

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2010

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
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WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
BOARD OF COMMISSIONERS AND MANAGEMENT OFFICIALS

YEARS ENDED JUNE 30, 2010 AND 2009

Board of Commissioners

Chairman..... Donald Chambers
Vice Chairman..... Charles Albert Bell
Board Member..... Gary Vandever
Board Member..... David E Swindell
Board Member..... Hale Moss

Management Officials

Executive Director..... Chris Leauber
Treasurer..... Robert Boyd
Secretary..... Bob Rochelle

To the Board of Commissioners
Water & Wastewater Authority
Of Wilson County
Lebanon, Tennessee

We have audited the statements of net assets of the Water & Wastewater Authority of Wilson County as of June 30, 2010 and June 30, 2009, and the related statements of revenues, expenses, and changes in net assets, and statements of cash flows for the years then ended. These financial statements are the responsibility of the Company's 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 *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 respective financial position of the Water & Wastewater Authority of Wilson County, as of June 30, 2010 and June 30, 2009, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2011, on our consideration of the Water & Wastewater Authority of Wilson County'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 should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion information on pages 5 – 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Water & Wastewater Authority of Wilson County's basic financial statements. The Board of Commissioners and management officials schedule and the supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Dempsey Ventrease & Hollis PLLC

Lebanon, Tennessee

January 28, 2011

Water & Wastewater Authority of Wilson County Management's Discussion and Analysis

This section of the Water & Wastewater Authority of Wilson County's annual financial report presents an analysis of the Authority's financial performance during the fiscal years ended June 30, 2010 and 2009. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR ENDING JUNE 30, 2010

- The Authority's net assets increased by \$1,488 thousand or 5.4 percent from \$27,428 thousand to \$28,916 thousand.
- Operating revenues increased by \$203 thousand or 4.9 percent from \$4,168 thousand to \$4,371 thousand.
- Operating expenses increased by \$218 thousand or 5.9 percent from \$3,692 thousand to \$3,910 thousand.
- Capital contributions to the Authority increased by \$279 thousand or 21.2 percent from \$1,313 thousand to \$1,592 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following three parts: management's discussion and analysis, summaries of the Authority's net assets and condensed statement of revenues, expenses and changes in net assets.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Authority report information utilizing the full accrual basis of accounting. The financial statements conform to accounting principles which are generally accepted in the United States of America. The statements of net assets include information on the Authority's assets and liabilities and provide information about the nature and amounts of investments in resources and the obligations to the Authority's creditors. The statements of revenues, expenses and changes in net assets identify the Authority's revenues, and expenses for the fiscal years ended June 30, 2010 and 2009. These statements provide information on the Authority's operation over the past two fiscal years.

FINANCIAL ANALYSIS OF THE DISTRICT

The statement of net assets and the statement of revenues, expenses, and changes in net assets provide an indication of the Authority's financial condition and also indicate that the financial condition of the Authority improved during the last fiscal year. The Authority's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in financial condition.

NET ASSETS

A summary of the Authority's statement of net assets is presented below.

Table 1
Condensed Statement of Net Assets
(in thousands of dollars)

	<u>2010</u>	<u>2009</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Current and Other Assets	3,594	4,318	(724)	(16.7)%
Restricted Assets	3,332	2,503	829	33.1%
Capital Assets, net	36,034	34,249	1,785	5.2%
Total Assets	42,960	41,070	1,890	4.6%
Long-Term Debt	11,962	11,951	11	.1%
Current Liabilities	2,082	1,691	391	23.1%
Total Liabilities	14,044	13,642	402	2.9%
Net Assets Invested in Capital Assets, Net of Related Debt	24,099	23,084	1,015	4.4%
Net Assets Restricted for Debt Service	2,815	1,283	1,531	119.6%
Unrestricted Net Assets	2,003	3,061	(1,058)	(34.6)%
Total Net Assets	28,916	27,427	1,488	5.4%

As the above table indicates total assets increased by \$1,890 thousand, or 4.6%, from \$41,070 thousand to \$42,960 thousand. This was the result of an increase of \$1,785 thousand in net capital assets, in combination with a net increase of \$105 thousand in current, restricted and other assets.

During the fiscal period, total liabilities increased by \$402 thousand, or 2.9%. This includes an increase of \$11 thousand in long-term debt and an additional increase of \$391 thousand in current liabilities.

Table 1 also indicates that total net assets increased by 5.4%, or \$1,488 thousand, from \$27,427 thousand to \$28,916 thousand. This is due primarily to capital contributions of \$1,592 thousand during the year (a 21.2% increase from the previous year) as shown in Table 2.

Table 2
Condensed Statement of Revenues, Expenses and Changes in Net Assets
(in thousands of dollars)

	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenue	4,371	4,168	203	4.9%
Nonoperating Revenue	84	133	(49)	(36.8)%
Total Revenue	4,455	4,301	154	3.6%
Depreciation Expense	1,130	1,082	48	4.4%
Other Operating Expenses	2,780	2,610	170	6.5%
Nonoperating Expenses	602	625	(23)	(3.7)%
Total Expenses	4,512	4,317	195	4.5%
Income Before Capital Contributions	(57)	(16)	(41)	(256)%
Capital Contributions	1,592	1,313	279	21.2%
Extraordinary Expense	(47)	0	(47)	
Changes in Net Assets	1,488	1,297	191	14.7%
Beginning Net Assets	27,428	26,131	1,297	5.0%
Ending Net Assets	28,916	27,428	1,488	5.4%

The Statement of Revenues, Expenses and Change in Net Assets identifies the various revenue and expense items which affect the change in net assets.

As the information in this table indicates, the Authority's total revenue increased by \$154 thousand, or 3.6 percent, from \$4,301 thousand the prior year to \$4,455 thousand this year. A \$49 thousand decrease in non-operating revenue, due to diminishing interest rates earned on our funds, was significantly outpaced by a \$203 thousand increase in operating revenue. The largest single contributor to this increase was greater wastewater income compared to the previous year.

Despite a slight 3.7% decrease in nonoperating expenses, total expenses increased by 4.5%, or \$195 thousand during the fiscal period. This is due primarily to \$170 thousand increase in operating expenses.

