Systems is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2009 was 6.19% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirements for Tellico Area Services Systems are established and may be amended by the TCRS Board of Trustees.

(C) ANNUAL PENSION COST:

For the year ended June 30, 2010, Tellico Area Services Systems' annual pension cost of \$55,626 to TCRS was equal to Tellico Area Services Systems' required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 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 increase 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. Tellico Area Services Systems' 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 12 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010 and 2009

NOTE 8 – EMPLOYEES' RETIREMENT SYSTEM (Continued):

(C) ANNUAL PENSION COST (Continued):

Trend Information			
Fiscal Year <u>Ending</u>	Annual Pension <u>Cost(APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
6/30/10	\$ 55,626	\$ 100.00%	\$ 0.00
6/30/09	\$ 52,362	\$ 100.00%	\$ 0.00
6/30/08	\$ 51,554	\$ 100.00%	\$ 0.00

(D) FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2009, the most recent actuarial valuation date, the plan was 84.98% funded. The actuarial accrued liability for benefits was \$1.03 million, and the actuarial value of assets was \$0.88 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.15 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.86 million, and the ratio of the UAAL to the covered payroll was 18.06%.

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

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

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/01/09	\$ 876	\$ 1,031	\$ 155	84.98%	\$ 857	18.06%
7/01/07	\$ 732	\$ 880	\$ 148	83.18%	\$ 672	22.02%

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010 and 2009

NOTE 9 – RISK FINANCING ACTIVITIES:

It is the policy of the Utility to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker's compensation, and employee health and accident. Settled claims have not exceeded this commercial coverage in any of the past three (3) fiscal years.

NOTE 10 – COMMITTED CONSTRUCTION:

As of June 30, 2010, the Utility had the following commitment with respect to unfinished construction in progress:

<u>Project Name</u>	<u>Total Contract or Estimated Amount</u>	<u>Costs Incurred through June 30, 2010</u>	<u>Estimated Cost to Complete</u>
Emily's Landing	\$ 1,694,999	\$ 48,618	\$ 1,646,381
Sequoyah Lodge	340,600	271,368	69,232
Oakwood Hills	50,000	42,172	7,828
Wastewater Plant	<u>5,518,568</u>	<u>3,073,097</u>	<u>2,445,481</u>
	<u>\$ 7,604,167</u>	<u>\$ 3,435,245</u>	<u>\$ 4,168,922</u>

As of June 30, 2009, the Utility had the following commitment with respect to unfinished construction in progress:

<u>Project Name</u>	<u>Total Contract or Estimated Amount</u>	<u>Costs Incurred through June 30, 2009</u>	<u>Estimated Cost to Complete</u>
Emily's Landing	\$ 1,694,999	\$ 48,617	\$ 1,646,382
Sequoyah Lodge	340,600	256,430	84,170
Oakwood Hills	50,000	42,172	7,828
Wastewater Plant	<u>9,416,068</u>	<u>3,361,391</u>	<u>6,054,677</u>
	<u>\$ 11,501,667</u>	<u>\$ 3,708,610</u>	<u>\$ 7,793,057</u>

NOTE 11 – SUBSEQUENT EVENT:

The date to which events occurring after June 30, 2010, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is November 12, 2010, which is the date on which the financial statements were issued.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

REQUIRED SUPPLEMENTAL INFORMATION SECTION

June 30, 2010 and 2009

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 REQUIRED SUPPLEMENTARY INFORMATION
 June 30, 2010 and 2009

Required Supplementary Information:

Schedule Funding Progress for Tellico Area Services Systems

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/01/09	\$ 876	\$ 1,031	\$ 155	84.98%	\$ 857	18.06%
7/01/07	\$ 732	\$ 880	\$ 148	83.18%	\$ 672	22.02%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method change was made during the year of the 2007 actuarial valuation date, therefore, only the two most recent valuations are presented.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

