

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

FINANCIAL STATEMENTS

June 30, 2011 and 2010

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

INTRODUCTORY SECTION

June 30, 2011 and 2010

TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee
June 30, 2011 and 2010

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TELLICO AREA SERVICES SYSTEMS

Vonore, Tennessee

FINANCIAL SECTION

June 30, 2011 and 2010

Ingram Overholt & Bean, P.C.

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December 19, 2011

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Tellico Area Services Systems
Vonore, Tennessee

We have audited the accompanying financial statements of Tellico Area Services Systems, Vonore, Tennessee, as of and for the years ended June 30, 2011 and 2010, 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 Tellico Area Services Systems, Vonore, Tennessee, as of June 30, 2011 and 2010 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 December 19, 2011, 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 required supplementary Schedule of Pension Funding Progress on page 28 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 opinions on the financial statements that collectively comprise the Tellico Area Services Systems' basic financial statements. The introductory section, the supplementary information, and the single audit section, including the Schedule of Federal and State Financial Assistance, (as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations"), as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information and the Schedule of Federal and State Financial Assistance, (as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations"), have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 19, 2011, on our consideration of Tellico Area Services Systems' 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 conjunction with this report in considering the result of our audit.

Ingram, Overholt & Bean, P.C.



P.O. BOX 277 VONORE, TENNESSEE 37885 PHONE (423) 884-8400 OR (865) 856-3530

December 19, 2011

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, 2011 and 2010. 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>2011</u>	<u>2010</u>	<u>2009</u>
Water revenues	60.81%	75.79%	61.63%
Capital contributions	25.01%	5.40%	22.12%
Sewer revenues	10.23%	12.46%	10.90%
Interest income	0.99%	1.70%	1.76%
Forfeited discounts	0.76%	1.19%	1.11%
Sprinkler system income	0.77%	1.24%	0.97%
Customer service charges and miscellaneous income	1.43%	2.22%	1.51%
Total Revenues	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Operational costs for the Utility were \$3,163,419 and \$2,971,526 for the fiscal years ended June 30, 2011 and 2010 respectively.

ASSETS, LIABILITIES, AND NET ASSETS

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current Assets	\$ 4,217,246	\$ 2,885,926	\$ 3,413,410
Capital Assets, net of depreciation	26,799,475	24,193,483	20,586,263
Restricted Assets	750,000	1,110,267	513,157
Other Assets	<u>13,101</u>	<u>14,025</u>	<u>14,948</u>
Total Assets	<u>31,779,822</u>	<u>28,203,701</u>	<u>24,527,778</u>
Current Liabilities	650,499	692,901	688,841
Long-Term Debt	12,509,658	10,997,003	7,854,556
Other Liabilities	<u>185,487</u>	<u>164,004</u>	<u>141,635</u>
Total Liabilities	<u>13,345,644</u>	<u>11,853,908</u>	<u>8,685,032</u>
Net Assets – Unrestricted	3,219,407	2,110,651	2,662,599
Invested in Capital Assets, net of related debt	14,214,771	13,128,875	12,666,990
Restricted for debt service	-	110,267	13,157
Restricted for replacements	<u>1,000,000</u>	<u>1,000,000</u>	<u>500,000</u>
Total Net Assets	<u>\$ 18,434,178</u>	<u>\$ 16,349,793</u>	<u>\$ 15,842,746</u>

The assets of the Utility increased by 12.68% during the current year. Net Assets of the Utility increased by 12.75%.

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>2011</u>	<u>2010</u>	<u>2009</u>
Working Capital (the amount by which current assets exceed current liabilities)	\$ 3,566,747	\$ 2,193,025	\$ 2,724,569
Current Ratio (compares current assets to liabilities-as an indicator of the ability to pay current obligations)	6.48	4.16	4.95
Return Assets (illustrates to what extent there will be sufficient funds to replace assets in the future)	6.56%	1.78%	4.30%

CAPITAL ASSETS

At the fiscal year ended June 30, 2011, the Utility had \$35,187,621 invested in capital assets as outlined below (a 10.42% increase over the last year).

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land and land rights	\$ 324,700	\$ 324,700	\$ 324,700
Building and improvements	1,077,363	1,074,958	1,067,940
Distribution facilities	31,439,067	26,351,111	21,900,654
Office furniture and fixtures	109,600	106,908	142,947
Tools and equipment	590,510	573,596	547,139
Construction in progress	<u>1,646,381</u>	<u>3,435,245</u>	<u>3,708,610</u>
Totals	<u>\$ 35,187,621</u>	<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, 2011, is as follows:

	<u>Balance</u> <u>6/30/10</u>	<u>Proceeds</u>	<u>Retired</u>	<u>Balance</u> <u>6/30/11</u>
Monroe County Bonds	\$ 2,117,978	\$ -	\$ 73,983	\$ 2,043,995
Loudon County Bonds	1,016,195	-	44,750	971,445
TRDA Note	1,251,622	-	-	1,251,622
SRF Note	<u>6,692,663</u>	<u>1,853,253</u>	<u>215,348</u>	<u>8,330,568</u>
Total	<u>\$ 11,078,458</u>	<u>\$ 1,853,253</u>	<u>\$ 334,081</u>	<u>\$ 12,597,630</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

<u>ASSETS</u>	June 30, <u>2011</u>	June 30, <u>2010</u>
CAPITAL ASSETS:		
Non-depreciable.....	\$ 324,700	\$ 324,700
Depreciable, net of accumulated depreciation.....	<u>24,828,394</u>	<u>20,433,538</u>
	25,153,094	20,758,238
Construction in process	<u>1,646,381</u>	<u>3,435,245</u>
Net Capital Assets	<u>26,799,475</u>	<u>24,193,483</u>
CURRENT ASSETS:		
Certificate of Deposit	1,750,000	1,200,000
Cash	1,643,357	1,150,820
Accounts receivable	502,643	457,384
Due from U.S. Economic Development Administration.....	223,524	-
Inventory	<u>97,722</u>	<u>77,722</u>
Total Current Assets	<u>4,217,246</u>	<u>2,885,926</u>
RESTRICTED ASSETS:		
Cash – Bond Fund.....	-	110,267
Certificate of Deposit – Replacement Fund	<u>750,000</u>	<u>1,000,000</u>
Total Restricted Assets	<u>750,000</u>	<u>1,110,267</u>
OTHER ASSETS:		
Utility deposits.....	175	175
Unamortized bond issue costs	<u>12,926</u>	<u>13,850</u>
Total other assets.....	<u>13,101</u>	<u>14,025</u>
Total Assets.....	<u>\$ 31,779,822</u>	<u>\$ 28,203,701</u>

(Continued)

See accompanying independent auditors' report and notes.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
STATEMENTS OF NET ASSETS (Continued)