Table 2 also indicates a \$57 thousand loss before capital contributions of \$1,592 thousand. In addition, the Authority experienced a \$47 thousand extraordinary expense from the flood damages in May. These three items combine to generate a \$1,488 thousand increase in net assets for the fiscal year. That is a 5.4% increase from the previous year.

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
Current Assets		
Cash & Cash Equivalents - Unrestricted/Undesignated	\$ 915,499	\$ 1,188,353
Cash & Cash Equivalents - Unrestricted/Designated	828,525	976,817
Investments in Interest Bearing Deposits - Unrestricted/Undesignated	171,000	171,000
Investments in Interest Bearing Deposits - Unrestricted/Designated	630,000	930,000
Accounts Receivable Net of Allowance for Doubtful Accounts of \$15,000 and \$15,000 as of June 30, 2010 and June 30, 2009, respectively.	506,420	493,184
Due From Tennessee Department of Transportation	1,950	-
Accrued Interest Receivable	25,198	32,596
Inventory of Supplies	184,959	175,988
Prepaid Expenses	23,106	18,357
Total Current Assets	3,286,657	3,986,295
Restricted Assets		
Restricted Cash & Cash Equivalents	495,181	34,927
Restricted Investments in Interest Bearing Deposits	2,837,087	2,467,669
Total Restricted Assets	3,332,268	2,502,596
Utility Plant & Equipment		
Land	569,532	569,532
Rights of Way	141,539	110,801
Water Distribution System	23,822,207	22,788,355
Wastewater System	19,337,473	18,038,473
Building	1,234,248	1,234,248
Office Equipment	200,490	200,490
Equipment	647,489	642,396
Construction in Progress	1,291,969	744,943
Total Utility Plant & Equipment	47,244,947	44,329,238
Less Accumulated Depreciation	(11,210,238)	(10,079,987)
Utility Plant & Equipment Net of Accumulated Depreciation	36,034,709	34,249,251
Other Assets		
Deferred Bond Issue Costs Less Accumulated Amortization	306,951	331,859
Total Assets	\$ 42,960,585	\$ 41,070,001

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

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009

	2010	2009
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 242,477	\$ 125,838
Construction Advances	232,000	-
Accrued Interest Payable	127,204	139,671
Accrued Flood Damages	17,901	-
Customer Deposits	596,290	599,910
Sales Tax Payable	27,747	26,715
Accrued Payroll & Related Items	40,513	33,149
Current Portion of Long-Term Debt	797,508	765,869
Total Current Liabilities	2,081,640	1,691,152
Long-Term Debt	11,962,461	11,950,835
Total Liabilities	14,044,101	13,641,987
NET ASSETS		
Invested In Capital Assets Net Of Related Debt	24,099,058	23,084,401
Restricted For Debt Service	2,814,901	1,282,599
Unrestricted	2,002,525	3,061,014
	28,916,484	27,428,014
Total Liabilities & Net Assets	\$ 42,960,585	\$ 41,070,001

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

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
STATEMENTS OF REVENUES, EXPENSES, & CHANGES IN NET ASSETS
FOR THE YEARS ENDING JUNE 30, 2010 AND 2009

	2010	2009
Operating Sales		
Water Sales	\$ 3,244,719	\$ 3,223,337
Wastewater Income	946,279	753,448
Other Charges	179,885	191,543
	4,370,883	4,168,328
Less: Bad Debt Expense	(11,692)	(8,451)
Net Operating Revenue	4,359,191	4,159,877
Operating Expenses		
Depreciation Expense	1,130,250	1,082,363
Water Purchased	811,967	824,773
Wastewater Service Costs	642,106	530,090
Repairs & Maintenance Expense	168,710	158,574
Management Salaries	171,443	173,116
Plant Salaries	196,059	204,496
Office Salaries	121,720	106,274
Legal Expense	101,433	67,674
Health Insurance Expense	97,047	72,738
Engineering Fees	55,591	34,258
Retirement Expense	60,481	55,026
Office Supplies & Expense	34,419	41,159
Plant Utilities Expense	56,934	62,304
Payroll Tax Expense	40,183	40,809
Miscellaneous Expense	38,664	37,575
Other Insurance Expense	45,389	44,591
Postage	36,311	29,785
Audit & Accounting	20,680	32,400
Telephone & Office Utilities	20,563	28,555
Legal Salary	23,665	22,359
Data Processing	2,989	11,396
Uniforms Expense	9,108	8,880
Seminar Expense	6,250	2,841
Dues Expense	2,945	8,795
Director Fees	2,400	2,300
State Fees	-	1,000
Total Operating Expenses	3,897,307	3,684,131
Operating Income	461,884	475,746

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

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 STATEMENTS OF REVENUES, EXPENSES, & CHANGES IN NET ASSETS
 FOR THE YEARS ENDING JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Operating Income (From Page 10)	\$ 461,884	\$ 475,746
Nonoperating Revenues (Expenses)		
Interest Income	84,062	133,142
Interest & Amortization Expense	<u>(602,455)</u>	<u>(624,620)</u>
Total Nonoperating Revenues (Expenses)	<u>(518,393)</u>	<u>(491,478)</u>
Income (Loss) Before Contributions	(56,509)	(15,732)
Contributions		
Capital Reimbursement	-	111,428
Contributions In Aid Of Construction	<u>1,591,700</u>	<u>1,201,800</u>
	1,591,700	1,313,228
Extraordinary Expense		
Flood Damages	<u>(46,721)</u>	<u>-</u>
Increase In Net Assets	1,488,470	1,297,496
Net Assets, Beginning of Year	27,428,014	26,492,193
Prior Period Adjustment	-	(361,675)
Net Assets, End of Year	<u>\$ 28,916,484</u>	<u>\$ 27,428,014</u>