SUPPLEMENTAL INFORMATION SECTION

June 30, 2010 and 2009

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION
June 30, 2010

	ASSETS			ACCUMULATED DEPRECIATION				
	Balance 7-1-09	Additions	Retirements	Balance 6-30-10	Balance 7-1-09	Additions	Retirements	Balance 6-30-10
<u>Water Plant in Service</u>								
Capital Assets, non-depreciable:								
Land.....	\$ 324,700	\$ -	\$ -	\$ 324,700	\$ -	\$ -	\$ -	\$ -
Capital Assets, depreciable:								
Water lines and appurtenances	12,288,642	11,355	-	12,299,997	2,601,991	247,469	-	2,849,460
Fire hydrants	122,888	-	-	122,888	56,475	2,458	-	58,933
Meters.....	920,324	180,680	(64,047)	1,036,957	241,809	31,173	(62,294)	210,688
Water treatment plant, water supply intake, and waste-water facility	5,195,528	297,985	-	5,493,513	2,825,745	167,371	-	2,993,116
Office building	1,027,922	7,018	-	1,034,940	74,849	24,573	-	99,422
Water storage tanks – 3.....	979,354	90,651	-	1,070,005	498,437	31,927	-	530,364
Grading and surfacing road - Tank #3.....	10,978	-	-	10,978	10,978	-	-	10,978
Office furniture and fixtures....	142,947	244	(36,283)	126,908	115,080	12,533	(35,844)	91,769
Tools and equipment	235,662	6,329	-	241,991	201,947	10,100	-	212,047
Transportation equipment	311,477	68,923	(48,795)	331,605	190,592	45,874	(48,795)	187,671
Fencing	29,040	-	-	29,040	28,557	108	-	28,665
Pump station	365,380	17,697	-	383,077	21,622	21,357	-	42,979
Collection system	5,974	13,415	-	19,389	1,132	1,497	-	2,629
Wastewater treatment plant.....	448,442	3,904,236	(1,515)	4,351,163	115,831	86,314	-	202,145
Sewer lines.....	<u>1,574,122</u>	<u>-</u>	<u>-</u>	<u>1,574,122</u>	<u>120,682</u>	<u>31,487</u>	<u>-</u>	<u>152,169</u>
Total Capital Assets, depreciable.....	<u>23,658,680</u>	<u>4,598,533</u>	<u>(150,640)</u>	<u>28,106,573</u>	<u>7,105,727</u>	<u>714,241</u>	<u>(146,933)</u>	<u>7,673,035</u>
Total Capital Assets	<u>\$ 23,983,380</u>	<u>\$ 4,598,533</u>	<u>\$ (150,640)</u>	<u>\$ 28,431,273</u>	<u>\$ 7,105,727</u>	<u>\$ 714,241</u>	<u>\$ (146,933)</u>	<u>\$ 7,673,035</u>

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
SCHEDULE OF BONDS PAYABLE
 June 30, 2010

Year Ended June 30,	COUNTY OF LOUDON WATER REVENUE BONDS, SERIES 1994			COUNTY OF MONROE WATER REVENUE BONDS, SERIES 1995		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 15,583	\$ 33,783	\$ 49,366	\$ 11,032	\$ 25,856	\$ 36,888
2012	16,413	\$ 32,953	49,366	11,611	25,277	36,888
2013	17,285	32,081	49,366	12,220	24,668	36,888
2014	18,204	31,162	49,366	12,860	24,028	36,888
2015	19,173	30,193	49,366	13,536	23,352	36,888
Subtotal	<u>86,658</u>	<u>160,172</u>	<u>246,830</u>	<u>61,259</u>	<u>123,181</u>	<u>184,440</u>
2016	20,193	29,173	49,366	14,246	22,642	36,888
2017	21,267	28,099	49,366	14,993	21,895	36,888
2018	22,398	26,968	49,366	15,781	21,107	36,888
2019	23,589	25,777	49,366	16,609	20,279	36,888
2020	24,844	24,522	49,366	17,480	19,408	36,888
Subtotal	<u>112,291</u>	<u>134,539</u>	<u>246,830</u>	<u>79,109</u>	<u>105,331</u>	<u>184,440</u>
2021	26,166	23,200	49,366	18,397	18,491	36,888
2022	27,557	21,809	49,366	19,363	17,525	36,888
2023	29,023	20,343	49,366	20,379	16,509	36,888
2024	30,567	18,799	49,366	21,448	15,440	36,888
2025	32,193	17,173	49,366	22,573	14,315	36,888
Subtotal	<u>145,506</u>	<u>101,324</u>	<u>246,830</u>	<u>102,160</u>	<u>82,280</u>	<u>184,440</u>
2026	33,905	15,461	49,366	23,758	13,130	36,888
2027	35,708	13,658	49,366	25,004	11,884	36,888
2028	37,607	11,759	49,366	26,316	10,572	36,888
2029	39,608	9,758	49,366	27,697	9,191	36,888
2030	41,715	7,651	49,366	29,150	7,738	36,888
Subtotal	<u>188,543</u>	<u>58,287</u>	<u>246,830</u>	<u>131,925</u>	<u>52,515</u>	<u>184,440</u>
2031	43,933	5,433	49,366	30,680	6,208	36,888
2032	46,270	3,096	49,366	32,290	4,598	36,888
2033	44,591	4,109	48,700	33,984	2,904	36,888
2034	-	-	-	35,767	1,121	36,888
2035	-	-	-	2,343	15	2,358
Subtotal	<u>134,794</u>	<u>12,638</u>	<u>147,432</u>	<u>135,064</u>	<u>14,846</u>	<u>149,910</u>
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2041	-	-	-	-	-	-
2042	-	-	-	-	-	-
2043	-	-	-	-	-	-
2044	-	-	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 667,792</u>	<u>\$ 466,960</u>	<u>\$ 1,134,752</u>	<u>\$ 509,517</u>	<u>\$ 378,153</u>	<u>\$ 887,670</u>

