

**WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2011**

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, 2011 AND 2010

Board of Commissioners

Chairman.....Donald Chambers
Vice Chairman.....Charles Albert Bell
Board Member.....Brody Kane
Board Member.....David E Swindell
Board Member.....Hale Moss

Management Officials

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

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

We have audited the accompanying financial statements of the business-type activities of the Water & Wastewater Authority of Wilson County as of and for the years ended June 30, 2011 and 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority'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 business-type activities of the Water & Wastewater Authority of Wilson County, as of June 30, 2011 and 2010, 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 26, 2012, 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 and analysis 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 Vantrase & Fultz PLLC

Lebanon, Tennessee

January 26, 2012

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, 2011 and 2010. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR ENDING JUNE 30, 2011

- The Authority's net assets increased by \$653 thousand or 2.3 percent from \$28,916 thousand to \$29,569 thousand.
- Operating revenues decreased by \$16 thousand or .4 percent from \$4,371 thousand to \$4,355 thousand.
- Operating expenses increased by \$49 thousand or 1.3 percent from \$3,910 thousand to \$3,959 thousand.
- Capital contributions to the Authority decreased by \$865 thousand or 54.3 percent from \$1,592 thousand to \$727 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, 2011 and 2010. 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>2011</u>	<u>2010</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Current and Other Assets	4,343	3,594	749	20.8%
Restricted Assets	2,786	3,332	(546)	(16.4)%
Capital Assets, net	35,956	36,034	(78)	(.2)%
Total Assets	43,085	42,960	125	.3%
Long-Term Debt	11,509	11,962	(453)	(3.8)%
Current Liabilities	2,007	2,082	(75)	(3.6)%
Total Liabilities	13,516	14,044	(528)	(3.8)%
Net Assets Invested in Capital Assets, Net of Related Debt	24,253	24,099	154	.6%
Net Assets Restricted for Debt Service	2,417	2,815	(398)	(14.1)%
Unrestricted Net Assets	2,898	2,003	895	44.7%
Total Net Assets	29,569	28,916	653	2.3%

As the above table indicates total assets increased by \$125 thousand, or .3%, from \$42,960 thousand to \$43,085 thousand in the fiscal year ending June 30, 2011. Decreases in restricted (\$546 thousand) and net capital (\$78 thousand) assets were offset by a \$749 thousand increase in current & other assets.

During the fiscal period, total liabilities decreased by \$528 thousand, or 3.8%. This represents decreases of \$453 thousand in long-term debt and \$75 thousand in current liabilities.

Total net assets increased by 2.3%, or \$653 thousand, from \$28,916 thousand to \$29,569 thousand. A \$398 thousand decrease in net assets restricted for debt service was more than offset by significant increases in unrestricted net assets (\$895 thousand) and net assets invested in capital assets, net of related debt (\$154 thousand).

Table 2
Condensed Statement of Net Assets
(in thousands of dollars)

	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>	<u>Percent 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 in fiscal year ending June 30, 2010. 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 2 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 4.

Table 3
Condensed Statement of Revenues, Expenses and Changes in Net Assets
(in thousands of dollars)

	<u>2011</u>	<u>2010</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Operating Revenue	4,355	4,371	(16)	(.4)%
Nonoperating Revenue	110	84	26	31%
Total Revenue	4,465	4,455	10	.2%
Depreciation Expense	1,171	1,130	41	3.6%
Other Operating Expenses	2,788	2,780	8	.3%
Nonoperating Expenses	581	602	(21)	(3.5)%
Total Expenses	4,540	4,512	28	.6%
Income Before Capital Contributions	(75)	(57)	(18)	(31.6)%
Capital Contributions	727	1,592	(865)	(54.3)%
Extraordinary Expense	0	(47)	47	100%
Changes in Net Assets	652	1,488	(836)	(56.2)%
Beginning Net Assets	28,916	27,428	1,488	5.4%
Ending Net Assets	29,569	28,916	653	2.3%

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 \$10 thousand in fiscal year 2011, or .2 percent, from \$4,455 thousand the prior year to \$4,465 thousand this year. Bolstered by FEMA grant income and TDOT reimbursements, a \$26 thousand increase in nonoperating revenue overcame a \$16 thousand decrease in operating revenue.