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

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Cash Flows From Operating Activities		
Cash Receipts From Customers	\$ 4,320,550	\$ 4,299,204
Cash Payments to Suppliers for Goods and Services	(1,749,327)	(1,973,542)
Cash Payments to or on Behalf of Employees	(703,234)	(655,457)
Other Operating Revenue	19,835	20,838
Net Cash Provided By Operating Activities	1,887,824	1,691,043
 Cash Flows From Capital & Related Financing Activities		
Capital Contributions	115,000	192,500
Proceeds From State Revolving Fund	547,977	173,976
Proceeds For Wastewater Construction	466,000	-
Purchase & Construction of Utility Plant & Equipment	(1,905,009)	(1,703,573)
Capital Reimbursement - State of Tennessee	-	111,431
Principal Payments on Revenue Bonds	(765,869)	(723,282)
Interest Paid on Revenue Bonds	(328,854)	(364,356)
Net Cash Used By Capital & Related Financing Activities	(1,870,755)	(2,313,304)
 Cash Flows From Investing Activities		
Proceeds From Maturities of Investment Securities	3,246,388	5,268,326
Interest Income	91,457	120,953
Purchase of Investment Securities	(3,315,806)	(3,568,669)
Net Cash Provided By Investing Activities	22,039	1,820,610
Net Increase in Cash & Cash Equivalents	39,108	1,198,349
Cash & Cash Equivalents, Beginning of Year	2,200,097	1,001,748
Cash & Cash Equivalents, End of Year	\$ 2,239,205	\$ 2,200,097

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

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Adjustments to Reconcile Operating Income To Net Cash Provided By (Used) By Operating Activities		
Operating Income	\$ 461,884	\$ 475,746
Depreciation	1,130,250	1,082,363
Provision for Bad Debt	-	(35,000)
Extraordinary Items	(46,721)	-
(Increase)/Decrease in Accounts Receivable	(13,236)	21,882
(Increase)/Decrease in Receivable From TDOT	(1,950)	222,989
(Increase)/Decrease in Inventory	(8,971)	5,936
(Increase)/Decrease in Prepaid Expenses	(4,749)	386
Increase/(Decrease) in Accounts Payable	116,639	(30,434)
Increase in Accrued Flood Damages	17,901	-
Increase in Construction Advances	232,000	-
(Decrease) in Customer Deposits	(3,620)	(49,706)
Increase/(Decrease) in Sales Tax Payable	1,032	(122)
Increase/(Decrease) in Accrued Payroll & Related Items	7,365	(2,997)
Net Cash Provided By Operating Activities	\$ 1,887,824	\$ 1,691,043
 Non-Cash Transactions		
Noncash Capital Contributions From Developers Consisting of Water Infrastructure	\$ 2,700	\$ 82,300
 Noncash Capital Contributions From Developers Consisting of Wastewater Infrastructure	\$ 1,008,000	\$ 927,000
 Interest Capitalized to Utility Plant & Equipment	\$ 110,560	\$ 115,701

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

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

Note A – Summary of Significant Accounting Policies

General Information – The Water & Wastewater Authority of Wilson County, Tennessee, (“the Authority”) was established July 21, 1975, under Tennessee Code Annotated section 68-221-601. The Authority is governed by a Board of Commissioners appointed by the County Mayor and approved by the County commissioners and does not have any power to levy or collect a tax. In 1977, the Board of Commissioners changed the name to the Water & Wastewater Authority of Wilson County, Tennessee. The Authority operates a water system and supply for customers in specified areas of Wilson County. In the fiscal year ended June 30, 2000, the Authority began providing wastewater treatment for a limited number of customers.

Reporting Entity – Because of the lack of significance of its operational and financial relationship with Wilson County, the Authority is not a component unit of Wilson County, Tennessee.

Basis of Presentation and Accounting – The accrual basis of accounting is used, in conformity with generally accepted governmental accounting principles applicable to water utility districts. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Unbilled utility service receivables are recorded at year end. The Authority is a proprietary fund because it is required by law to recover its costs of operation with fees and charges for services rather than with taxes or similar revenues. The Authority applies all applicable 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 pronouncements. The Authority has elected not to apply FASB Statements and interpretations issued after November 30, 1989.

Budget – An annual budget is adopted by the Board of Commissioners as a management control device on a basis consistent with generally accepted accounting principles (GAAP).

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

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

Note A – Summary of Significant Accounting Policies (continued)

Utility Plant, Building, Wastewater System, & Equipment – Land, utility plant, building, wastewater system, and equipment are recorded at cost or, if contributed, at the estimated fair market value of the contribution. The Authority defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Repairs and maintenance are recorded as expenses; renewals and improvements are capitalized. When items of property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included as non-operating revenue or loss.

Depreciation of the utility plant, building, wastewater system, and equipment is computed using the straight line method as follows:

<u>Asset</u>	<u>Estimated Useful Life</u>
Cost of Water System	25 – 40 years
Wastewater System	40 years
Building	10 – 40 years
Equipment	3 – 10 years

Restricted Assets – Bond covenants of the various board issues require the establishment of bond interest and sinking funds to provide for the timely retirement of bond principal and interest. At June 30, 2010 and 2009, these reserves have been adequately funded and have been presented in the financial statements as restricted assets.

Cash & Cash Equivalents – Cash consists principally of checking accounts and certificates of deposit with financial institutions. For the purpose of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Receivables – The Authority uses the reserve method in determining bad debt expense.

Inventory – The Authority maintains an inventory of materials and supplies for repairs to the utility system. The inventory is carried at the lower of cost or market value using the “first in – first out” method.

Capitalized Interest – The Authority capitalizes net interest costs and related interest earned as part of constructing water projects.

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

Note A – Summary of Significant Accounting Policies (continued)

Bond Issue Costs – The costs of the issuance of bonds are amortized on the straight line method over the life of the bonds.

Discounts on Bonds – The discount on bonds issued are being amortized on the straight line method, over the life of the bonds.

Deferred Loss on Refinancing of Bonds – The refunding of debt in 1993 and 2006 resulted in a deferred amount which is being amortized over the remaining life of the old debt in accordance with GASB 23.

Operating Revenues and Expenses – Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Authority. Operating revenues consist primarily of charges for water services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Authority's policy to apply those expenses to restricted net assets first, the extent such are available, and then to unrestricted net assets.