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 SCHEDULE OF BONDS PAYABLE (Continued)
 June 30, 2010

Year Ended June 30,	COUNTY OF MONROE LOCAL GOVERNMENT PUBLIC IMPROVEMENT BONDS, ADJUSTABLE RATE SERIES IV-E-6			COUNTY OF LOUDON LOCAL GOVERNMENT PUBLIC IMPROVEMENT BONDS, ADJUSTABLE RATE SERIES IV-E-6		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 20,000	\$ 28,500	\$ 48,500	\$ 20,000	\$ 28,500	\$ 48,500
2012	22,500	27,300	49,800	22,500	27,300	49,800
2013	22,500	25,950	48,450	22,500	25,950	48,450
2014	25,000	24,600	49,600	25,000	24,600	49,600
2015	25,000	23,100	48,100	25,000	23,100	48,100
Subtotal	<u>115,000</u>	<u>129,450</u>	<u>244,450</u>	<u>115,000</u>	<u>129,450</u>	<u>244,450</u>
2016	27,500	21,600	49,100	27,500	21,600	49,100
2017	30,000	19,950	49,950	30,000	19,950	49,950
2018	30,000	18,150	48,150	30,000	18,150	48,150
2019	32,500	16,350	48,850	32,500	16,350	48,850
2020	35,000	14,400	49,400	35,000	14,400	49,400
Subtotal	<u>155,000</u>	<u>90,450</u>	<u>245,450</u>	<u>155,000</u>	<u>90,450</u>	<u>245,450</u>
2021	37,500	12,300	49,800	37,500	12,300	49,800
2022	40,000	10,050	50,050	40,000	10,050	50,050
2023	40,000	7,650	47,650	40,000	7,650	47,650
2024	42,500	5,250	47,750	42,500	5,250	47,750
2025	47,500	2,700	50,200	65,000	2,700	67,700
Subtotal	<u>207,500</u>	<u>37,950</u>	<u>245,450</u>	<u>225,000</u>	<u>37,950</u>	<u>262,950</u>
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
2034	-	-	-	-	-	-
2035	-	-	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2041	-	-	-	-	-	-
2042	-	-	-	-	-	-
2043	-	-	-	-	-	-
2044	-	-	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u>477,500</u>	\$ <u>257,850</u>	\$ <u>735,350</u>	\$ <u>495,000</u>	\$ <u>257,850</u>	\$ <u>752,850</u>

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF BONDS PAYABLE (Continued)
June 30, 2010