Due to close scrutiny of all expenditures, the Authority's total expenses increased by only .6%, or \$28 thousand, this year. Nonoperating expenses actually decreased by 3.5%.

Table 3 also reveals a \$75 thousand loss before capital contributions of \$727 thousand. Due to the depressed economic climate, capital contributions decreased by 54.3%, dropping from \$1,592 thousand to \$727 thousand. As a result, ending net assets increased by only 2.3% this year compared to a 5.4% increase in the fiscal budget year ending June 30, 2010.

Table 4
Condensed Statement of Revenues, Expenses and Changes in Net Assets
(in thousands of dollars)

	<u>2010</u>	<u>2009</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>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 in fiscal year 2010 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 4 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

Table 5
Capital Assets at Year-end
(Net of Depreciation, in thousands of dollars)

	<u>2011</u>	<u>2010</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Land	570	570	0	0%
Rights of Way	142	142	0	0%
Construction in Progress	485	1,292	(807)	(62.5)%
Water Distribution System	15,258	15,701	(443)	(2.8)%
Wastewater System	18,552	17,317	1,235	7.1%
Building	844	875	(31)	(3.5)%
Office Equipment	23	22	1	4.5%
Equipment	82	116	(34)	(29.3)%
Total Capital Assets	35,956	36,035	(79)	(.2)%

At the end of June 2011 budget year, the Authority had \$35,956 thousand invested in capital assets, including water and sewer infrastructure, land, rights of way, building, office equipment, equipment and construction in progress. This amount represents a \$79 thousand, or .2%, decrease over the previous year.

The largest additions to capital assets this year were \$1,732 thousand of wastewater infrastructure and \$160 thousand of water infrastructure. Accumulated depreciation for the year reduced the value of capital assets by \$1,171 thousand.

The Authority's budget for the next fiscal year reflects additional expenditures for wastewater infrastructure funded by the existing State Revolving Fund. Other wastewater projects will be developer-paid and the associated assets transferred to the Authority as developer contributions. Water projects will be financed by existing bond funds.

The Authority is currently investigating enhancements that will result in the purchase of additional capital assets over the next two to three years. The major enhancements include:

- Advanced Metering Infrastructure (AMI) for all customer accounts and system input meters to free up man-hours to focus on distribution system maintenance, increase metering accuracy and reduce leakage to maintain compliance with the new Tennessee water loss regulations.
- Distribution system upgrades to maintain and improve our level of service
- Distribution system expansions to provide water to areas of the county presently without access to a public water supply

Authority management will continue to study available options for these enhancements and the associated costs and funding options to acquire them. It is anticipated that identified funding options will be in place by the first quarter of the budget year ending June 30, 2013. It should be noted the Authority will experience financial gains from these enhancements in the form of reduced losses, both real (leakage) and apparent (inaccurate metering). There will also be increased revenue from the addition of new customers.

Table 6
Capital Assets at Year-end
(Net of Depreciation, in thousands of dollars)

	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Land	570	570	0	0%
Rights of Way	142	111	31	27.9%
Construction in Progress	1,292	745	547	73.4%
Water Distribution System	15,701	15,254	447	(2.9)%
Wastewater System	17,317	16,478	839	5.1%
Building	875	908	(33)	(3.6)%
Office Equipment	22	30	(8)	(26.7)%
Equipment	116	154	(38)	(24.7)%
Total Capital Assets	36,035	34,250	1,785	5.2%

At the end of June 2010 budget year, the Authority had \$36,035 thousand invested in capital assets, including both water and sewer infrastructure, land, rights of way, building, office equipment, equipment and construction in progress. This amount represents a \$1,785 thousand, or 5.2%, increase over the previous year.

Significant additions to capital assets this year were \$1,299 thousand of wastewater infrastructure, \$1,034 thousand of water infrastructure and \$31 thousand of rights of ways. Accumulated depreciation reduced the value of capital assets by \$1,130 thousand.