Contributions In Aid of Construction – Developers are required by the Authority to install water lines in new developments according to the Authority's specifications and subject to inspection by the engineer. Developers bear the cost of laying the water lines, which become the property of the Authority. The engineer's estimate of the cost of these lines is capitalized as utility plant and recorded as contributed capital by the Authority prior to July 1, 2000. After June 30, 2000, the Authority records the cost as revenue.

A fee is charged by the Authority for the physical connection to the water system. Prior to July 1, 2000, the fee was recorded as contributed capital and the cost of the installation of the tap was capitalized as utility plant. Beginning July 1, 2000, tap fees are recorded as revenue.

In accordance with GASB 33, contributions from contractors are recorded as revenue in the statement of earnings rather than as a component of equity effective July 1, 2000.

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

Note A – Summary of Significant Accounting Policies (continued)

Compensated Absences – Full time employees are given one day of vacation each month during the first six years of continuous employment. Employees with more than six years of continuous employment are granted fifteen days annual vacation with the additional days being granted in the months of March, June, and September.

Vacation days earned and not used may be carried forward, however, accumulated vacation days may not exceed 30 days per employee. The Authority has accrued the amount of vacation time carried forward as of June 30, 2010 and 2009.

Each employee accumulates one day of sick leave each month. Sick leave not used during the year may be carried forward. Upon termination or voluntary resignation, all accrued sick leave is forfeited. Therefore, no amounts have been recorded for accrued sick pay in the financial statements.

Net Assets – Net assets comprise the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted – This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

Note B – Cash & Cash Equivalents

Interest Rate Risk and Concentration of Credit Risk – The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. The Authority places no limit on the amount it may invest in any one issuer.

Credit Risk – The Authority is authorized to make investments in certificates of deposit, bonds, notes or treasury bills of the United States or any of its other agencies, or obligations guaranteed as to principal and interest by the United States or any of its agencies with a maturity not greater than one year, or in the pooled investment fund established under Tennessee law.

At June 30, 2010 and 2009, the entire bank balances were covered by federal depository insurance or by collateral held in the Tennessee Bank Collateral Pool. The Tennessee Bank Collateral Pool is a multiple financial institution collateral pool to which member financial institutions holding public funds pledge collateral securities. In the event any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. The pool also has the ability to make additional assessments on a pro rata basis to the members of the pool if the value of collateral is inadequate to cover a loss.

Note C – Commitments & Contingencies

The majority of the water supplied to customers of the Authority is purchased from the City of Lebanon pursuant to a contractual agreement.

On approximately May 6, 1999, the Authority entered into a master provider agreement with a company to build, operate, and maintain wastewater systems. This agreement contains a provision that would subject the Authority to contract cancellation fees if the Authority were to take control of the operation and maintenance services through no fault of the contracting company. The Authority has no intention of assuming these operation and maintenance services, however, the cancellation fees would be material to the financial statements if they were to occur.

Note D – Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

Note D – Risk Management (continued)

The Authority purchases commercial insurance for claims and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Note E – Capital Assets

Capital asset activity for the years ended June 30, 2010 and 2009 was as follows:

	Balance July 1, 2009	Transfers In And Additions	Transfers Out And Retirements	Balance June 30, 2010
Capital Assets Not Being Depreciated				
Land	\$ 569,532	\$ -	\$ -	\$ 569,532
Rights of Way	110,801	30,738	-	141,539
Construction In Progress	744,943	1,539,815	(992,789)	1,291,969
Total Capital Assets Not Being Depreciated	<u>1,425,276</u>	<u>1,570,553</u>	<u>(992,789)</u>	<u>2,003,040</u>
Capital Assets Being Depreciated				
Water Distribution System	22,788,355	1,033,852	-	23,822,207
Wastewater System	18,038,473	1,299,000	-	19,337,473
Building	1,234,248	-	-	1,234,248
Office Equipment	200,490	-	-	200,490
Equipment	642,396	5,093	-	647,489
Total Capital Assets Being Depreciated	<u>42,903,962</u>	<u>2,337,945</u>	<u>-</u>	<u>45,241,907</u>
Less Accumulated Depreciation				
Water Distribution System	(7,534,458)	(586,464)	-	(8,120,922)
Wastewater System	(1,560,597)	(459,685)	-	(2,020,282)
Building	(326,544)	(32,295)	-	(358,839)
Office Equipment	(169,996)	(8,787)	-	(178,783)
Equipment	(488,392)	(43,020)	-	(531,412)
Total Accumulated Depreciation	<u>(10,079,987)</u>	<u>(1,130,251)</u>	<u>-</u>	<u>(11,210,238)</u>
Total Capital Assets Being Depreciated Net of Accumulated Depreciation	<u>32,823,975</u>	<u>1,207,694</u>	<u>-</u>	<u>34,031,669</u>
Total Capital Assets Net of Accumulated Depreciation	<u>\$ 34,249,251</u>	<u>\$ 2,778,247</u>	<u>\$ (992,789)</u>	<u>\$ 36,034,709</u>

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

Note E – Capital Assets (continued)

Capital asset activity for the years ended June 30, 2009 and 2008 was as follows:

	<u>July 1, 2008</u>	<u>And Additions</u>	<u>And Retirements</u>	<u>June 30, 2009</u>
Capital Assets Not Being Depreciated				
Land	\$ 569,532	\$ -	\$ -	\$ 569,532
Rights of Way	107,027	3,774	-	110,801
Construction In Progress	697,495	1,663,353	(1,615,905)	744,943
Total Capital Assets Not Being Depreciated	<u>1,374,054</u>	<u>1,667,127</u>	<u>(1,615,905)</u>	<u>1,425,276</u>
Capital Assets Being Depreciated				
Water Distribution System	21,058,629	1,729,726	-	22,788,355
Wastewater System	17,111,473	927,000	-	18,038,473
Building	1,234,248	-	-	1,234,248
Office Equipment	200,490	-	-	200,490
Equipment	637,471	4,925	-	642,396
Total Capital Assets Being Depreciated	<u>40,242,311</u>	<u>2,661,651</u>	<u>-</u>	<u>42,903,962</u>
Less Accumulated Depreciation				
Water Distribution System	(6,977,148)	(557,310)	-	(7,534,458)
Wastewater System	(1,111,041)	(449,556)	-	(1,560,597)
Building	(294,167)	(32,377)	-	(326,544)
Office Equipment	(158,879)	(11,117)	-	(169,996)
Equipment	(439,739)	(48,653)	-	(488,392)
Total Accumulated Depreciation	<u>(8,980,974)</u>	<u>(1,099,013)</u>	<u>-</u>	<u>(10,079,987)</u>
Total Capital Assets Being Depreciated Net of Accumulated Depreciation	<u>31,261,337</u>	<u>1,562,638</u>	<u>-</u>	<u>32,823,975</u>
Total Capital Assets Net of Accumulated Depreciation	<u>\$ 32,635,391</u>	<u>\$ 3,229,765</u>	<u>\$ (1,615,905)</u>	<u>\$ 34,249,251</u>

