

**WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2012**

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, 2012 AND 2011

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, 2012 and 2011, 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, 2012 and 2011, 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 December 19, 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 information 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 do not express an opinion or provide any assurance on them.

Dempsey Vantrease + Follis PLLC

Lebanon, Tennessee

December 19, 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, 2012 and 2011. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR ENDING JUNE 30, 2012

- The Authority's net assets increased by \$1,060 thousand or 3.6 percent from \$29,569 thousand to \$30,629 thousand.
- Operating revenues increased by \$595 thousand or 13.7 percent from \$4,355 thousand to \$4,950 thousand.
- Operating expenses increased by \$217 thousand or 5.5 percent from \$3,959 thousand to \$4,176 thousand.
- Capital contributions to the Authority increased by \$46 thousand or 6.3 percent from \$727 thousand to \$773 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, 2012 and 2011. 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>2012</u>	<u>2011</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Current and Other Assets	\$ 4,989	\$ 4,343	\$ 646	14.9%
Restricted Assets	2,786	2,786	0	0%
Capital Assets, net	<u>36,363</u>	<u>35,956</u>	<u>407</u>	1.1%
Total Assets	44,138	43,085	1,053	2.4%
Long-Term Debt	11,570	11,509	61	.5%
Current Liabilities	<u>1,939</u>	<u>2,007</u>	<u>(68)</u>	(3.4)%
Total Liabilities	13,509	13,516	(7)	(0.1)%
Net Assets Invested in Capital Assets, Net of Related Debt	24,548	24,253	295	1.2%
Net Assets Restricted for Debt Service	2,294	2,417	(123)	(5.1)%
Unrestricted Net Assets	3,787	2,899	888	30.6%
Total Net Assets	<u>\$30,629</u>	<u>\$29,569</u>	<u>\$ 1,060</u>	3.6%

As the above table indicates total assets increased by \$1,053 thousand, or 2.4%, from \$43,085 thousand to \$44,138 thousand in the fiscal year ending June 30, 2012. This is the result of increases in both current & other assets (\$646 thousand) and net capital assets (\$407 thousand).

During this period, total liabilities decreased by \$7 thousand, or .1%. While long-term debt increased by \$61 thousand, current liabilities decreased by \$68 thousand.

Total net assets increased by 3.6%, or \$1,060 thousand, from \$29,569 thousand to \$30,629 thousand. A \$123 thousand decrease in net assets restricted for debt service was outpaced by significant increases in unrestricted net assets (\$888 thousand) and net assets invested in capital assets, net of related debt (\$295 thousand).

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

	<u>2011</u>	<u>2010</u>	<u>Dollar Change</u>	<u>Percent 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	<u>35,956</u>	<u>36,034</u>	<u>(78)</u>	(.2)%
Total Assets	43,085	42,960	125	.3%
Long-Term Debt	11,509	11,962	(453)	(3.8)%
Current Liabilities	<u>2,007</u>	<u>2,082</u>	<u>(75)</u>	(3.6)%
Total Liabilities	13,516	14,044	(528)	(3.8)%
Net Assets Invested in Capital Assets, Net of Related Debt	24,253	24,098	155	.6%
Net Assets Restricted for Debt Service	2,417	2,815	(398)	(14.1)%
Unrestricted Net Assets	2,899	2,003	896	44.7%
Total Net Assets	<u>\$29,569</u>	<u>\$28,916</u>	<u>\$ 653</u>	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 (\$896 thousand) and net assets invested in capital assets, net of related debt (\$155 thousand).

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

	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenue	\$ 4,950	\$ 4,355	\$ 595	13.7%
Nonoperating Revenue	<u>73</u>	<u>110</u>	<u>(37)</u>	(33.6)%
Total Revenue	5,023	4,465	558	12.5%
Depreciation Expense	1,200	1,171	29	2.5%
Other Operating Expenses	2,977	2,788	189	6.8%
Nonoperating Expenses	<u>559</u>	<u>581</u>	<u>(22)</u>	(3.8)%
Total Expenses	4,736	4,540	196	4.3%
Income Before Capital Contributions	287	(75)	362	483%
Capital Contributions	773	727	46	6.3%
Extraordinary Expense	0	0	0	0%
Changes in Net Assets	1,060	652	408	62.6%
Beginning Net Assets	<u>29,569</u>	<u>28,916</u>	<u>653</u>	2.3%
Ending Net Assets	<u>\$30,629</u>	<u>\$29,569</u>	<u>\$ 1,060</u>	3.6%

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 \$558 thousand in fiscal year 2012, or 12.5 percent, from \$4,465 thousand \$5,023 thousand. Increases in both water sales and wastewater income were the primary reasons that operating income increased by \$595 thousand. Nonoperating income decreased in fiscal year 2012 by 33.6% due to significant decreases in FEMA grant income and TDOT reimbursements.