<u>LIABILITIES AND NET ASSETS</u>	June 30, <u>2011</u>	June 30, <u>2010</u>
LONG-TERM DEBT:		
Note payable – TRDA.....	\$ 1,251,622	\$ 1,251,622
Note payable – Water and Sewer Revenue Loan-Series 2009.....	8,330,568	6,692,663
Bonds payable – Water Revenue and Tax Bonds		
Series 1994 – Loudon County	628,943	667,792
Bonds payable – Water Revenue and Tax Bonds		
Series 1995 – Monroe County	498,305	509,517
Bonds payable – Local Government Public Improvement Bonds		
Series E-7-A – Monroe County	920,000	972,500
Bonds payable – Water Revenue and Tax Bonds		
Series 2000 – Monroe County	291,642	297,006
Bonds payable – Water Revenue and Tax Bonds		
Series 2005 – Loudon County	342,502	348,403
Bonds payable – Water Revenue and Tax Bonds		
Series 2005 – Monroe County	334,048	338,955
Less: Bonds payable – Due within one (1) year	<u>(87,972)</u>	<u>(81,455)</u>
Total Long-Term Debt.....	<u>12,509,658</u>	<u>10,997,003</u>
CURRENT LIABILITIES:		
Accounts payable.....	551,491	533,494
Sales tax payable	10,776	10,209
Accrued interest.....	-	67,743
Pension withheld.....	260	-
Bonds payable within one (1) year	<u>87,972</u>	<u>81,455</u>
Total Current Liabilities.....	<u>650,499</u>	<u>692,901</u>
OTHER LIABILITIES:		
Customer meter deposits	<u>60,104</u>	<u>65,172</u>
LONG-TERM LIABILITIES:		
Accrued compensated absences.....	<u>125,383</u>	<u>98,832</u>
Total Liabilities	<u>13,345,644</u>	<u>11,853,908</u>
NET ASSETS:		
Invested in capital assets, net of related debt.....	14,214,771	13,128,875
Restricted for debt service.....	-	110,267
Restricted for replacements	1,000,000	1,000,000
Unrestricted.....	<u>3,219,407</u>	<u>2,110,651</u>
Total Net Assets	<u>18,434,178</u>	<u>16,349,793</u>
Total Liabilities and Net Assets	<u>\$ 31,779,822</u>	<u>\$ 28,203,701</u>

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

	<u>FISCAL YEARS ENDED JUNE 30,</u>	
	<u>2011</u>	<u>2010</u>
OPERATING REVENUES:		
Metered water sales	\$ 3,267,600	\$ 2,739,425
Water tap fees	37,265	65,785
Metered sewer sales, sewer service charges and sewer tap fees.....	555,772	461,335
Customers' forfeited discounts.....	41,513	44,056
Sprinkler systems' income	41,608	45,798
Customer service charges and miscellaneous income	49,470	73,904
Total Operating Revenues	3,993,228	3,430,303
OPERATING EXPENSES:		
Salaries and wages	915,585	925,077
Payroll taxes	65,908	74,133
Laboratory supplies.....	30,653	28,380
Chemicals.....	227,079	163,728
Goodwill advertising.....	4,701	4,277
Utilities.....	357,141	274,107
Telephone	26,891	22,529
Office supplies, postage, and bank charges	31,728	35,769
Maintenance and plant expenses.....	150,734	102,237
Repairs	32,676	40,355
Commissioner's fee	21,000	21,300
Insurance	59,731	55,553
Employee benefits – Health insurance	295,844	269,000
Billing service.....	29,911	29,210
Legal and audit	7,770	6,400
Uniforms	4,890	2,023
Miscellaneous	16,817	20,528
Retirement benefits	50,701	63,586
Conferences and seminars	-	12,083
Professional consultants	29,073	61,823
Vehicle expenses.....	52,410	45,187
Depreciation	743,993	714,241
Travel – management	2,994	-
Travel – employees	2,520	-
Registration fees	2,669	-
Total Operating Expenses	3,163,419	2,971,526
OPERATING INCOME	829,809	458,777
OTHER INCOME (EXPENSES):		
Interest earned.....	54,008	62,778
Interest expense	(185,807)	(222,010)
Amortization of bond issue cost.....	(923)	(923)
Capital contributions	1,359,451	200,079
Gain on sale of fixed asset.....	27,857	8,346
Net Other Income (Expense).....	1,254,586	48,270
NET INCOME	2,084,395	507,047
NET ASSETS – July 1	16,349,783	15,842,746
NET ASSETS – June 30	\$ 18,434,178	\$ 16,349,783

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>2011</u>	<u>2010</u>
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:		
Cash received from customers	\$ 3,947,969	\$ 3,374,865
Cash payments to suppliers for goods and services	(1,753,474)	(865,482)
Cash payments to employees for services	<u>(942,136)</u>	<u>(925,077)</u>
Net Cash Flows Provided By		
Operating Activities	<u>1,252,359</u>	<u>1,584,306</u>
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(2,029,664)	(4,323,649)
Proceeds from sale of capital assets	27,857	10,534
Proceeds from bonds and notes.....	649,005	3,184,221
Principal paid on bonds and notes.....	(309,303)	(39,809)
Interest paid on debt	(321,443)	(154,267)
Capital contributions	<u>1,359,451</u>	<u>200,079</u>
Net Cash Flows Provided (Used) By Capital and Related Financing Activities.....	<u>(624,097)</u>	<u>(1,122,891)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:		
Interest received	54,008	62,778
Purchase of certificate of deposit	<u>(300,000)</u>	<u>(400,000)</u>
Net Cash Flows Provided (Used) by Investing Activities	<u>(245,992)</u>	<u>(337,222)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	382,270	124,193
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR	<u>1,261,087</u>	<u>1,136,894</u>
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	<u>\$ 1,643,357</u>	<u>\$ 1,261,087</u>

(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>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING REVENUE TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income.....	\$ 829,809	\$ 458,777
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	738,768	714,241
Change in assets and liabilities:		
Accounts receivable, trade	(45,259)	(55,438)
Other receivable.....	-	241,726
Due from Tennessee SRF.....	-	277,211
Due from U.S. Economic Development Administration.....	(223,524)	-
Prepaid expenses	(67,483)	339
Inventory.....	(20,000)	(9,271)
Customer meter deposits.....	(5,067)	14,322
Accounts payable.....	17,997	(66,827)
Sales tax payable	567	1,179
Compensated absences.....	<u>26,551</u>	<u>8,047</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,252,359</u>	<u>\$ 1,584,306</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
TO THE BALANCE SHEET:		
Current assets – cash.....	\$ 1,643,357	\$ 1,150,820
Restricted assets:		
Bond Fund.....	<u>-</u>	<u>110,267</u>
Ending Cash and Cash Equivalents	<u>\$ 1,643,357</u>	<u>\$ 1,261,087</u>

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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, 2011 and 2010

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, 2011 and 2010

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, 2011 and 2010

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 \$4,143,357 and \$3,461,087 at June 30, 2011 and 2010, respectively, are classified as follows:

<u>Type</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Petty cash	\$ 100	\$ 100
Local financial institutions -		
Checking accounts	1,631,196	1,234,729
Local financial institutions:		
Savings	12,061	26,258
Certificates of Deposit.....	<u>2,500,000</u>	<u>2,200,000</u>
 Total	 <u>\$ 4,143,357</u>	 <u>\$ 3,461,087</u>

Custodial Credit Risk – The Utility has no formal policy regarding custodial credit risk. However, as of June 30, 2011 and 2010, total cash in financial institutions in the amount of \$4,173,743 and \$3,485,297, 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, 2011</u>	<u>June 30, 2010</u>
Metered water sales:		
Billed revenue	\$ 335,700	\$ 250,885
Unbilled revenue	<u>166,943</u>	<u>206,499</u>
 Total.....	 <u>\$ 502,643</u>	 <u>\$ 457,384</u>

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

NOTE 5 – CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2011 was as follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>
Capital Assets, non-depreciable:				
Land.....	\$ 324,700	\$ -	\$ -	\$ 324,700
Other Capital Assets:				
Water lines and appurtenances	12,299,997	-	-	12,299,997
Fire hydrants	122,888	-	-	122,888
Meters.....	1,036,957	236,930	-	1,273,887
Water treatment plant	5,493,513	58,559	-	5,552,072
Office building	1,034,940	2,405	-	1,037,345
Water storage tanks	1,070,005	5,740	-	1,075,745
Grading and surfacing	10,978	-	-	10,978
Office furniture and fixtures.....	106,908	2,692	-	109,600
Tools and equipment	241,991	13,232	(13,675)	241,548
Transportation equipment	331,605	32,559	(15,202)	348,962
Fencing	29,040	-	-	29,040
Pump station	383,077	11,895	-	394,972
Collection system	19,389	1,730	-	21,119
Sewer lines.....	1,574,122	-	-	1,574,122
Wastewater treatment plant.....	4,351,163	4,773,102	-	9,124,265
Total Other Capital Assets at Historical Cost.....	<u>28,106,573</u>	<u>5,138,844</u>	<u>(28,877)</u>	<u>33,216,540</u>
Less Accumulated Depreciation for:				
Water lines and appurtenances	(2,849,460)	(247,519)	-	(3,096,979)
Fire hydrants	(58,933)	(2,457)	-	(61,390)
Meters.....	(210,688)	(34,922)	-	(245,610)
Water treatment plant	(2,993,116)	(144,675)	-	(3,137,791)
Office building	(99,422)	(25,892)	-	(125,314)
Water storage tanks	(530,364)	(31,276)	-	(561,640)
Grading and surfacing	(10,978)	-	-	(10,978)
Office furniture and fixtures.....	(91,769)	(10,656)	-	(102,425)
Tools and equipment	(212,047)	(8,938)	13,675	(207,310)
Transportation equipment	(187,671)	(56,294)	15,202	(228,763)
Fencing	(28,665)	(107)	-	(28,772)
Pump station	(42,979)	(22,986)	-	(65,965)
Collection system	(2,629)	(2,008)	-	(4,637)
Sewer lines.....	(152,169)	(31,479)	-	(183,648)
Wastewater treatment plant.....	(202,145)	(124,779)	-	(326,924)
Total Accumulated Depreciation.....	<u>(7,673,035)</u>	<u>(743,988)</u>	<u>28,877</u>	<u>(8,388,146)</u>
Other Capital Assets, net	<u>20,433,538</u>	<u>4,394,856</u>	<u>-</u>	<u>24,828,394</u>
Construction in Progress.....	<u>3,435,245</u>	<u>2,974,880</u>	<u>4,763,744</u>	<u>1,646,381</u>
Total Capital Assets, net.....	<u>\$ 24,193,483</u>	<u>\$ 7,369,736</u>	<u>\$ 4,763,744</u>	<u>\$ 26,799,475</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

NOTE 5 – CAPITAL ASSETS (Continued):

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	448,442	3,904,236	(1,515)	4,351,163
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	(115,831)	(86,314)	-	(202,145)
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>

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

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

A Summary of Long-Term Debt is presented below:

Balance June 30, 2010	\$ 11,078,458
Additions	1,853,253
Retirements – debt paid	<u>(334,081)</u>
Balance June 30, 2011	<u>\$ 12,597,630</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 annual payment includes interest at 4.75%. As of June 30, 2011, the balance of the bonds was \$291,642 (Cornassel Water Line Extension).

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>
2012	\$ 5,071	\$ 13,853	\$ 18,924
2013	5,312	13,612	18,924
2014	5,564	13,360	18,924
2015	5,828	13,096	18,924
2016	<u>6,105</u>	<u>12,819</u>	<u>18,924</u>
Subtotal	<u>27,880</u>	<u>66,740</u>	<u>94,620</u>
2017	6,395	12,529	18,924
2018	6,699	12,225	18,924
2019	7,017	11,907	18,924
2020	7,351	11,573	18,924
2021	<u>7,700</u>	<u>11,224</u>	<u>18,924</u>
Subtotal	<u>35,162</u>	<u>59,458</u>	<u>94,620</u>
2022	8,066	10,858	18,924
2023	8,449	10,475	18,924
2024	8,850	10,074	18,924
2025	9,270	9,654	18,924
2026	<u>9,711</u>	<u>9,213</u>	<u>18,924</u>
Subtotal	<u>44,346</u>	<u>50,274</u>	<u>94,620</u>
2027	10,172	8,752	18,924
2028	10,655	8,269	18,924
2029	11,161	7,763	18,924
2030	11,691	7,233	18,924
2031	<u>12,247</u>	<u>6,677</u>	<u>18,924</u>
Subtotal	<u>55,926</u>	<u>38,694</u>	<u>94,620</u>
2032	12,828	6,096	18,924
2033	13,438	5,486	18,924
2034	14,076	4,848	18,924
2035	14,745	4,179	18,924
2036	<u>15,445</u>	<u>3,479</u>	<u>18,924</u>
Subtotal	<u>70,532</u>	<u>24,088</u>	<u>94,620</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

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

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

<u>Year Ending June 30,</u>	<u>Bond Principal</u>	<u>Interest</u>	<u>Total</u>
2037	16,179	2,745	18,924
2038	16,947	1,977	18,924
2039	17,752	1,172	18,924
2040	<u>6,918</u>	<u>329</u>	<u>7,247</u>
Subtotal	<u>57,796</u>	<u>6,223</u>	<u>64,019</u>
Total	<u>\$ 291,642</u>	<u>\$ 245,477</u>	<u>\$ 537,119</u>

Local Government Public Improvement Bonds, Series E-7-A, in the amount of \$1,035,000 were issued through Monroe County, Tennessee. The bonds were issued in Monroe County’s name and it is liable for repayment if the Utility defaults. The bonds are payable over twenty-five (25) years. The monthly payments include variable interest. The balance of the bonds as of June 30, 2011 was \$920,000 (Water Plant Renovations).