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

Note F – Bonds & Notes Payable

Bonds and notes payable as of June 30, 2010 and 2009 are as follows:

Series, Rates of Interest, & Maturity Dates	2010	2009
Waterworks Revenue Refunding and Improvement Bonds Series 1993, dated 5/1/93. Interest of 4.625% - 6% less unamortized bond discount of \$15,467 and \$19,333 respectively, and deferred loss on refinancing of \$45,125 and \$83,513 for June 30, 2010 and 2009, respectively.	\$ 1,892,723	\$ 2,302,154
Waterworks Revenue Improvement Bonds, Series 2000 Capital Appreciation Bonds, (zero coupon bonds) dated 10/5/00. Interest of 6.1% - 6.4%, principal and accreted interest due serially starting in 2018 through 2025.	3,652,311	3,433,460
Waterworks Revenue Bonds, Series 2002, numbered R-1 (Rural Development), dated 12/29/04, interest not greater than 4.5%, due in monthly installments through 2043	234,270	237,426
Local Government Public Improvement Bonds Series IV-E-1, dated 10/24/06. Interest at 4% - 5%. Less unamortized deferred amounts of \$0 and \$50 for June 30, 2010 and 2009, respectively.	6,021,686	6,289,950
Amount drawn on \$2,751,769 State Revolving Fund loan secured by funds due to Water & Wastewater Authority of Wilson County by the State of Tennessee. Payable in monthly installments of interest only at 3.67% starting with the first drawdown of funds and monthly payments of principal and interest starting with the earlier of 90 days after project completion or 120 days after 90% of loan funds are disbursed.	721,953	173,976
Note Payable to Wilson Bank & Trust secured by real property, payable at \$52,498 per year at 3.45% fixed annual rate - matures June 2015.	<u>237,026</u>	<u>279,738</u>
Total Bonds & Notes Payable	\$ 12,759,969	\$ 12,716,704
Less Current Portion	<u>(797,508)</u>	<u>(765,869)</u>
Long-Term Debt	<u>\$ 11,962,461</u>	<u>\$ 11,950,835</u>

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

Note F – Bonds & Notes Payable (Continued)

Changes to the Authority's long-term debt are as follows:

	2010	2009
Total Long-Term Debt At Beginning of Year	\$ 12,819,600	\$ 13,163,171
Notes Payable Proceeds	547,977	173,976
Accreted Interest On Capital Appreciation Bonds	218,849	205,735
Notes Payable Principal Paid	(42,713)	(40,262)
Bond Retirements Paid	(723,152)	(683,020)
 Total Long-Term Debt At End of Year	 12,820,561	 12,819,600
 Refunding Revenue Bond Unamortized Discount	 (15,467)	 (19,333)
Unamortized Deferred Loss on Refundings	(45,125)	(83,563)
 Total Long-Term Debt At End of Year		
Net of Unamortized Discount & Deferred Loss	12,759,969	12,716,704
 Less Current Portion	(797,508)	(765,869)
 Non-Current Portion	\$ 11,962,461	\$ 11,950,835

Annual debt service requirements for bonds outstanding to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 904,147	\$ 469,848	\$ 1,373,995
2012	953,599	426,396	1,379,995
2013	998,221	380,274	1,378,495
2014	1,037,963	332,032	1,369,995
2015	1,092,846	281,649	1,374,495
2016 - 2020	5,831,233	826,153	6,657,386
2021 - 2025	6,179,400	475,736	6,655,136
2026 - 2030	1,075,981	97,580	1,173,561
2031 - 2035	44,431	24,449	68,880
2036 - 2040	55,619	13,261	68,880
2041 - 2043	29,625	1,568	31,193
	\$ 18,203,065	\$ 3,328,946	\$ 21,532,011

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

Note F – Bonds & Notes Payable (Continued)

The Authority pays its bond liability by semi-annual installments for all issues except for the Series 2002 liability that is paid monthly. The bonds are secured by the revenue of the Authority. In addition, the Authority has complied with the bond resolution requirements adopted by the Board.

Deferred Loss – The refunding of debt in 1993 and 2006 resulted in a deferred loss of \$949,152 and \$164,035, respectively, to be amortized over the remaining life of the old debt in accordance with GASB 23.

Note G – Pension Plan

Plan Description – Employees of the Authority are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at age 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 performance of duty. Members joining the system on or after July 1, 1979, become vested after five years of service and members joining prior to July 1, 1979, were vested after 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. The retirement plan for the Authority is included in the total retirement plan for Wilson County, Tennessee. Therefore, separate retirement information for the Authority is not available. Details relative to the funding status and progress, actuarially determined contribution requirements and contributions made, and trend information regarding the pension plan can be found in the Comprehensive Annual Financial Report for Wilson County. Political subdivisions such as Wilson County 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.

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

Note G – Pension Plan (Continued)

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://treasury.state.tn.us/tcrs/PS/>.

Wilson County has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5 percent of annual covered payroll. The County is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2010 and 2009 was 12.58% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Wilson County is established and may be amended by the TCRS Board of Trustees.

The Authority's payroll for employees covered by the TCRS for the years ended June 30, 2010 and 2009 was \$483,849 and \$437,409, respectively. Total contributions to the plan by the Authority for the years ended June 30, 2010 and 2009, amounted to \$60,481 and \$55,026.