DEBT

Table 7
Outstanding Debt at Year-end
(in thousands of dollars)

	<u>2011</u>	<u>2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenue Bonds & Notes	12,160	12,523	(363)	(2.9)%
Other Notes	193	237	(44)	(18.6)%
Total Debt	12,353	12,760	(407)	(3.2)%

As shown in table 7, the Authority had \$12,353 thousand in bonds and notes outstanding at the end of the fiscal year ending June 30, 2011. This is \$407 thousand, or 3.2%, less than the previous year.

Total debt decreased as the Authority continued to make scheduled payments on the revenue bond issues currently outstanding. No new bonds were issued during the year. However, funds from the State Revolving Fund were used to finance the Beckwith Road wastewater infrastructure project. Monthly interest payments on the funds withdrawn are currently being paid at 3.67%. Principle payments will begin within 90 days after the project completion, which will likely be in the 2012/2013 budget year.

The Authority anticipates drawing an additional \$1,000 thousand from the State Revolving Fund to finance the Windover and Vastola wastewater infrastructure projects during the next fiscal year. Any water projects will be financed with existing bond funds. Bond and interest payments on those funds will continue as scheduled.

Table 8
Outstanding Debt at Year-end
(in thousands of dollars)

	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenue Bonds & Notes	12,523	12,437	86	.7%
Other Notes	237	280	(43)	(15.4)%
Total Debt	12,760	12,717	43	.3%

Total debt increased during the fiscal year ending June 30, 2010 by \$43 thousand, or .3%. While there were no new bond issues during the year, existing bond funds were used to finance water projects on Mill, Old Rome, Hale, Linwood and Fire Tower roads. Total debt increased as funds from the State Revolving Fund were utilized to finance the Beckwith Road wastewater infrastructure project. Monthly interest payments on the funds withdrawn were paid at 3.67%.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Due to the lagging economy, the Authority's 2011/2012 budget reflects minimal increases to its customer base and the associated streams of revenue. Keeping this in mind, management will continue to make every effort possible to keep controllable operating expenses at a minimum.

The Authority's primary water supplier, the City of Lebanon, will enact a 14% increase in water rates effective December 7th, 2011. To compensate for this increase and other costs of operation, the Authority's Board of Commissioners approved a 16% water rate increase on bills due December 10th, 2011.

The Board of Commissioners also approved an 8% increase in residential wastewater rates effective with bills due December 10th, 2011. This rate change is due to the increasing costs of operation and maintenance of the STEP systems.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of the Authority's finances and accountability for the money it receives. If you have any questions about this report or need additional information, contact the Authority office at 680 Maddox Simpson Parkway in Lebanon, TN.

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
STATEMENTS OF NET ASSETS
JUNE 30, 2011 AND 2010

ASSETS	2011	2010
Current Assets		
Cash & Cash Equivalents - Unrestricted/Undesignated	\$ 1,226,445	\$ 915,499
Cash & Cash Equivalents - Unrestricted/Designated	1,261,383	828,525
Investments in Interest Bearing Deposits - Unrestricted/Undesignated	171,000	171,000
Investments in Interest Bearing Deposits - Unrestricted/Designated	630,000	630,000
Accounts Receivable Net of Allowance for Doubtful Accounts of \$10,000 and \$15,000 as of June 30, 2011 and June 30, 2010, respectively.	527,678	506,420
Due From Tennessee Department of Transportation	13,275	1,950
Accrued Interest Receivable	29,788	25,198
Inventory of Supplies	178,715	184,959
Prepaid Expenses	23,091	23,106
Total Current Assets	4,061,375	3,286,657
Restricted Assets		
Restricted Cash & Cash Equivalents	32,497	495,181
Restricted Investments in Interest Bearing Deposits	2,753,286	2,837,087
Total Restricted Assets	2,785,783	3,332,268
Utility Plant & Equipment		
Land	569,532	569,532
Rights of Way	142,454	141,539
Water Distribution System	23,981,916	23,822,207
Wastewater System	21,069,284	19,337,473
Building	1,234,248	1,234,248
Office Equipment	207,731	200,490
Equipment	647,489	647,489
Construction in Progress	484,528	1,291,969
Total Utility Plant & Equipment	48,337,182	47,244,947
Less Accumulated Depreciation	(12,381,415)	(11,210,238)
Utility Plant & Equipment Net of Accumulated Depreciation	35,955,767	36,034,709
Other Assets		
Deferred Bond Issue Costs Less Accumulated Amortization	282,042	306,951
Total Assets	\$ 43,084,967	\$ 42,960,585