The Authority's total expenses increased by 4.3%, or \$196 thousand, this year. While depreciation and other operating expenses increased slightly, nonoperating expenses (interest and amortization costs) decreased.

Table 3 also reveals \$287 thousand income before capital contributions. This is \$362 thousand more than the previous year. Despite the lagging economic climate, capital contributions also increased from \$727 thousand to \$773 thousand. These two factors result in a \$1,060 thousand increase in ending net assets for the 2012 fiscal year.

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

	<u>2011</u>	<u>2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenue	\$ 4,355	\$ 4,371	\$ (16)	(.4)%
Nonoperating Revenue	<u>110</u>	<u>84</u>	<u>26</u>	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	<u>581</u>	<u>602</u>	<u>(21)</u>	(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	<u>28,916</u>	<u>27,428</u>	<u>1,488</u>	5.4%
Ending Net Assets	<u>\$29,569</u>	<u>\$28,916</u>	<u>\$ 653</u>	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.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

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

	<u>2012</u>	<u>2011</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Land	\$ 570	\$ 570	\$ 0	0%
Rights of Way	143	142	1	.7%
Construction in Progress	989	485	504	103.9%
Water Distribution System	14,697	15,258	(561)	(3.7)%
Wastewater System	19,063	18,552	511	2.8%
Building	812	844	(32)	(3.8)%
Office Equipment	27	23	4	17.4%
Equipment	<u>62</u>	<u>82</u>	<u>(20)</u>	<u>(24.4)%</u>
Total Capital Assets	<u>\$36,363</u>	<u>\$35,956</u>	<u>\$ (407)</u>	<u>(1.1)%</u>

At the end of June 2012 budget year, the Authority had \$36,363 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 \$407 thousand, or 1.1%, decrease over the previous year.

The largest additions to capital assets this year were \$1,048 thousand of wastewater infrastructure and \$43 thousand of water infrastructure. Accumulated depreciation for the year reduced the value of capital assets by \$1,200 thousand.

The Authority's budget for the next fiscal year reflects minimal 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 both existing bond funds and new issues currently under consideration.

The Authority is investigating enhancements that will result in the purchase of additional capital assets over the next couple of 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 fourth 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>2011</u>	<u>2010</u>	<u>Dollar Change</u>	<u>Percent 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	<u>82</u>	<u>116</u>	<u>(34)</u>	<u>(29.3)%</u>
Total Capital Assets	<u>\$35,956</u>	<u>\$36,035</u>	<u>\$ (79)</u>	<u>(.2)%</u>

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.

DEBT

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

	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenue Bonds & Notes	\$12,416	\$12,160	\$ 256	2.1%
Other Notes	147	193	(46)	(23.8)%
Total Debt	<u>\$12,563</u>	<u>\$12,353</u>	<u>210</u>	1.7%

As shown in table 7, the Authority had \$12,563 thousand in bonds and notes outstanding at the end of the fiscal year ending June 30, 2012. This is \$210 thousand, or 1.7%, more than the previous year.

Total debt increased due to an additional \$764 thousand withdrawn from the State Revolving Fund to finance the Vastola and Windover wastewater infrastructure projects. 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 next fiscal year. Otherwise, indebtedness decreased as all bond and interest payments were completed as scheduled.

The Authority anticipates drawing an additional \$400 thousand from the State Revolving Fund to finance the Windover and Vastola wastewater infrastructure projects during the next fiscal year. Water projects will be financed by both existing bond funds and new issues currently under consideration.

Table 8
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	<u>\$12,353</u>	<u>\$12,760</u>	<u>\$ (407)</u>	(3.2)%

As shown in table 8, 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. Other than the State Revolving Fund

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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Due to the lagging economy, the Authority's 2012/2013 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.

It is anticipated that the Authority's primary water supplier, the City of Lebanon, will not increase water rates in the next year. Therefore, it is anticipated the Authority's Board of Commissioners will not increase water rates in fiscal year ending June 20, 2013.