Maturities and interest requirements of the bond are as follows:

<u>Year Ending June 30,</u>	<u>Bond Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 45,000	\$ 17,059	\$ 62,059
2013	45,000	17,661	62,661
2014	50,000	16,753	66,753
2015	50,000	15,744	65,744
2016	<u>55,000</u>	<u>14,735</u>	<u>69,735</u>
Subtotal	<u>245,000</u>	<u>81,952</u>	<u>326,952</u>
2017	60,000	13,624	73,624
2018	60,000	12,413	72,413
2019	65,000	11,202	76,202
2020	70,000	9,890	79,890
2021	<u>75,000</u>	<u>8,477</u>	<u>83,477</u>
Subtotal	<u>330,000</u>	<u>55,606</u>	<u>385,606</u>
2022	80,000	6,964	86,964
2023	80,000	5,349	85,349
2024	85,000	3,734	88,734
2025	<u>100,000</u>	<u>2,018</u>	<u>102,018</u>
Subtotal	<u>345,000</u>	<u>18,065</u>	<u>363,065</u>
	<u>\$ 920,000</u>	<u>\$ 155,623</u>	<u>\$ 1,075,623</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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 annual payment includes interest at 5.25%. As of June 30, 2011, the balance of the bonds was \$628,943 (Highway 411 Relocation).

Maturities and interest requirements of the bonds are as follows:

Year Ending June 30,	Bond Principal	Interest	Total
2012	\$ 16,346	\$ 33,020	\$ 49,366
2013	17,205	32,161	49,366
2014	18,108	31,258	49,366
2015	19,059	30,307	49,366
2016	<u>20,059</u>	<u>29,307</u>	<u>49,366</u>
Subtotal	<u>90,777</u>	<u>156,053</u>	<u>246,830</u>
2017	21,112	28,254	49,366
2018	22,221	27,145	49,366
2019	23,387	25,979	49,366
2020	24,615	24,751	49,366
2021	<u>25,907</u>	<u>23,459</u>	<u>49,366</u>
Subtotal	<u>117,242</u>	<u>129,588</u>	<u>246,830</u>
2022	27,267	22,099	49,366
2023	28,699	20,667	49,366
2024	30,206	19,160	49,366
2025	31,792	17,574	49,366
2026	<u>33,461</u>	<u>15,905</u>	<u>49,366</u>
Subtotal	<u>151,425</u>	<u>95,405</u>	<u>246,830</u>
2027	35,217	14,149	49,366
2028	37,066	12,300	49,366
2029	39,012	10,354	49,366
2030	41,060	8,306	49,366
2031	<u>43,216</u>	<u>6,150</u>	<u>49,366</u>
Subtotal	<u>195,571</u>	<u>51,259</u>	<u>246,830</u>
2032	45,485	3,881	49,366
2033	<u>28,443</u>	<u>1,494</u>	<u>29,937</u>
Subtotal	<u>73,928</u>	<u>5,375</u>	<u>79,303</u>
	<u>\$ 628,943</u>	<u>\$ 437,680</u>	<u>\$ 1,066,623</u>

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

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 annual payment includes interest at 5.125%. As of June 30, 2011 the balance of the bonds was \$498,305 (Highway 411 Relocation)

Maturities and interest requirements of the bonds are as follows:

Year Ending June 30,	Bond Principal	Interest	Total
2012	\$ 11,350	\$ 25,538	\$ 36,888
2013	11,932	24,956	36,888
2014	12,543	24,345	36,888
2015	13,186	23,702	36,888
2016	<u>13,862</u>	<u>23,026</u>	<u>36,888</u>
Subtotal	<u>62,873</u>	<u>121,567</u>	<u>184,440</u>
2017	14,572	22,316	36,888
2018	15,319	21,569	36,888
2019	16,104	20,784	36,888
2020	16,930	19,958	36,888
2021	<u>17,797</u>	<u>19,091</u>	<u>36,888</u>
Subtotal	<u>80,722</u>	<u>103,718</u>	<u>184,440</u>
2022	18,709	18,179	36,888
2023	19,668	17,220	36,888
2024	20,676	16,212	36,888
2025	21,735	15,153	36,888
2026	<u>22,849</u>	<u>14,039</u>	<u>36,888</u>
Subtotal	<u>103,637</u>	<u>80,803</u>	<u>184,440</u>
2027	24,020	12,868	36,888
2028	25,251	11,637	36,888
2029	26,546	10,342	36,888
2030	27,906	8,982	36,888
2031	<u>29,336</u>	<u>7,552</u>	<u>36,888</u>
Subtotal	<u>133,059</u>	<u>51,381</u>	<u>184,440</u>
2032	30,840	6,048	36,888
2033	32,420	4,468	36,888
2034	34,082	2,806	36,888
2035	<u>20,672</u>	<u>1,060</u>	<u>21,732</u>
Subtotal	<u>118,014</u>	<u>14,382</u>	<u>132,396</u>
	<u>\$ 498,305</u>	<u>\$ 371,851</u>	<u>\$ 870,156</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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

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 annual payment includes interest at 4.125%. As of June 30, 2011 the balance of the bonds was \$342,502 (TASS Area Project).

Maturities and interest requirements of the bonds are as follows:

Year Ending <u>June 30,</u>	<u>Bond</u> <u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 5,192	\$ 14,128	\$ 19,320
2013	5,406	13,914	19,320
2014	5,629	13,691	19,320
2015	5,861	13,459	19,320
2016	<u>6,103</u>	<u>13,217</u>	<u>19,320</u>
Subtotal	<u>28,191</u>	<u>68,409</u>	<u>96,600</u>
2017	6,355	12,965	19,320
2018	6,617	12,703	19,320
2019	6,890	12,430	19,320
2920	7,174	12,146	19,320
2021	<u>7,470</u>	<u>11,850</u>	<u>19,320</u>
Subtotal	<u>34,506</u>	<u>62,094</u>	<u>96,600</u>
2022	7,778	11,542	19,320
2023	8,099	11,221	19,320
2024	8,433	10,887	19,320
2025	8,781	10,539	19,320
2026	<u>9,143</u>	<u>10,177</u>	<u>19,320</u>
Subtotal	<u>42,234</u>	<u>54,366</u>	<u>96,600</u>
2027	9,520	9,800	19,320
2028	9,913	9,407	19,320
2029	10,322	8,998	19,320
2030	10,747	8,573	19,320
2031	<u>11,191</u>	<u>8,129</u>	<u>19,320</u>
Subtotal	<u>51,693</u>	<u>44,907</u>	<u>96,600</u>
2032	11,652	7,668	19,320
2033	12,133	7,187	19,320
2034	12,634	6,686	19,320
2035	13,155	6,165	19,320
2036	<u>13,697</u>	<u>5,623</u>	<u>19,320</u>
Subtotal	<u>63,271</u>	<u>33,329</u>	<u>96,600</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

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>
2037	14,262	5,058	19,320
2038	14,851	4,469	19,320
2039	15,463	3,857	19,320
2040	16,101	3,219	19,320
2041	<u>16,765</u>	<u>2,555</u>	<u>19,320</u>
Subtotal	<u>77,442</u>	<u>19,158</u>	<u>96,600</u>
2042	17,457	1,863	19,320
2043	18,177	1,143	19,320
2044	<u>9,531</u>	<u>393</u>	<u>9,924</u>
Subtotal	<u>45,165</u>	<u>3,399</u>	<u>48,564</u>
Total	<u>\$ 342,502</u>	<u>\$ 285,662</u>	<u>\$ 628,164</u>

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 annual payment includes interest at 4.125%. As of June 30, 2011 the balance of the bonds was \$334,048 (TASS Area Project).