Year Ended June 30,	COUNTY OF MONROE WATER REVENUE AND TAX BONDS, SERIES 2000			COUNTY OF MONROE WATER REVENUE AND TAX BONDS, SERIES 2005		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 4,892	\$ 14,032	\$ 18,924	\$ 4,902	\$ 13,890	\$ 18,792
2012	5,129	13,795	18,924	5,108	13,684	18,792
2013	5,377	13,547	18,924	5,323	13,469	18,792
2014	5,639	13,285	18,924	5,547	13,245	18,792
2015	<u>5,913</u>	<u>13,011</u>	<u>18,924</u>	<u>5,780</u>	<u>13,012</u>	<u>18,792</u>
Subtotal	<u>26,950</u>	<u>67,670</u>	<u>94,620</u>	<u>26,660</u>	<u>67,300</u>	<u>93,960</u>
2016	6,200	12,724	18,924	6,023	12,769	18,792
2017	6,500	12,424	18,924	6,276	12,516	18,792
2018	6,817	12,107	18,924	6,540	12,252	18,792
2019	7,147	11,777	18,924	6,815	11,977	18,792
2020	<u>7,494</u>	<u>11,430</u>	<u>18,924</u>	<u>7,101</u>	<u>11,691</u>	<u>18,792</u>
Subtotal	<u>34,158</u>	<u>60,462</u>	<u>94,620</u>	<u>32,755</u>	<u>61,205</u>	<u>93,960</u>
2021	7,858	11,066	18,924	7,400	11,392	18,792
2022	8,240	10,684	18,924	7,711	11,081	18,792
2023	8,639	10,285	18,924	8,035	10,757	18,792
2024	9,059	9,865	18,924	8,373	10,419	18,792
2025	<u>9,499</u>	<u>9,425</u>	<u>18,924</u>	<u>8,725</u>	<u>10,067</u>	<u>18,792</u>
Subtotal	<u>43,295</u>	<u>51,325</u>	<u>94,620</u>	<u>40,244</u>	<u>53,716</u>	<u>93,960</u>
2026	9,960	8,964	18,924	9,092	9,700	18,792
2027	10,443	8,481	18,924	9,474	9,318	18,792
2028	10,951	7,973	18,924	9,872	8,920	18,792
2029	11,482	7,442	18,924	10,287	8,505	18,792
2030	<u>12,039</u>	<u>6,885</u>	<u>18,924</u>	<u>10,720</u>	<u>8,072</u>	<u>18,792</u>
Subtotal	<u>54,875</u>	<u>39,745</u>	<u>94,620</u>	<u>49,445</u>	<u>44,515</u>	<u>93,960</u>
2031	12,624	6,300	18,924	11,170	7,622	18,792
2032	13,237	5,687	18,924	11,640	7,152	18,792
2033	13,879	5,045	18,924	12,129	6,663	18,792
2034	14,553	4,371	18,924	12,639	6,153	18,792
2035	<u>15,260</u>	<u>3,664</u>	<u>18,924</u>	<u>13,170</u>	<u>5,622</u>	<u>18,792</u>
Subtotal	<u>69,553</u>	<u>25,067</u>	<u>94,620</u>	<u>60,748</u>	<u>33,212</u>	<u>93,960</u>
2036	16,001	2,923	18,924	13,724	5,068	18,792
2037	16,777	2,147	18,924	14,301	4,491	18,792
2038	17,592	1,332	18,924	14,902	3,890	18,792
2039	17,805	1,118	18,923	15,529	3,263	18,792
2040	-	-	-	<u>16,181</u>	<u>2,611</u>	<u>18,792</u>
Subtotal	<u>68,175</u>	<u>7,520</u>	<u>75,695</u>	<u>74,637</u>	<u>19,323</u>	<u>93,960</u>
2041	-	-	-	16,862	1,930	18,792
2042	-	-	-	17,571	1,221	18,792
2043	-	-	-	18,309	483	18,792
2044	-	-	-	<u>1,724</u>	<u>7</u>	<u>1,731</u>
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,466</u>	<u>3,641</u>	<u>58,107</u>
Total	<u>\$ 297,006</u>	<u>\$ 251,789</u>	<u>\$ 548,795</u>	<u>\$ 338,955</u>	<u>\$ 282,912</u>	<u>\$ 621,867</u>

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 SCHEDULE OF BONDS PAYABLE (Continued)
 June 30, 2010