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

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 STATEMENTS OF NET ASSETS
 JUNE 30, 2011 AND 2010

	2011	2010
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 126,295	\$ 242,477
Construction Advances	250,000	232,000
Accrued Interest Payable	114,204	127,204
Accrued Flood Damages	-	17,901
Customer Deposits	616,909	596,290
Sales Tax Payable	29,479	27,747
Accrued Payroll & Related Items	26,038	40,513
Current Portion of Long-Term Debt	844,187	797,508
Total Current Liabilities	2,007,112	2,081,640
Long-Term Debt	11,509,145	11,962,461
Total Liabilities	13,516,257	14,044,101
NET ASSETS		
Invested In Capital Assets Net Of Related Debt	24,252,995	24,099,058
Restricted For Debt Service	2,417,264	2,814,901
Unrestricted	2,898,451	2,002,525
	29,568,710	28,916,484
Total Liabilities & Net Assets	\$ 43,084,967	\$ 42,960,585

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, 2011 AND 2010

	2011	2010
Operating Sales		
Water Sales	\$ 3,233,271	\$ 3,244,719
Wastewater Income	942,636	946,279
Other Charges	179,528	179,885
	4,355,435	4,370,883
Less: Bad Debt Expense	(1,629)	(11,692)
Net Operating Revenue	4,353,806	4,359,191
Operating Expenses		
Depreciation Expense	1,171,177	1,130,250
Water Purchased	845,400	811,967
Wastewater Service Costs	725,741	642,106
Repairs & Maintenance Expense	152,243	168,710
Management Salaries	176,564	171,443
Plant Salaries	210,804	196,059
Office Salaries	100,009	121,720
Legal Expense	64,328	101,433
Health Insurance Expense	84,290	97,047
Engineering Fees	24,416	55,591
Retirement Expense	63,178	60,481
Office Supplies & Expense	43,455	34,419
Plant Utilities Expense	59,973	56,934
Payroll Tax Expense	40,979	40,183
Miscellaneous Expense	39,003	38,663
Other Insurance Expense	35,522	45,389
Postage	28,225	36,311
Audit & Accounting	21,475	20,680
Telephone & Office Utilities	17,333	20,563
Legal Salary	24,472	23,665
Data Processing	5,334	2,989
Uniforms Expense	9,666	9,108
Seminar Expense	5,735	6,250
Dues Expense	5,582	2,945
Director Fees	2,769	2,400
Total Operating Expenses	3,957,673	3,897,306
Operating Income	396,133	461,884

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, 2011 AND 2010

	2011	2010
Operating Income (From Page 10)	\$ 396,133	\$ 461,884
Nonoperating Revenues (Expenses)		
Interest Income	61,342	84,062
State Reimbursement	17,807	-
Grant Income	30,884	-
Interest & Amortization Expense	(581,140)	(602,455)
Total Nonoperating Revenues (Expenses)	(471,107)	(518,393)
Income (Loss) Before Contributions	(74,974)	(56,509)
Contributions		
Contributions In Aid Of Construction	727,200	1,591,700
	727,200	1,591,700
Extraordinary Expense		
Flood Damages	-	(46,721)
Increase In Net Assets	652,226	1,488,470
Net Assets, Beginning of Year	28,916,484	27,428,014
Net Assets, End of Year	\$ 29,568,710	\$ 28,916,484