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, 2012 AND 2011

ASSETS	2012	2011
Current Assets		
Cash & Cash Equivalents - Unrestricted/Undesignated	\$ 1,766,725	\$ 1,226,445
Cash & Cash Equivalents - Unrestricted/Designated	1,076,363	1,261,383
Investments in Interest Bearing Deposits - Unrestricted/Undesignated	171,000	171,000
Investments in Interest Bearing Deposits - Unrestricted/Designated	850,000	630,000
Accounts Receivable Net of Allowance for Doubtful Accounts of \$10,000 and \$10,000 as of June 30, 2012 and June 30, 2011, respectively.	618,005	527,678
Due From Tennessee Department of Transportation	50,788	13,275
Accrued Interest Receivable	12,730	29,788
Inventory of Supplies	163,912	178,715
Prepaid Expenses	22,899	23,091
Total Current Assets	4,732,422	4,061,375
Restricted Assets		
Restricted Cash & Cash Equivalents	32,548	32,497
Restricted Investments in Interest Bearing Deposits	2,753,023	2,753,286
Total Restricted Assets	2,785,571	2,785,783
Utility Plant & Equipment		
Land	569,532	569,532
Rights of Way	143,216	142,454
Water Distribution System	24,024,449	23,981,916
Wastewater System	22,117,413	21,069,284
Building	1,234,248	1,234,248
Office Equipment	218,686	207,731
Equipment	647,489	647,489
Construction in Progress	989,055	484,528
Total Utility Plant & Equipment	49,944,088	48,337,182
Less Accumulated Depreciation	(13,581,456)	(12,381,415)
Utility Plant & Equipment Net of Accumulated Depreciation	36,362,632	35,955,767
Other Assets		
Deferred Bond Issue Costs Less Accumulated Amortization	257,134	282,042
Total Assets	\$ 44,137,759	\$ 43,084,967

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

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 STATEMENTS OF NET ASSETS
 JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 150,993	\$ 126,295
Construction Advances	-	250,000
Accrued Interest Payable	100,371	114,204
Customer Deposits	630,706	616,909
Sales Tax Payable	33,683	29,479
Accrued Payroll & Related Items	30,175	26,038
Current Portion of Long-Term Debt	992,603	844,187
Total Current Liabilities	<u>1,938,531</u>	<u>2,007,112</u>
Long-Term Debt	<u>11,570,275</u>	<u>11,509,145</u>
Total Liabilities	13,508,806	13,516,257
NET ASSETS		
Invested In Capital Assets Net Of Related Debt	24,548,162	24,252,995
Restricted For Debt Service	2,294,297	2,417,264
Unrestricted	3,786,494	2,898,451
	<u>30,628,953</u>	<u>29,568,710</u>
Total Liabilities & Net Assets	<u>\$ 44,137,759</u>	<u>\$ 43,084,967</u>

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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating Sales		
Water Sales	\$ 3,573,329	\$ 3,233,271
Wastewater Income	1,187,747	942,636
Other Charges	188,621	179,528
	<u>4,949,697</u>	<u>4,355,435</u>
Less: Bad Debt Expense	<u>(8,478)</u>	<u>(1,629)</u>
Net Operating Revenue	4,941,219	4,353,806
Operating Expenses		
Depreciation Expense	1,200,041	1,171,177
Water Purchased	888,806	845,400
Wastewater Service Costs	844,735	725,741
Repairs & Maintenance Expense	177,488	152,243
Management Salaries	188,459	176,564
Plant Salaries	220,067	210,804
Office Salaries	99,012	100,009
Legal Expense	38,633	64,328
Health Insurance Expense	82,304	84,290
Engineering Fees	20,044	24,416
Retirement Expense	64,503	63,178
Office Supplies & Expense	28,950	43,455
Plant Utilities Expense	57,558	59,973
Payroll Tax Expense	41,954	40,979
Miscellaneous Expense	39,744	39,003
Other Insurance Expense	41,847	35,522
Postage	34,769	28,225
Audit & Accounting	30,953	21,475
Telephone & Office Utilities	14,801	17,333
Legal Salary	25,207	24,472
Data Processing	8,645	5,334
Uniforms Expense	7,121	9,666
Seminar Expense	5,181	5,735
Dues Expense	5,584	5,582
Director Fees	1,600	2,769
Total Operating Expenses	<u>4,168,006</u>	<u>3,957,673</u>
Operating Income	773,213	396,133

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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating Income (From Page 10)	\$ 773,213	\$ 396,133
Nonoperating Revenues (Expenses)		
Interest Income	48,059	61,342
State Reimbursement, net of expenses	14,800	17,807
Grant Income	10,295	30,884
Interest & Amortization Expense	<u>(558,974)</u>	<u>(581,140)</u>
Total Nonoperating Revenues (Expenses)	<u>(485,820)</u>	<u>(471,107)</u>
Income (Loss) Before Contributions	287,393	(74,974)
Contributions		
Contributions In Aid Of Construction	<u>772,850</u>	<u>727,200</u>
	772,850	727,200
Increase In Net Assets	1,060,243	652,226
Net Assets, Beginning of Year	<u>29,568,710</u>	<u>28,916,484</u>
Net Assets, End of Year	<u>\$ 30,628,953</u>	<u>\$ 29,568,710</u>