COUNTY OF LOUDON WATER
 REVENUE AND TAX BONDS,
 SERIES 2005

TOTALS

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total</u>
2011	\$ 5,046	\$ 14,274	\$ 19,320	\$ 81,455	\$ 158,835	\$ 240,290
2012	5,258	14,062	19,320	88,519	154,371	242,890
2013	5,479	13,841	19,320	90,684	149,506	240,190
2014	5,709	13,611	19,320	97,960	144,530	242,490
2015	<u>5,949</u>	<u>13,371</u>	<u>19,320</u>	<u>100,351</u>	<u>139,139</u>	<u>239,490</u>
Subtotal	<u>27,441</u>	<u>69,159</u>	<u>96,600</u>	<u>458,969</u>	<u>746,381</u>	<u>1,205,350</u>
2016	6,199	13,121	19,320	107,861	133,629	241,490
2017	6,460	12,860	19,320	115,495	127,695	243,190
2018	6,731	12,589	19,320	118,267	121,323	239,590
2019	7,015	12,305	19,320	126,175	114,815	240,990
2020	<u>7,309</u>	<u>12,011</u>	<u>19,320</u>	<u>134,228</u>	<u>107,862</u>	<u>242,090</u>
Subtotal	<u>33,714</u>	<u>62,886</u>	<u>96,600</u>	<u>602,026</u>	<u>605,324</u>	<u>1,207,350</u>
2021	7,617	11,703	19,320	142,438	100,452	242,890
2022	7,937	11,383	19,320	150,808	92,582	243,390
2023	8,271	11,049	19,320	154,347	84,243	238,590
2024	8,618	10,702	19,320	163,065	75,725	238,790
2025	<u>8,980</u>	<u>10,340</u>	<u>19,320</u>	<u>194,470</u>	<u>66,720</u>	<u>261,190</u>
Subtotal	<u>41,423</u>	<u>55,177</u>	<u>96,600</u>	<u>805,128</u>	<u>419,722</u>	<u>1,224,850</u>
2026	9,358	9,962	19,320	86,073	57,217	143,290
2027	9,751	9,569	19,320	90,380	52,910	143,290
2028	10,161	9,159	19,320	94,907	48,383	143,290
2029	10,589	8,731	19,320	99,663	43,627	143,290
2030	<u>11,034</u>	<u>8,286</u>	<u>19,320</u>	<u>104,658</u>	<u>38,632</u>	<u>143,290</u>
Subtotal	<u>50,893</u>	<u>45,707</u>	<u>96,600</u>	<u>475,681</u>	<u>240,769</u>	<u>716,450</u>
2031	11,498	7,822	19,320	109,905	33,385	143,290
2032	11,981	7,339	19,320	115,418	27,872	143,290
2033	12,485	6,835	19,320	117,068	25,556	142,624
2034	13,009	6,311	19,320	75,968	17,956	93,924
2035	<u>13,556</u>	<u>5,764</u>	<u>19,320</u>	<u>44,329</u>	<u>15,065</u>	<u>59,394</u>
Subtotal	<u>62,529</u>	<u>34,071</u>	<u>96,600</u>	<u>462,688</u>	<u>119,834</u>	<u>582,522</u>
2036	14,126	5,194	19,320	43,851	13,185	57,036
2037	14,720	4,600	19,320	45,798	11,238	57,036
2038	15,339	3,981	19,320	47,833	9,203	57,036
2039	15,984	3,336	19,320	49,319	7,717	57,036
2040	<u>16,656</u>	<u>2,664</u>	<u>19,320</u>	<u>32,837</u>	<u>5,275</u>	<u>38,112</u>
Subtotal	<u>76,825</u>	<u>19,775</u>	<u>96,600</u>	<u>219,638</u>	<u>46,618</u>	<u>266,256</u>
2041	17,356	1,964	19,320	34,218	3,894	38,112
2042	18,085	1,235	19,320	35,656	2,456	38,112
2043	18,846	474	19,320	37,155	957	38,112
2044	<u>1,291</u>	<u>3</u>	<u>1,294</u>	<u>3,015</u>	<u>10</u>	<u>3,025</u>
Subtotal	<u>55,578</u>	<u>3,676</u>	<u>59,254</u>	<u>110,044</u>	<u>7,317</u>	<u>117,361</u>
Total	<u>\$ 348,403</u>	<u>\$ 290,451</u>	<u>\$ 638,854</u>	3,134,173	2,185,965	5,320,138
			TRDA Note	1,251,622	-	1,251,622
			SRF Note	<u>6,692,663</u>	-	<u>6,692,663</u>
				<u>\$11,078,458</u>	<u>\$ 2,185,965</u>	<u>\$ 13,264,423</u>