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, 2011 AND 2010

	2011	2010
Cash Flows From Operating Activities		
Cash Receipts From Customers	\$ 4,321,119	\$ 4,320,550
Cash Payments to Suppliers for Goods and Services	(2,163,408)	(1,749,327)
Cash Payments to or on Behalf of Employees	(714,771)	(703,234)
Other Operating Revenue	20,723	19,835
Net Cash Provided By Operating Activities	1,463,663	1,887,824
Cash Flows From Capital & Related Financing Activities		
Capital Contributions	41,500	115,000
Proceeds From State Revolving Fund	115,763	547,977
Proceeds For Wastewater Construction	-	466,000
Purchase & Construction of Utility Plant & Equipment	(406,534)	(1,905,009)
Capital Reimbursement - State of Tennessee	17,807	-
Principal Payments on Revenue Bonds	(797,509)	(765,869)
Interest Paid on Revenue Bonds	(294,123)	(328,854)
Net Cash Used By Capital & Related Financing Activities	(1,323,096)	(1,870,755)
Cash Flows From Investing Activities		
Net Proceeds From Investments in Interest Bearing Deposits	83,801	(69,418)
Interest Income	56,752	91,457
Net Cash Provided By Investing Activities	140,553	22,039
Net Increase in Cash & Cash Equivalents	281,120	39,108
Cash & Cash Equivalents, Beginning of Year	2,239,205	2,200,097
Cash & Cash Equivalents, End of Year	\$ 2,520,325	\$ 2,239,205

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, 2011 AND 2010

	2011	2010
Adjustments to Reconcile Operating Income To Net Cash Provided By (Used) By Operating Activities		
Operating Income	\$ 396,133	\$ 461,884
Depreciation	1,171,177	1,130,250
Provision for Bad Debt	(5,000)	-
Extraordinary Items	0	(46,721)
Grant Income - Flood	30,884	-
(Increase) in Accounts Receivable	(16,258)	(13,236)
(Increase) in Receivable From TDOT	(11,325)	(1,950)
(Increase)/Decrease in Inventory	6,244	(8,971)
(Increase)/Decrease in Prepaid Expenses	15	(4,749)
Increase/(Decrease) in Accounts Payable	(116,182)	116,639
Increase/(Decrease) in Accrued Flood Damages	(17,901)	17,901
Increase in Construction Advances	18,000	232,000
Increase/(Decrease) in Customer Deposits	20,619	(3,620)
Increase/(Decrease) in Sales Tax Payable	1,732	1,032
Increase/(Decrease) in Accrued Payroll & Related Items	(14,475)	7,365
Net Cash Provided By Operating Activities	\$ 1,463,663	\$ 1,887,824
Non-Cash Transactions		
Noncash Capital Contributions From Developers Consisting of Water Infrastructure	\$ -	\$ 2,700
Noncash Capital Contributions From Developers Consisting of Wastewater Infrastructure	\$ 685,700	\$ 1,008,000
Interest Capitalized to Utility Plant & Equipment	\$ 106,255	\$ 110,560

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, 2011 AND 2010

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, 2011 AND 2010

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, 2011 and 2010, 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, 2011 AND 2010

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, 2011 AND 2010

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, 2011 and 2010.

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, 2011 AND 2010

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, 2011 and 2010, 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, 2011 AND 2010

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, 2011 and 2010 was as follows:

	Balance July 1, 2010	Transfers In And Additions	Transfers Out And Retirements	Balance June 30, 2011
Capital Assets Not Being Depreciated				
Land	\$ 569,532	\$ -	\$ -	\$ 569,532
Rights of Way	141,539	915	-	142,454
Construction In Progress	1,291,969	335,936	(1,143,377)	484,528
Total Capital Assets Not Being Depreciated	<u>2,003,040</u>	<u>336,851</u>	<u>(1,143,377)</u>	<u>1,196,514</u>
Capital Assets Being Depreciated				
Water Distribution System	23,822,207	159,709	-	23,981,916
Wastewater System	19,337,473	1,731,811	-	21,069,284
Building	1,234,248	-	-	1,234,248
Office Equipment	200,490	7,241	-	207,731
Equipment	647,489	-	-	647,489
Total Capital Assets Being Depreciated	<u>45,241,907</u>	<u>1,898,761</u>	<u>-</u>	<u>47,140,668</u>
Less Accumulated Depreciation				
Water Distribution System	(8,120,922)	(602,554)	-	(8,723,476)
Wastewater System	(2,020,282)	(497,421)	-	(2,517,703)
Building	(358,839)	(31,385)	-	(390,224)
Office Equipment	(178,783)	(6,182)	-	(184,965)
Equipment	(531,412)	(33,635)	-	(565,047)
Total Accumulated Depreciation	<u>(11,210,238)</u>	<u>(1,171,177)</u>	<u>-</u>	<u>(12,381,415)</u>
Total Capital Assets Being Depreciated Net of Accumulated Depreciation	<u>34,031,669</u>	<u>727,584</u>	<u>-</u>	<u>34,759,253</u>
Total Capital Assets Net of Accumulated Depreciation	<u>\$ 36,034,709</u>	<u>\$ 1,064,435</u>	<u>\$ (1,143,377)</u>	<u>\$ 35,955,767</u>