Note H – Related Party Transactions

The Authority's attorney is on the payroll of the Water & Wastewater Authority of Wilson County. The law firm he represents does legal work for the Authority including closings on new water and sewer taps installed and receives a fee (usually 50% of the tap fee) for their work. Total fees paid to the law firm totaled \$75,972 for the fiscal year ended June 30, 2010.

Note I – Extraordinary Item

In May of 2010 there was a historic flood in the middle Tennessee area. The Water & Wastewater Authority of Wilson County suffered some damages to water and sewer lines as a result of the flood. The repairs to the lines as a result of the flood damage are presented in the financial statements as an extraordinary item.

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

Note J – Designated Net Assets

The Board of Commissioners of the Water & Wastewater Authority of Wilson County has designated some cash accounts and certificates of deposit for operation of the sewer system should its master provider agreement described in Note C for sewer services be cancelled. In addition, certain amounts have been designated for facility improvements and sewer construction. The accounts that have been designated for these purposes are presented separately in the statement of net assets with the suffix – Unrestricted/Designated. Prior year balances of Cash and Equivalents and Investments in Interest Bearing Deposits have been restated to conform to this treatment.

Note K – Prior Period Adjustment

The Water Authority recorded infrastructure improvements in the amount of \$666,000 for sewer installation in a new subdivision during the fiscal year ended June 30, 2008. The value was reported on the depreciation schedule and depreciation expense of \$8,325 and \$16,950 was recorded on the asset for 2008 and 2009, respectively. It was subsequently discovered that the improvements were not complete. Accordingly, the amount recorded for the wastewater system has been removed from the wastewater system asset on the statement of net assets, and the depreciation taken on the asset was reversed for the fiscal year ended June 30, 2009. The value of the improvements installed at June 30, 2008 was \$296,000 per the wastewater system engineer and that amount has been recorded in work in process. No additional progress has been made since that date. Accordingly a prior period adjustment of \$361,675 has been recorded for the fiscal year ended June 30, 2009. As a result of the infrastructure improvements being recorded incorrectly for the fiscal year ended June 30, 2008, increase in net assets and net assets were overstated by \$361,675.

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 FIVE YEAR SUMMARY OF REVENUE & EXPENSES
 (UNAUDITED)

	For The Year Ended June 30,				
	2006	2007	2008	2009	2010
Operating Revenues					
Water Sales	\$ 2,801,337	\$ 2,968,840	\$ 3,100,489	\$ 3,223,337	\$ 3,244,719
Wastewater Income	434,519	782,284	765,477	753,448	946,279
Other Charges	185,878	211,598	211,265	191,543	179,885
Total Operating Revenues	<u>3,421,734</u>	<u>3,962,722</u>	<u>4,077,231</u>	<u>4,168,328</u>	<u>4,370,883</u>
Operating Expenses					
Operations, Administration, & General	2,059,364	2,595,100	2,652,775	2,610,219	2,778,749
Depreciation	828,848	922,885	1,020,972	1,082,363	1,130,250
Total Operating Expenses	<u>2,888,212</u>	<u>3,517,985</u>	<u>3,673,747</u>	<u>3,692,582</u>	<u>3,908,999</u>
Non-Operating Revenues (Expenses)					
Interest Income	94,099	218,557	258,460	133,142	84,062
Gain (Loss) On Sale Of Assets	5,400	-	25,748	-	-
Reimbursement Revenue	311,038	992,469	-	-	-
Interest & Amortization Expense	(710,658)	(719,345)	(588,268)	(624,620)	(602,455)
Flood Damages	-	-	-	-	(46,721)
Reimbursement Expenses	(311,038)	(1,114,377)	-	-	-
Total Non-Operating Expenses	<u>(611,159)</u>	<u>(622,696)</u>	<u>(304,060)</u>	<u>(491,478)</u>	<u>(565,114)</u>
Income (Loss) Before Contributions	<u>(77,637)</u>	<u>(177,959)</u>	<u>99,424</u>	<u>(15,732)</u>	<u>(103,230)</u>
Capital Contributions					
Capital Reimbursement	71,514	-	30,962	111,428	-
Tap Fees	290,500	315,000	203,000	192,500	115,000
Developer Contributions of Transmission Lines	3,537,055	4,474,040	2,503,688	1,009,300	1,476,700
Total Capital Contributions	<u>3,899,069</u>	<u>4,789,040</u>	<u>2,737,650</u>	<u>1,313,228</u>	<u>1,591,700</u>
Increase In Net Assets	<u>\$ 3,821,432</u>	<u>\$ 4,611,081</u>	<u>\$ 2,837,074</u>	<u>\$ 1,297,496</u>	<u>\$ 1,488,470</u>

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 SCHEDULE OF DEBT SERVICE TO MATURITY
 (UNAUDITED)
 JUNE 30, 2010

Fiscal Year Ended June 30,	1993 Series		2000 Series		2002 Series		2006 Series "Refunding"	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 450,000	\$ 118,500			\$ 3,301	\$ 10,475	\$ 185,000	\$ 154,600
2012	485,000.00	91,500.00			3,453.06	10,322.94	190,000.00	147,200.00
2013	505,000.00	62,400.00			3,611.69	10,164.31	205,000.00	139,600.00
2014	535,000.00	32,100.00			3,777.61	9,998.39	205,000.00	131,400.00
2015					3,951.16	9,824.84	785,000.00	123,200.00
2016			345,000.00		4,132.67	9,643.33	825,000.00	83,950.00
2017			905,000.00		4,322.52	9,453.48	515,000.00	42,700.00
2018			900,000.00		4,521.09	9,254.91		22,100.00
2019			900,000.00		4,728.80	9,047.20		22,100.00
2020			900,000.00		4,946.05	8,829.95		22,100.00
2021			900,000.00		5,173.26	8,602.74		22,100.00
2022			900,000.00		5,410.92	8,365.08		22,100.00
2023			895,000.00		5,659.49	8,116.51		22,100.00
2024			900,000.00		5,919.50	7,856.50		22,100.00
2025			360,000.00		6,191.41	7,584.59	520,000.00	22,100.00
2026					6,475.87	7,300.13		
2027					6,773.36	7,002.64		
2028					7,084.53	6,691.47		
2029					7,409.98	6,366.02		
2030					7,750.41	6,025.59		
2031					8,106.46	5,669.54		
2032					8,478.87	5,297.13		
2033					8,868.37	4,907.63		
2034					9,275.79	4,500.21		
2035					9,701.92	4,074.08		
2036					10,147.63	3,628.37		
2037					10,613.81	3,162.19		
2038					11,101.40	2,674.60		
2039					11,611.39	2,164.61		
2040					12,144.81	1,631.19		
2041					12,702.77	1,073.23		
2042					13,286.31	489.69		
2043					3,635.64	5.55		
					\$ 234,269.94	\$ 210,203.25	\$ 3,430,000.00	\$ 999,450.00
					\$ 7,005,000.00	\$ 304,500.00		