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>
2012	\$ 5,013	\$ 13,779	\$ 18,792
2013	5,219	13,573	18,792
2014	5,435	13,357	18,792
2015	5,659	13,133	18,792
2016	<u>5,892</u>	<u>12,900</u>	<u>18,792</u>
Subtotal	<u>27,218</u>	<u>66,742</u>	<u>93,960</u>
2017	6,135	12,657	18,792
2018	6,388	12,404	18,792
2019	6,652	12,140	18,792
2020	6,926	11,866	18,792
2021	<u>7,212</u>	<u>11,580</u>	<u>18,792</u>
Subtotal	<u>33,313</u>	<u>60,647</u>	<u>93,960</u>

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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

Year Ending June 30,	Bond Principal	Interest	Total
2022	7,509	11,283	18,792
2023	7,819	10,973	18,792
2024	8,142	10,650	18,792
2025	8,478	10,314	18,792
2026	<u>8,827</u>	<u>9,965</u>	<u>18,792</u>
Subtotal	<u>40,775</u>	<u>53,185</u>	<u>93,960</u>
2027	9,191	9,601	18,792
2028	9,571	9,221	18,792
2029	9,965	8,827	18,792
2030	10,376	8,416	18,792
2031	<u>10,804</u>	<u>7,988</u>	<u>18,792</u>
Subtotal	<u>49,907</u>	<u>44,053</u>	<u>93,960</u>
2032	11,250	7,542	18,792
2033	11,714	7,078	18,792
2034	12,197	6,595	18,792
2035	12,701	6,091	18,792
2036	<u>13,224</u>	<u>5,568</u>	<u>18,792</u>
Subtotal	<u>61,086</u>	<u>32,874</u>	<u>93,960</u>
2037	13,770	5,022	18,792
2038	14,338	4,454	18,792
2039	14,929	3,863	18,792
2040	15,545	3,247	18,792
2041	<u>16,186</u>	<u>2,606</u>	<u>18,792</u>
Subtotal	<u>74,768</u>	<u>19,192</u>	<u>93,960</u>
2042	16,854	1,938	18,792
2043	17,549	1,243	18,792
2044	<u>12,578</u>	<u>519</u>	<u>13,097</u>
Subtotal	<u>46,981</u>	<u>3,700</u>	<u>50,681</u>
Total	<u>\$ 334,048</u>	<u>\$ 280,393</u>	<u>\$ 614,441</u>

Total interest incurred on the Utility's debt for the years ended June 30, 2011, and June 30, 2010, was \$185,807 and \$220,010, respectively.

(Continued)

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

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, 2011 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 semi-annual interest payments and an annual principal payment on the outstanding balance. The balance on the loan as of June 30, 2011 is \$8,330,568.

Total Long Term debt is as follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Long-term debt.....	\$ 12,597,630	\$ 11,078,458
Interest	<u>2,370,946</u>	<u>2,185,965</u>
Total Debt and Interest	<u>\$ 14,968,576</u>	<u>\$ 13,264,423</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 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

(Continued)

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 8 – EMPLOYEES' RETIREMENT SYSTEM (Continued):

(A) PLAN DESCRIPTION (Continued):

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/tcrs/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, 2011 was 5.79% 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, 2011, Tellico Area Services Systems' annual pension cost of \$50,561 to TCRS was equal to Tellico Area Services Systems' required and actual contributions. The required contribution was determined as part of the July 1, 2009 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 3.0 percent annual rate of inflation, (c) 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), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. 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, 2009 was 10 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, 2011 and 2010

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>
6/30/11	\$ 50,561	100.00%	\$ 0.00
6/30/10	\$ 55,626	100.00%	\$ 0.00
6/30/09	\$ 52,362	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 \$1.0 million, and the actuarial value of assets was \$0.9 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.2 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.9 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, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

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

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b)-(a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>((b-a)/c)</u>
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, 2011 and 2010

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, 2011, 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, 2011</u>	<u>Estimated Cost to Complete</u>
Emily's Landing	\$ 1,694,999	\$ 48,618	\$ 1,646,381

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>9,416,068</u>	<u>6,970,587</u>	<u>2,445,481</u>
	<u>\$ 11,501,667</u>	<u>\$ 7,332,745</u>	<u>\$ 4,168,922</u>

NOTE 11 – SUBSEQUENT EVENT:

The date to which events occurring after June 30, 2011, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is December 19, 2011, which is the date on which the financial statements were issued.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

REQUIRED SUPPLEMENTAL INFORMATION SECTION

June 30, 2011 and 2010

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 REQUIRED SUPPLEMENTARY INFORMATION
 June 30, 2011 and 2010

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)	Annual 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 went into effect during the year of the 2007 actuarial valuation, therefore, only the two most recent valuations are presented.

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee

SUPPLEMENTAL INFORMATION SECTION

June 30, 2011 and 2010

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION
 June 30, 2011

	ASSETS			ACCUMULATED DEPRECIATION				
	Balance 7-1-10	Additions	Retirements	Balance 6-30-11	Balance 7-1-10	Additions	Retirements	Balance 6-30-11
<u>Water Plant in Service</u>								
Capital Assets, non-depreciable:								
Land.....	\$ 324,700	\$ -	\$ -	\$ 324,700	\$ -	\$ -	\$ -	\$ -
Capital Assets, depreciable:								
Water lines and appurtenances	12,299,997	-	-	12,299,997	2,849,460	247,519	-	3,096,979
Fire hydrants	122,888	-	-	122,888	58,933	2,457	-	61,390
Meters.....	1,036,957	236,930	-	1,273,887	210,688	34,922	-	245,610
Water treatment plant, water supply intake, and waste-water facility	5,493,513	58,559	-	5,552,072	2,993,116	144,675	-	3,137,791
Office building	1,034,940	2,405	-	1,037,345	99,422	25,892	-	125,314
Water storage tanks – 3.....	1,070,005	5,740	-	1,075,745	530,364	31,276	-	561,640
Grading and surfacing road - Tank #3.....	10,978	-	-	10,978	10,978	-	-	10,978
Office furniture and fixtures....	106,908	2,692	-	109,600	91,769	10,656	-	102,425
Tools and equipment	241,991	13,232	(13,675)	241,548	212,047	8,938	(13,675)	207,310
Transportation equipment	331,605	32,559	(15,202)	348,962	187,671	56,294	(15,202)	228,763
Fencing	29,040	-	-	29,040	28,665	107	-	28,772
Pump station	383,077	11,895	-	394,972	42,979	22,986	-	65,965
Collection system	19,389	1,730	-	21,119	2,629	2,008	-	4,637
Wastewater treatment plant.....	4,351,163	4,773,102	-	9,124,265	202,145	124,779	-	326,924
Sewer lines.....	<u>1,574,122</u>	<u>-</u>	<u>-</u>	<u>1,574,122</u>	<u>152,169</u>	<u>31,479</u>	<u>-</u>	<u>183,648</u>
Total Capital Assets, depreciable.....	<u>28,106,573</u>	<u>5,138,844</u>	<u>(28,877)</u>	<u>33,216,540</u>	<u>7,673,035</u>	<u>743,988</u>	<u>(28,877)</u>	<u>8,388,146</u>
Total Capital Assets	<u>\$ 28,431,273</u>	<u>\$ 5,138,844</u>	<u>\$ (28,877)</u>	<u>\$ 33,541,240</u>	<u>\$ 7,673,035</u>	<u>\$ 743,988</u>	<u>\$ (28,877)</u>	<u>\$ 8,388,146</u>