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

Note E – Capital Assets (continued)

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

	<u>July 1, 2009</u>	<u>And Additions</u>	<u>And Retirements</u>	<u>June 30, 2010</u>
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, 2011 AND 2010

Note F – Bonds & Notes Payable

Bonds and notes payable as of June 30, 2011 and 2010 are as follows:

Series, Rates of Interest, & Maturity Dates	2011	2010
Waterworks Revenue Refunding and Improvement Bonds Series 1993, dated 5/1/93. Interest of 4.625% - 6% less unamortized bond discount of \$11,600 and \$15,467 respectively, and deferred loss on refinancing of \$6,687 and \$45,125 for June 30, 2011 and 2010, respectively.	\$ 1,463,292	\$ 1,892,723
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.	3,885,115	3,652,311
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	230,969	234,270
Local Government Public Improvement Bonds Series 1V-E-1, dated 10/24/06. Interest at 4% - 5%.	5,743,421	6,021,686
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.	837,716	721,953
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.	192,819	237,026
Total Bonds & Notes Payable	\$ 12,353,332	\$ 12,759,969
Less Current Portion	(844,187)	(797,508)
Long-Term Debt	\$ 11,509,145	\$ 11,962,461

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

Note F – Bonds & Notes Payable (Continued)

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

	2011	2010
Total Long-Term Debt At Beginning of Year	\$ 12,820,561	\$ 12,819,600
Notes Payable Proceeds	115,763	547,977
Accreted Interest On Capital Appreciation Bonds	232,804	218,849
Notes Payable Principal Paid	(797,509)	(42,713)
Bond Retirements Paid	-	(723,152)
	12,371,619	12,820,561
Refunding Revenue Bond Unamortized Discount	(11,600)	(15,467)
Unamortized Deferred Loss on Refundings	(6,687)	(45,125)
	12,353,332	12,759,969
Total Long-Term Debt At End of Year Net of Unamortized Discount & Deferred Loss	12,353,332	12,759,969
Less Current Portion	(844,187)	(797,508)
Non-Current Portion	\$ 11,509,145	\$ 11,962,461

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

Fiscal Year Ending June 30,	Principal	Interest	Total
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	1,095,377	230,620	1,325,997
2017-2021	5,953,880	714,006	6,667,886
2022-2026	5,339,583	393,078	5,732,661
2027-2031	705,880	67,435	773,315
2032-2036	46,473	22,407	68,880
2037-2041	58,174	10,706	68,880
2041-2043	16,922	495	17,417
	\$ 17,298,918	\$ 2,859,098	\$ 20,158,016

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

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

The Authority's employees participate in the Tennessee Consolidated Retirement System under the Wilson County membership. All information related to the plan is reported in the general fund of the County. The county has been funding all employee contributions prior to the fiscal year ended June 30, 1993.

Total contributions to the plan by the Authority for the years ended June 30, 2011 and 2010, amounted to \$63,178 and \$60,481.

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 \$21,025 and \$75,972 for the fiscal years ended June 30, 2011 and 2010, respectively.

Note I – 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

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

Cash and Equivalents and Investments in Interest Bearing Deposits have been restated to conform to this treatment.

Note J – Invested in Capital Assets, Net of Related Debt

Net assets invested in capital assets, net of related debt at June 30, 2011 June 30, 2011 and 2010 consists of the following:

	2011	2010
Utility Plant & Equipment, net of Accumulated Depreciation	\$ 35,955,767	\$ 36,034,709
Restricted Investments - Unspent Debt Proceeds	368,518	517,367
Deferred Bond Issue Costs, net of Amortization	282,042	306,951
Current Portion of Long-Term Debt	(844,187)	(797,508)
Long-Term Debt, net of Unamortized Discount and Loss	(11,509,145)	(11,962,461)
	<u>\$ 24,252,995</u>	<u>\$ 24,099,058</u>

Restricted Investments – Unspent Debt Proceeds is included in “Restricted Investments in Interest Bearing Deposits” on the Statements of Net Assets.