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 SCHEDULE OF DEBT SERVICE TO MATURITY
 (UNAUDITED)
 JUNE 30, 2010

Fiscal Year Ended June 30,	2006 Series "Construction" Revenue Bonds		2008 Land Loan		SRF 08-215		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 115,000.00	\$ 108,513.00	\$ 44,207.00	\$ 8,291.00	\$ 106,639.00	\$ 69,470.00	\$ 904,147.00	\$ 469,848.00
2012	120,000.00	103,912.50	45,734.38	6,763.14	109,411.71	66,697.05	953,599.15	426,395.63
2013	125,000.00	99,112.50	47,352.61	5,144.91	112,256.96	63,851.80	998,221.26	380,273.52
2014	130,000.00	94,112.50	49,008.96	3,488.56	115,176.18	60,932.58	1,037,962.75	332,032.03
2015	135,000.00	88,912.50	50,723.48	1,774.27	118,171.30	57,937.46	1,092,845.94	281,649.07
2016	145,000.00	82,162.50			121,244.37	54,864.39	1,095,377.04	230,620.22
2017	150,000.00	74,912.50			124,397.30	51,711.46	1,138,719.82	178,777.44
2018	155,000.00	68,912.50			127,632.26	48,476.50	1,192,153.35	148,743.91
2019	160,000.00	62,712.50			130,951.31	45,157.45	1,195,680.11	139,017.15
2020	170,000.00	56,312.50			134,356.68	41,752.08	1,209,302.73	128,994.53
2021	175,000.00	49,512.50			137,850.61	38,258.15	1,218,023.87	118,473.39
2022	180,000.00	42,075.00			141,435.42	34,673.34	1,226,846.34	107,213.42
2023	190,000.00	34,425.00			145,113.41	30,995.35	1,235,772.90	95,636.86
2024	200,000.00	26,350.00			148,887.09	27,221.67	1,254,806.59	83,528.17
2025	205,000.00	17,850.00			152,758.86	23,349.90	1,243,950.27	70,884.49
2026	215,000.00	9,137.50			156,731.35	19,377.41	378,207.22	35,815.04
2027					160,807.14	15,301.62	167,580.50	22,304.26
2028					164,988.89	11,119.87	172,073.42	17,811.34
2029					169,279.41	6,829.35	176,689.39	13,195.37
2030					173,680.13	2,428.63	181,430.54	8,454.22
2031					-	-	8,106.46	5,669.54
2032					-	-	8,478.87	5,297.13
2033					-	-	8,868.37	4,907.63
2034					-	-	9,275.79	4,500.21
2035					-	-	9,701.92	4,074.08
2036					-	-	10,147.63	3,628.37
2037					-	-	10,613.81	3,162.19
2038					-	-	11,101.40	2,674.60
2039					-	-	11,611.39	2,164.61
2040					-	-	12,144.81	1,631.19
2041					-	-	12,702.77	1,073.23
2042					-	-	13,286.31	489.69
2043					-	-	3,635.64	5.55
	\$ 2,570,000.00	\$ 1,018,925.00	\$ 237,025.98	\$ 25,461.85	\$ 2,751,769.00	\$ 770,406.20	\$ 18,203,064.92	\$ 3,328,946.30

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 SCHEDULE OF INSURANCE COVERAGE
 (UNAUDITED)
 JUNE 30, 2010

Name of Company	Period Of Coverage	Coverage	Liability
St. Paul Travelers	1/31/09 - 1/31/10	Genera Liability	\$ 1,000,000/3,000,000
St. Paul Travelers	1/31/09 - 1/31/10	Management Liability	1,000,000/3,000,000
St. Paul Travelers	1/31/09 - 1/31/10	Inland Marine	48,920
St. Paul Travelers	1/31/09 - 1/31/10	Automobile Liability & Damage	1,000,000/1,000,000
St. Paul Travelers	1/31/09 - 1/31/10	Property	3,717,000
St. Paul Travelers	1/31/09 - 1/31/10	Employment Practices Liability	1,000,000/3,000,000
St. Paul Travelers	1/31/09 - 1/31/10	Miscellaneous	100,000 - 3,000,000
Local Government Insurance Pool	7/1/09 - 7/1/10	Worker's Compensation	1,000,000
St. Paul Travelers	2/28/09 - 2/28/12	Highway Replacement Bond	2,500
St. Paul Travelers	4/8/09 - 4/8/10	Fidelity Bond/Chairman	50,000
St. Paul Travelers	1/31/09 - 1/31/10	Fidelity Bond/Execcutive Director	50,000
St. Paul Travelers	2/4/09 - 2/4/10	Fidelity Bond/Treasurer	50,000
St. Paul Travelers	4/1/09 - 4/1/10	Fidelity Bond/Treasurer	50,000
Westfield Companies	10/13/09 - 10/13/10	Fidelity Bond/Billing Clerk	50,000
St. Paul Travelers	9/9/09 - 9/9/10	Fidelity Bond/Billing Clerk	50,000
St. Paul Travelers	3/23/09 - 3/23/10	Fidelity Bond/Accounts Receivable Clerk	50,000
St. Paul Travelers	5/11/09 - 5/11/10	Fidelity Bond/Accounts Receivable Clerk	50,000