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
SCHEDULE OF BONDS PAYABLE
 June 30, 2011

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
2012	\$ 16,346	\$ 33,020	\$ 49,366	\$ 11,350	\$ 25,538	\$ 36,888
2013	17,205	32,161	49,366	11,932	24,956	36,888
2014	18,108	31,258	49,366	12,543	24,345	36,888
2015	19,059	30,307	49,366	13,186	23,702	36,888
2016	<u>20,059</u>	<u>29,307</u>	<u>49,366</u>	<u>13,862</u>	<u>23,026</u>	<u>36,888</u>
Subtotal	<u>90,777</u>	<u>156,053</u>	<u>246,830</u>	<u>62,873</u>	<u>121,567</u>	<u>184,440</u>
2017	21,112	28,254	49,366	14,572	22,316	36,888
2018	22,221	27,145	49,366	15,319	21,569	36,888
2019	23,387	25,979	49,366	16,104	20,784	36,888
2020	24,615	24,751	49,366	16,930	19,958	36,888
2021	<u>25,907</u>	<u>23,459</u>	<u>49,366</u>	<u>17,797</u>	<u>19,091</u>	<u>36,888</u>
Subtotal	<u>117,242</u>	<u>129,588</u>	<u>246,830</u>	<u>80,722</u>	<u>103,718</u>	<u>184,440</u>
2022	27,267	22,099	49,366	18,709	18,179	36,888
2023	28,699	20,667	49,366	19,668	17,220	36,888
2024	30,206	19,160	49,366	20,676	16,212	36,888
2025	31,792	17,574	49,366	21,735	15,153	36,888
2026	<u>33,461</u>	<u>15,905</u>	<u>49,366</u>	<u>22,849</u>	<u>14,039</u>	<u>36,888</u>
Subtotal	<u>151,425</u>	<u>95,405</u>	<u>246,830</u>	<u>103,637</u>	<u>80,803</u>	<u>184,440</u>
2027	35,217	14,149	49,366	24,020	12,868	36,888
2028	37,066	12,300	49,366	25,251	11,637	36,888
2029	39,012	10,354	49,366	26,546	10,342	36,888
2030	41,060	8,306	49,366	27,906	8,982	36,888
2031	<u>43,216</u>	<u>6,150</u>	<u>49,366</u>	<u>29,336</u>	<u>7,552</u>	<u>36,888</u>
Subtotal	<u>195,571</u>	<u>51,259</u>	<u>246,830</u>	<u>133,059</u>	<u>51,381</u>	<u>184,440</u>
2032	45,485	3,881	49,366	30,840	6,048	36,888
2033	28,443	1,494	29,937	32,420	4,468	36,888
2034	-	-	-	34,082	2,806	36,888
2035	-	-	-	20,672	1,060	21,732
2036	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>73,928</u>	<u>5,375</u>	<u>79,303</u>	<u>118,014</u>	<u>14,382</u>	<u>132,396</u>
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
2041	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2042	-	-	-	-	-	-
2043	-	-	-	-	-	-
2044	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 628,943</u>	<u>\$ 437,680</u>	<u>\$ 1,066,623</u>	<u>\$ 498,305</u>	<u>\$ 371,851</u>	<u>\$ 870,156</u>

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 SCHEDULE OF BONDS PAYABLE (Continued)
 June 30, 2011

Year Ended June 30,	COUNTY OF MONROE LOCAL GOVERNMENT PUBLIC IMPROVEMENT BONDS, SERIES E-7-A			COUNTY OF MONROE WATER REVENUE AND TAX BONDS, SERIES 2000		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 45,000	\$ 17,059	\$ 62,059	\$ 5,071	\$ 13,853	\$ 18,924
2013	45,000	17,661	62,661	5,312	13,612	18,924
2014	50,000	16,753	66,753	5,564	13,360	18,924
2015	50,000	15,744	65,744	5,828	13,096	18,924
2016	<u>55,000</u>	<u>14,735</u>	<u>69,735</u>	<u>6,105</u>	<u>12,819</u>	<u>18,924</u>
Subtotal	<u>245,000</u>	<u>81,952</u>	<u>326,952</u>	<u>27,880</u>	<u>66,740</u>	<u>94,620</u>
2017	60,000	13,624	73,624	6,395	12,529	18,924
2018	60,000	12,413	72,413	6,699	12,225	18,924
2019	65,000	11,202	76,202	7,017	11,907	18,924
2020	70,000	9,890	79,890	7,351	11,573	18,924
2021	<u>75,000</u>	<u>8,477</u>	<u>83,477</u>	<u>7,700</u>	<u>11,224</u>	<u>18,924</u>
Subtotal	<u>330,000</u>	<u>55,606</u>	<u>385,606</u>	<u>35,162</u>	<u>59,458</u>	<u>94,620</u>
2022	80,000	6,964	86,964	8,066	10,858	18,924
2023	80,000	5,349	85,349	8,449	10,475	18,924
2024	85,000	3,734	88,734	8,850	10,074	18,924
2025	100,000	2,018	102,018	9,270	9,654	18,924
2026	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,711</u>	<u>9,213</u>	<u>18,924</u>
Subtotal	<u>345,000</u>	<u>18,065</u>	<u>363,065</u>	<u>44,346</u>	<u>50,274</u>	<u>94,620</u>
2027	-	-	-	10,172	8,752	18,924
2028	-	-	-	10,655	8,269	18,924
2029	-	-	-	11,161	7,763	18,924
2030	-	-	-	11,691	7,233	18,924
2031	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,247</u>	<u>6,677</u>	<u>18,924</u>
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,926</u>	<u>38,694</u>	<u>94,620</u>
2032	-	-	-	12,828	6,096	18,924
2033	-	-	-	13,438	5,486	18,924
2034	-	-	-	14,076	4,848	18,924
2035	-	-	-	14,745	4,179	18,924
2036	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,445</u>	<u>3,479</u>	<u>18,924</u>
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,532</u>	<u>24,088</u>	<u>94,620</u>
2037	-	-	-	16,179	2,745	18,924
2038	-	-	-	16,947	1,977	18,924
2039	-	-	-	17,752	1,172	18,942
2040	-	-	-	6,918	329	7,247
2041	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,796</u>	<u>6,223</u>	<u>64,019</u>
2042	-	-	-	-	-	-
2043	-	-	-	-	-	-
2044	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 920,000</u>	<u>\$ 155,623</u>	<u>\$ 1,075,623</u>	<u>\$ 291,642</u>	<u>\$ 245,477</u>	<u>\$ 537,119</u>