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

	2007	2008	2009	2010	2011
Operating Revenues					
Water Sales	\$ 2,968,840	\$ 3,100,489	\$ 3,223,337	\$ 3,244,719	\$ 3,233,271
Wastewater Income	782,284	765,477	753,448	946,279	942,636
Other Charges	211,598	211,265	191,543	179,885	179,528
Total Operating Revenues	<u>3,962,722</u>	<u>4,077,231</u>	<u>4,168,328</u>	<u>4,370,883</u>	<u>4,355,435</u>
Operating Expenses					
Operations, Administration, & General	2,595,100	2,652,775	2,610,219	2,778,749	2,788,125
Depreciation	922,885	1,020,972	1,082,363	1,130,250	1,171,177
Total Operating Expenses	<u>3,517,985</u>	<u>3,673,747</u>	<u>3,692,582</u>	<u>3,908,999</u>	<u>3,959,302</u>
Non-Operating Revenues (Expenses)					
Interest Income	218,557	258,460	133,142	84,062	61,342
Gain (Loss) On Sale Of Assets	-	25,748	-	-	-
Reimbursement Revenue	992,469	-	-	-	17,807
Grant Income	-	-	-	-	30,884
Interest & Amortization Expense	(719,345)	(588,268)	(624,620)	(602,455)	(581,140)
Flood Damages	-	-	-	(46,721)	-
Reimbursement Expenses	(1,114,377)	-	-	-	-
Total Non-Operating Expenses	<u>(622,696)</u>	<u>(304,060)</u>	<u>(491,478)</u>	<u>(565,114)</u>	<u>(471,107)</u>
Income (Loss) Before Contributions	<u>(177,959)</u>	<u>99,424</u>	<u>(15,732)</u>	<u>(103,230)</u>	<u>(74,974)</u>
Capital Contributions					
Capital Reimbursement	-	30,962	111,428	-	-
Tap Fees & Fire Hydrant	315,000	203,000	192,500	115,000	41,500
Developer Contributions of Transmission Lines	4,474,040	2,503,688	1,009,300	1,476,700	685,700
Total Capital Contributions	<u>4,789,040</u>	<u>2,737,650</u>	<u>1,313,228</u>	<u>1,591,700</u>	<u>727,200</u>
Increase In Net Assets	<u>\$ 4,611,081</u>	<u>\$ 2,837,074</u>	<u>\$ 1,297,496</u>	<u>\$ 1,488,470</u>	<u>\$ 652,226</u>

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 SCHEDULE OF DEBT SERVICE TO MATURITY
 (UNAUDITED)
 JUNE 30, 2011

Fiscal Year Ended June 30,	1993 Series		2000 Series		2002 Series		2006 Series "Refunding"	
	Principal	Interest	Capital Appreciation Principal	Interest	Principal	Interest	Principal	Interest
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		
	\$ 1,525,000.00	\$ 186,000.00	\$ 7,005,000.00	\$ -	\$ 230,968.55	\$ 199,728.64	\$ 3,245,000.00	\$ 844,850.00

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 SCHEDULE OF DEBT SERVICE TO MATURITY
 (UNAUDITED)
 JUNE 30, 2011

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
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	57,957.46	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	41,752.68	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			148,887.99	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
							\$ 17,298,918.36	\$ 2,859,098.08