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 SCHEDULE OF INSURANCE IN FORCE AND BONDS ON PRINCIPAL OFFICIALS
 June 30, 2010

<u>Type</u>	<u>Company</u>	<u>Policy No.</u>	<u>Period</u>		<u>Coverage</u>
			<u>From</u>	<u>To</u>	
Workmen's Compensation	Tennessee Risk Management Trust	TNRMT	07-01-09	07-01-10	Statutory - \$1,000,000
Blanket Bond	CNA Surety	060169147448	07-01-09	07-01-10	Employee Dishonesty (Blanket Position): Coverage - \$150,000
Comprehensive General Liability Insurance	Tennessee Risk Management Trust	TNRMT	07-01-09	07-01-10	Comprehensive General Liability Insurance Bodily Injury and Property Damage Combined: Coverage: General total limit \$2,000,000 Products limit \$2,000,000 Personal injury \$1,000,000 Each occurrence \$1,000,000 Fire damage \$ 100,000 Medical expense \$ 5,000 Property \$5,000,000
Property	Tennessee Risk Management Trust	TNRMT	07-01-09	07-01-10	\$1,000,000 per Occurrence; \$100,000 per Building
Business Auto Policy	Tennessee Risk Management Trust	TNRMT	07-01-09	07-01-10	Liability - \$1,000,000 Maximum - Each Occurrence; Uninsured Motorists - \$1,000,000 Each Accident

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF WATER AND SEWER RATES IN FORCE,
AND NUMBER OF CUSTOMERS
June 30, 2010

Retail Water Rates as of June 30, 2010:

2,000 gallons (Minimum) – \$13.25 (3/4 inch meter)
Next 2,000 gallons – \$3.39
All over 4,000 gallons – \$3.16

Wholesale Water Rates as of June 30, 2010:

First 500,000 gallons – \$2.16/thousand
Next 1,000,000 gallons – \$2.09/thousand
Next 1,500,000 gallons – \$1.91/thousand
Next 2,000,000 gallons – \$1.74/thousand
All over 5,000,000 gallons – \$1.48/thousand

6-30-10

Number of Water Customers:

Retail.....	3,824
Wholesale.....	5

Retail Sewer Rates as of June 30, 2010:

2,000 gallons (minimum) - \$16.00
All over 2,000 gallons - 4.70/thousand gallons

Wholesale Sewer Rates as of June 30, 2010:

\$3.47/thousand gallons

6-30-10

Number of Sewer Customers:

Retail.....	213
Wholesale.....	2

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
SCHEDULE OF UNACCOUNTED FOR WATER
 June 30, 2010

(All amounts in gallons)

	<u>Total Purchased</u>
A Water Treated and Purchased:	
B Water Pumped (potable)	1,253,755,300
C Water Purchased	3,462,500
D Total Water Treated and Purchased	1,257,217,800
(Sum Lines B and C)	
E Accounted for Water:	
F Water Sold	1,038,284,700
G Metered for Consumption (in house usage)	17,926,779
H Fire Department(s) Usage	168,110
I Flushing	916,275
J Tank Cleaning/Filling	0
K Street Cleaning	0
L Bulk Sales	0
M Water Bill Adjustments/plus or (minus)	3,712,374
N Total Accounted for Water	1,061,008,238
(Sum Lines F thru M)	
O Unaccounted for Water	196,209,562
(Line D minus Line N)	
P Percent Unaccounted for Water	15.61%
(Line O divided by Line D times 100)	
 Q Other (explain)	 See below

Explain Other:

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 "0" is shown.

TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee

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

June 30, 2010



Joe S. Ingram, CPA
Lonas D. Overholt, CPA
Robert L. Bean, CPA

428 Marilyn Lane
Alcoa, Tennessee 37701

Telephone
865-984-1040
Facsimile
865-982-1665

November 12, 2010

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

Board of Commissioners
Tellico Area Services Systems
Vonore, Tennessee

We have audited the financial statements of the business-type activities of Tellico Area Services Systems as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated November 12, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 Tellico Area Services Systems' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Systems' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Systems' internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Systems' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters, 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*.

This report is intended solely for the information and use of the Utility's Board of Commissioners, management, pass-through entities and the State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Ingram, Overholt & Bean, P.C.