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 SCHEDULE OF BONDS PAYABLE (Continued)
 June 30, 2011

COUNTY OF LOUDON WATER
 REVENUE AND TAX BONDS,
SERIES 2005

COUNTY OF MONROE WATER
 REVENUE AND TAX BONDS,
SERIES 2005

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 5,192	\$ 14,128	\$ 19,320	\$ 5,013	\$ 13,779	\$ 18,792
2013	5,406	13,914	19,320	5,219	13,573	18,792
2014	5,629	13,691	19,320	5,435	13,357	18,792
2015	5,861	13,459	19,320	5,659	13,133	18,792
2016	<u>6,103</u>	<u>13,217</u>	<u>19,320</u>	<u>5,892</u>	<u>12,900</u>	<u>18,792</u>
Subtotal	<u>28,191</u>	<u>68,409</u>	<u>96,600</u>	<u>27,218</u>	<u>66,742</u>	<u>93,960</u>
2017	6,355	12,965	19,320	6,135	12,657	18,792
2018	6,617	12,703	19,320	6,388	12,404	18,792
2019	6,890	12,430	19,320	6,652	12,140	18,792
2020	7,174	12,146	19,320	6,926	11,866	18,792
2021	<u>7,470</u>	<u>11,850</u>	<u>19,320</u>	<u>7,212</u>	<u>11,580</u>	<u>18,792</u>
Subtotal	<u>34,506</u>	<u>62,094</u>	<u>96,600</u>	<u>33,313</u>	<u>60,647</u>	<u>93,960</u>
2022	7,778	11,542	19,320	7,509	11,283	18,792
2023	8,099	11,221	19,320	7,819	10,973	18,792
2024	8,433	10,887	19,320	8,142	10,650	18,792
2025	8,781	10,539	19,320	8,478	10,314	18,792
2026	<u>9,143</u>	<u>10,177</u>	<u>19,320</u>	<u>8,827</u>	<u>9,965</u>	<u>18,792</u>
Subtotal	<u>42,234</u>	<u>54,366</u>	<u>96,600</u>	<u>40,775</u>	<u>53,185</u>	<u>93,960</u>
2027	9,520	9,800	19,320	9,191	9,601	18,792
2028	9,913	9,407	19,320	9,571	9,221	18,792
2029	10,322	8,998	19,320	9,965	8,827	18,792
2030	10,747	8,573	19,320	10,376	8,416	18,792
2031	<u>11,191</u>	<u>8,129</u>	<u>19,320</u>	<u>10,804</u>	<u>7,988</u>	<u>18,792</u>
Subtotal	<u>51,693</u>	<u>44,907</u>	<u>96,600</u>	<u>49,907</u>	<u>44,053</u>	<u>93,960</u>
2032	11,652	7,668	19,320	11,250	7,542	18,792
2033	12,133	7,187	19,320	11,714	7,078	18,792
2034	12,634	6,686	19,320	12,197	6,595	18,792
2035	13,155	6,165	19,320	12,701	6,091	18,792
2036	<u>13,697</u>	<u>5,623</u>	<u>19,320</u>	<u>13,224</u>	<u>5,568</u>	<u>18,792</u>
Subtotal	<u>63,271</u>	<u>33,329</u>	<u>96,600</u>	<u>61,086</u>	<u>32,874</u>	<u>93,960</u>
2037	14,262	5,058	19,320	13,770	5,022	18,792
2038	14,851	4,469	19,320	14,338	4,454	18,792
2039	15,463	3,857	19,320	14,929	3,863	18,792
2040	16,101	3,219	19,320	15,545	3,247	18,792
2041	<u>16,765</u>	<u>2,555</u>	<u>19,320</u>	<u>16,186</u>	<u>2,606</u>	<u>18,792</u>
Subtotal	<u>77,442</u>	<u>19,158</u>	<u>96,600</u>	<u>74,768</u>	<u>19,192</u>	<u>93,960</u>
2042	17,457	1,863	19,320	16,854	1,938	18,792
2043	18,177	1,143	19,320	17,549	1,243	18,792
2044	<u>9,531</u>	<u>393</u>	<u>9,924</u>	<u>12,578</u>	<u>519</u>	<u>13,097</u>
Subtotal	<u>45,165</u>	<u>3,399</u>	<u>48,564</u>	<u>46,981</u>	<u>3,700</u>	<u>50,681</u>
Total	<u>\$ 342,502</u>	<u>\$ 285,662</u>	<u>\$ 628,164</u>	<u>\$ 334,048</u>	<u>\$ 280,393</u>	<u>\$ 614,441</u>

TELLICO AREA SERVICES SYSTEMS
Vonore, Tennessee
SCHEDULE OF BONDS PAYABLE (Continued)
June 30, 2011

TOTALS			
Year Ended June 30,	Total <u>Principal</u>	Total <u>Interest</u>	Total
2012	\$ 87,972	\$ 117,377	\$ 205,349
2013	90,074	115,877	205,951
2014	97,279	112,764	210,043
2015	99,593	109,441	209,034
2016	<u>107,021</u>	<u>106,004</u>	<u>213,025</u>
Subtotal	<u>481,939</u>	<u>561,463</u>	<u>1,043,402</u>
2017	114,569	102,345	216,914
2018	117,244	98,459	215,703
2019	125,050	94,442	219,492
2020	132,996	90,184	223,180
2021	<u>141,086</u>	<u>85,681</u>	<u>226,767</u>
Subtotal	<u>630,945</u>	<u>471,111</u>	<u>1,102,056</u>
2022	149,329	80,925	230,254
2023	152,734	75,905	228,639
2024	161,307	70,717	232,024
2025	180,056	65,252	245,308
2026	<u>83,991</u>	<u>59,299</u>	<u>143,290</u>
Subtotal	<u>727,417</u>	<u>352,098</u>	<u>1,079,515</u>
2027	88,120	55,170	143,290
2028	92,456	50,834	143,290
2029	97,006	46,284	143,290
2030	101,780	41,510	143,290
2031	<u>106,794</u>	<u>36,496</u>	<u>143,290</u>
Subtotal	<u>486,156</u>	<u>230,294</u>	<u>716,450</u>
2032	112,055	31,235	143,290
2033	98,148	25,713	123,861
2034	72,989	20,935	93,924
2035	61,273	17,495	78,768
2036	<u>42,366</u>	<u>14,670</u>	<u>57,036</u>
Subtotal	<u>386,831</u>	<u>110,048</u>	<u>496,879</u>
2037	44,211	12,825	57,036
2038	46,136	10,900	57,036
2039	48,144	8,892	57,036
2040	38,564	6,795	45,359
2041	<u>32,951</u>	<u>5,161</u>	<u>38,112</u>
Subtotal	<u>210,006</u>	<u>44,573</u>	<u>254,579</u>
2042	34,311	3,801	38,112
2043	35,726	2,386	38,112
2044	<u>22,109</u>	<u>912</u>	<u>23,021</u>
Subtotal	<u>92,146</u>	<u>7,099</u>	<u>99,245</u>
Total	3,015,440	1,776,686	4,792,126
TRDA Note	1,251,622	-	1,251,622
SRF Note	<u>8,330,568</u>	<u>594,260</u>	<u>8,924,828</u>
	<u>\$12,597,630</u>	<u>\$ 2,370,946</u>	<u>\$ 14,968,576</u>