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 SCHEDULE OF INSURANCE COVERAGE
 (UNAUDITED)
 JUNE 30, 2011

Name of Company	Period Of Coverage	Coverage	Liability
Utica	1/31/11 - 1/31/12	General Liability	\$ 1,000,000/1,000,000
Utica	1/31/11 - 1/31/12	Management Liability	3,000,000/3,000,000
Utica	1/31/11 - 1/31/12	Automobile Liability & Damage	1,000,000/1,000,000
Utica	1/31/11 - 1/31/12	Property	3,865,000
Utica	1/31/11 - 1/31/12	Employment Practices Liability	1,000,000/2,000,000
Utica	1/31/11 - 1/31/12	Worker's Compensation	1,000,000
St. Paul Travelers	7/19/11-7/19/12	Highway Replacement Bond	2,500
St. Paul Travelers	4/8/11 - 4/8/12	Fidelity Bond/Chairman	50,000
St. Paul Travelers	1/31/11 - 1/31/12	Fidelity Bond/Executive Director	50,000
St. Paul Travelers	2/4/11 - 2/4/12	Fidelity Bond/Treasurer	50,000
St. Paul Travelers	9/9/10 - 9/9/11	Fidelity Bond/Customer Service Rep	50,000
St. Paul Travelers	10/13/10-10/13/11	Fidelity Bond/Customer Service Rep	50,000
St. Paul Travelers	9/1/10-9/1/11	Fidelity Bond/Customer Service Rep	50,000
RLI	4/29/08-4/29/12	Notary Bond/Treasurer	10,000
RLI	7/24/07-7/24/11	Notary Bond/Executive Director	10,000

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 SCHEDULE OF GENERAL INFORMATION
 (UNAUDITED)
 JUNE 30, 2011

<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>
2011	7,442
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>
Peyton Park Apartments	5,377,300
Spring Hill Townhomes	3,435,600
Wilson County Schools	985,600
Bellwood Assisted Living	892,500
Roy Major	764,900
Jerry Hughes	734,000
Mike Stalnaker	641,200
Earl Watson	526,600
Stan Edwards	420,700
Tom & Betty Green	416,100

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 SCHEDULE OF UNACCOUNTED FOR WATER
 (UNAUDITED)
 JUNE 30, 2011

(All Amounts In Gallons)

A Water Treated & Purchased:		
B Water Pumped (potable)	-	
C Water Purchased	394,634,612	
D Total Water Treated & Purchased	<u>394,634,612</u>	394,634,612
(Sum Lines B and C)		
E Accounted For Water		
F Water Sold	318,918,700	
G Metered For Consumption (in house usage)	-	
H Fire Departments Usage	92,600	
I Flushing	2,079,348	
J Tank Cleaning/Filling	-	
K Street Cleaning	-	
L Bulk Sales	-	
M Water Bill Adjustments/plus or (minus)	-	
N Total Accounted For Water	<u>318,918,700</u>	318,918,700
(Sum Lines F Through M)		
O Unaccounted For Water		73,543,964
(Line D Minus Line N)		
P Percent Unaccounted For Water		18.636%
(Line O Divided By Line D Times 100)		
Q Other (explain)	See below	

Explain Other:

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

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 SCHEDULE OF CHANGES IN BOND FUNDS
 (UNAUDITED)
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Bond & Interest Sinking Fund</u>	<u>Debt Service Reserve Fund</u>
Balance, June 30, 2010	\$ 1,317,634	\$ 582,500
Deposits & Transfers	2,270,100	-
Disbursements & Transfers	<u>(2,265,238)</u>	<u>-</u>
Balance, June 30, 2011	<u>\$ 1,322,497</u>	<u>\$ 582,500</u>

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
SCHEDULE OF DEBT SERVICE COVERAGE
(UNAUDITED)
JUNE 30, 2011

Net Earnings From Operations	\$ 396,133
Add:	
Depreciation	1,171,177
Interest Income	61,342
Cash Contributions - Tap & Fire Hydrant Revenue	41,500
Cash Contributions - Utility Plant	<u>232,000</u>
Amount Available For Debt Service	<u>\$ 1,902,152</u>
Annual Debt Service	<u>\$ 1,379,995</u>
Coverage	1.38

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, 2011, which collectively comprise the Water & Wastewater Authority of Wilson County's basic financial statements and have issued our report thereon dated January 26, 2012. 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

Management of Water & Wastewater Authority of Wilson County is responsible for establishing and maintaining effective 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Water & Wastewater Authority of Wilson County, in a separate letter dated January 26, 2012.

Water & Wastewater Authority of Wilson County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 Vanhease & Follis, PLLC

Lebanon, Tennessee
January 26, 2012

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
SCHEDULE OF FINDINGS & QUESTIONED COSTS
JUNE 30, 2011

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.