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 SCHEDULE OF GENERAL INFORMATION
 (UNAUDITED)
 JUNE 30, 2010

<u>Water Rate Schedule</u>	<u>Rate</u>
First 2,000 gallons	\$ 23.70 per month minimum
Next 3,000 gallons	8.38 per 1,000 gallons
Next 5,000 gallons	7.29 per 1,000 gallons
Over 10,000 gallons	6.56 per 1,000 gallons

<u>Year Ended June 30,</u>	<u>Number of Customers</u>
2010	7,352
2009	7,320
2008	7,156
2007	6,642
2006	6,409
2005	5,907
2004	5,504
2003	5,241
2002	4,971
2001	4,743
2000	4,583

<u>Customers</u>	<u>Estimated Gallons/Year</u>
Spring Hill Townhomes	4,400,000
Roy Major Dairy Farm	2,000,000
Co Part Salvage	1,200,000
Wilson County Schools	1,120,800
Earl Watson	1,109,800
Vera Bella Properties	482,600
Seth Major	423,000
CDM of TN	359,000
J.C. Bradshaw	300,000
Charles Lanning	116,170

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 SCHEDULE OF UNACCOUNTED FOR WATER
 (UNAUDITED)
 JUNE 30, 2010

(All Amounts In Gallons)

A Water Treated & Purchased:

B Water Pumped	0	
C Water Purchased	391,259,653	
D Total Water Treated & Purchased (Sum Lines B and C)	391,259,653	391,259,653

E Accounted For Water

F Water Sold	313,795,600	
G Metered For Consumption	0	
H Fire Departments Usage	141,600	
I Flushing	3,282,562	
J Tank Cleaning/Filling	160,000	
K Street Cleaning	0	
L Bulk Sales	0	
M Water Bill Adjustments	0	
N Total Accounted For Water (Sum Lines F Through N)	317,379,762	317,379,762
O Unaccounted For Water (Line D Minus Line O)		73,879,891
P Percent Unaccounted For Water (Line P Divided By Line D Times 100)		18.883%

Cost per 1,000 Gallons \$ 1.99

Cost of Unaccounted for Water \$ 147,021

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 SCHEDULE OF CHANGES IN BOND FUNDS
 (UNAUDITED)
 FOR THE YEAR ENDED JUNE 30, 2010

	<u>Bond & Interest Sinking Fund</u>	<u>Debt Service Reserve Fund</u>
Balance, June 30, 2009	\$ 724,927	\$ 582,500
Deposits & Transfers	2,870,152	-
Disbursements & Transfers	<u>(2,277,445)</u>	<u>-</u>
Balance, June 30, 2010	<u>\$ 1,317,634</u>	<u>\$ 582,500</u>

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
SCHEDULE OF DEBT SERVICE COVERAGE
(UNAUDITED)
JUNE 30, 2010

Net Earnings From Operations	\$ 445,234
Add:	
Depreciation	1,146,900
Interest Income	84,062
Cash Contributions - Tap & Fire Hydrant Revenue & Utility Plant	<u>581,000</u>
Amount Available For Debt Service	<u>\$ 2,257,196</u>
Annual Debt Service	<u>\$ 1,373,995</u>
Coverage	1.64

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

To the Board of Commissioners
Water & Wastewater Authority of Wilson County
Lebanon, TN

We have audited the financial statements of the business-type activities of the Water & Wastewater Authority of Wilson County, as of and for the year ended June 30, 2010, which collectively comprise the Water & Wastewater Authority of Wilson County's basic financial statements and have issued our report thereon dated January 28, 2011. 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 Water & Wastewater Authority of Wilson County's 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 Water & Wastewater Authority of Wilson County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Water & Wastewater Authority of Wilson County's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Water & Wastewater Authority of Wilson County'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses.

Water & Wastewater Authority of Wilson County's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Water & Wastewater Authority of Wilson County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, management and state and federal audit agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Dempsey Vantrease & Follis PLLC
Lebanon, Tennessee
January 28, 2011

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
SCHEDULE OF FINDINGS & RESPONSES
JUNE 30, 2010

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Water & Wastewater Authority of Wilson County.
2. One significant deficiency disclosed during the audit of the financial statements is reported in the Report on Internal Control Over Financial Reporting & on Compliance & Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.

B. SIGNIFICANT DEFICIENCIES

R-1. Segregation of Duties

Condition: Due to the limited number of financial personnel employed by the Authority, the same individuals regularly perform several functions, which, ideally, should be performed by different individuals. Such functions include preparation of bank reconciliations, issuing checks, signing checks, handling cash receipts, processing customer billings and accounts receivable, and recording of transactions.

Criteria: Proper segregation of duties requires that no one employee be responsible for an entire transaction cycle from beginning to end.

Effect: Inadequate separation of duties allows the possibility of the occurrence of unauthorized cash transactions, which may not be properly detected by Management.

Recommendation: To the extent possible, Management should separate the duties of preparing bank reconciliations, issuing checks, signing checks, handling cash receipts, processing customer billings and accounts receivable, and recording transactions to the accounting system.

Response: Management believes the cost of maintaining this control would exceed its benefits.

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
SCHEDULE OF FINDINGS & RESPONSES
JUNE 30, 2010

R-2. Sewer System Infrastructure

Condition: Infrastructure improvements to the wastewater system made by developers were recorded at the value of the completed improvements and depreciated even though the improvements themselves were not complete.

Criteria: Generally accepted accounting principles require that donated assets be recorded at fair market value at the date of donation. This would be the value on the date of the donation, not including the improvements to be done later, which would be recorded as completed. Generally accepted accounting principles also require that assets not be depreciated until they are placed in service.

Effect: Recording the incomplete infrastructure improvements as completed caused an over recognition of the income account “contributions from developers”, an overstatement of the wastewater plant asset, and an overstatement of depreciation expense.

Recommendation: The value of wastewater system improvements should be recorded as work progresses on the improvements in the work in process account and only added to wastewater plant when the improvements are completed and functioning.

Response: Management concurs with the finding and has initiated procedures to ensure the proper recording of infrastructure improvements to the wastewater system.