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
 SCHEDULE OF INSURANCE IN FORCE AND BONDS ON PRINCIPAL OFFICIALS
 June 30, 2011

<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	07-01-10	07-01-11	Statutory - \$1,000,000
Blanket Bond	CNA Surety	060169147448	07-01-10	07-01-11	Employee Dishonesty (Blanket Position): Coverage - \$150,000
Comprehensive General Liability Insurance	Tennessee Risk Management Trust	TNRMT	07-01-10	07-01-11	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	07-01-10	07-01-11	\$1,000,000 per Occurrence; \$100,000 per Building
Business Auto Policy	Tennessee Risk Management Trust	TNRMT	07-01-10	07-01-11	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, 2011

Retail Water Rates as of June 30, 2011:

2,000 gallons (Minimum) – \$14.92 (3/4 inch meter)
All over 2,000 gallons – \$3.59

Wholesale Water Rates as of June 30, 2011:

First 500,000 gallons – \$2.45/thousand
Next 1,000,000 gallons – \$2.30/thousand
Next 1,500,000 gallons – \$1.99/thousand
All over 3,000,000 gallons – \$1.65/thousand

6-30-11

Number of Water Customers:

Retail..... 3,838
Wholesale..... 5

Retail Sewer Rates as of June 30, 2011:

2,000 gallons (minimum) - \$19.00
All over 2,000 gallons - 5.40/thousand gallons

Wholesale Sewer Rates as of June 30, 2011:

\$4.07/thousand gallons

6-30-11

Number of Sewer Customers:

Retail..... 209
Wholesale..... 2

TELLICO AREA SERVICES SYSTEMS
 Vonore, Tennessee
SCHEDULE OF UNACCOUNTED FOR WATER
 June 30, 2011

(All amounts in gallons)

	<u>Total Purchased</u>
A Water Treated and Purchased:	
B Water Pumped (potable)	117,221,806
C Water Purchased	457,425
D Total Water Treated and Purchased	117,679,231
(Sum Lines B and C)	
E Accounted for Water:	
F Water Sold	93,695,217
G Metered for Consumption (in house usage)	1,998,865
H Fire Department(s) Usage	16,042
I Flushing	154,469
J Tank Cleaning/Filling	22,869
K Street Cleaning	0
L Bulk Sales	0
M Water Bill Adjustments/plus or (minus)	540,644
N Total Accounted for Water	96,203,832
(Sum Lines F thru M)	
O Unaccounted for Water	21,475,399
(Line D minus Line N)	
P Percent Unaccounted for Water	18.25%
(Line O divided by Line D times 100)	
 Q Other (explain)	 See below

Explain Other:

J = Fireline Usage for Total Logistics
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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

SINGLE AUDIT SECTION

June 30, 2011

TELLICO AREA SERVICES SYSTEMS
SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE
For the Fiscal Year Ended June 30, 2011

<u>Program Name</u>	<u>CFDA Number</u>	<u>Grant/Award Project Number</u>	<u>Grantor Agency</u>	<u>Balance July 1, 2010</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Returned To Grantor</u>	<u>Balance June 30, 2011</u>	
FEDERAL ASSISTANCE									
Public Works Program/Wastewater Treatment Plant Improvements	11.300	04-01-06045	U.S. Department of Commerce - Economic Development Administration	\$ -	\$ 776,476	\$ 1,000,000	-	\$ 223,524	*
Wastewater Plant Expansion	11.300	TVA 76549	Appalachian Regional Commission	-	500,000	500,000	-	-	
			Program Total	<u>\$ -</u>	<u>\$ 1,276,476</u>	<u>\$ 1,500,000</u>	<u>\$ -</u>	<u>\$ 223,524</u>	*

NOTE A – BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Tellico Area Services Systems under programs of the federal government for the year ended June 30, 2011. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Tellico Area Services Systems, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Tellico Area Services Systems.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the principles contained in OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; 15CFR Part 14, Uniform Administrative requirements for Grants to State and Local Governments; OMB Circular A-87, Cost Principles for State and Local Governments; 48CFR Part 31, Contract Cost Principles and Procedures; and EDA Standard terms and conditions for Construction Projects, dated October 2007.



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December 19, 2011

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, 2011 and 2010, and have issued our report thereon dated December 19, 2011. 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.



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December 19, 2011

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

Board of Commissioners
Tellico Area Services Systems
Vonore, Tennessee

Compliance

We have audited the compliance of the Tellico Area Services Systems, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. The Tellico Area Services Systems' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Tellico Area Services Systems' management. Our responsibility is to express an opinion on the Tellico Area Services Systems' compliance based on our audit.

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

In our opinion, the Tellico Area Services Systems, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011. The results of our audit disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of the Tellico Area Services Systems is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Tellico Area Services Systems' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Tellico Area Services Systems' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as described above.

This report is intended for the information and use of management, the City Council, the State of Tennessee, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Ingram, Overholt & Bean, PC

TELLICO AREA SERVICES SYSTEMS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2011

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Tellico Area Services Systems.
2. No instance of noncompliance disclosed during the audit of the financial statements of Tellico Area Services Systems was reported in the 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*.
3. No significant deficiencies disclosed during the audit of the financial statements are reported in the 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*.
4. No significant deficiencies in internal control over major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Tellico Area Services Systems, expresses an unqualified opinion on all major federal programs.
6. Audit findings, if any, that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133 are reported in this Schedule.
7. The following were determined to be major programs:

<u>Program</u>	<u>CFDA No.</u>
U. S. Department of Commerce Economic Development Administration Wastewater Plant	11.300
Appalachian Regional Commission Wastewater Plant	11.300

8. The threshold used for distinguishing between Types A and B programs was \$300,000.
9. Tellico Area Services Systems, did not qualify as a low-risk auditee.

B. Findings and Questioned Costs – Major Federal Programs Audit

None

C. Disposition of Prior Year Findings

None