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

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities		
Cash Receipts From Customers	\$ 4,810,217	\$ 4,321,119
Cash Payments to Suppliers for Goods and Services	(2,442,267)	(2,163,408)
Cash Payments to or on Behalf of Employees	(717,369)	(714,771)
Other Operating Revenue	16,958	20,723
Net Cash Provided By Operating Activities	1,667,539	1,463,663
 Cash Flows From Capital & Related Financing Activities		
Capital Contributions	59,500	41,500
Proceeds From State Revolving Fund	763,781	115,763
Proceeds For Wastewater Construction	-	-
Purchase & Construction of Utility Plant & Equipment	(893,555)	(406,534)
Capital Reimbursement - State of Tennessee	14,800	17,807
Principal Payments on Revenue Bonds	(844,187)	(797,509)
Interest Paid on Revenue Bonds	(257,947)	(294,123)
Net Cash Used By Capital & Related Financing Activities	(1,157,608)	(1,323,096)
 Cash Flows From Investing Activities		
Net Proceeds From (Purchases Of) Investments in Interest Bearing Deposits	(219,737)	83,801
Interest Income	65,117	56,752
Net Cash Provided By (Used In) Investing Activities	(154,620)	140,553
 Net Increase in Cash & Cash Equivalents	355,311	281,120
 Cash & Cash Equivalents, Beginning of Year	2,520,325	2,239,205
Cash & Cash Equivalents, End of Year	\$ 2,875,636	\$ 2,520,325

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

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Adjustments to Reconcile Operating Income To Net Cash Provided By (Used) By Operating Activities		
Operating Income	\$ 773,213	\$ 396,133
Depreciation	1,200,041	1,171,177
Provision for Bad Debt	-	(5,000)
Grant Income - Flood	10,295	30,884
(Increase) in Accounts Receivable	(90,328)	(16,258)
(Increase) in Receivable From TDOT	(37,513)	(11,325)
Decrease in Inventory	14,803	6,244
Decrease in Prepaid Expenses	192	15
Increase/(Decrease) in Accounts Payable	24,698	(116,182)
(Decrease) in Accrued Flood Damages	-	(17,901)
Increase/(Decrease) in Construction Advances	(250,000)	18,000
Increase in Customer Deposits	13,797	20,619
Increase in Sales Tax Payable	4,204	1,732
Increase/(Decrease) in Accrued Payroll & Related Items	4,137	(14,475)
Net Cash Provided By Operating Activities	\$ 1,667,539	\$ 1,463,663
 Non-Cash Transactions		
Noncash Capital Contributions From Developers Consisting of Water Infrastructure	\$ -	\$ -
 Noncash Capital Contributions From Developers Consisting of Wastewater Infrastructure	713,350	685,700
 Interest Capitalized to Utility Plant & Equipment	\$ 101,752	\$ 106,255

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, 2012 AND 2011

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, 2012 AND 2011

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, 2012 and 2011, 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, 2012 AND 2011

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, 2012 AND 2011

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, 2012 and 2011.

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, 2012 AND 2011

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, 2012 and 2011, 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, 2012 AND 2011

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, 2012 and 2011 was as follows:

	Balance July 1, 2011	Transfers In And Additions	Transfers Out And Retirements	Balance June 30, 2012
Capital Assets Not Being Depreciated				
Land	\$ 569,532	\$ -	\$ -	\$ 569,532
Rights of Way	142,454	762		143,216
Construction In Progress	484,528	859,455	(354,928)	989,055
Total Capital Assets Not Being Depreciated	<u>1,196,514</u>	<u>860,217</u>	<u>(354,928)</u>	<u>1,701,803</u>
Capital Assets Being Depreciated				
Water Distribution System	23,981,916	42,533	-	24,024,449
Wastewater System	21,069,284	1,048,128		22,117,413
Building	1,234,248	-	-	1,234,248
Office Equipment	207,731	10,954	-	218,686
Equipment	647,489	-	-	647,489
Total Capital Assets Being Depreciated	<u>47,140,668</u>	<u>1,101,616</u>	<u>-</u>	<u>48,242,285</u>
Less Accumulated Depreciation				
Water Distribution System	(8,723,476)	(604,309)		(9,327,785)
Wastewater System	(2,517,703)	(536,561)		(3,054,264)
Building	(390,224)	(31,385)		(421,608)
Office Equipment	(184,965)	(7,045)		(192,010)
Equipment	(565,047)	(20,742)		(585,789)
Total Accumulated Depreciation	<u>(12,381,415)</u>	<u>(1,200,041)</u>	<u>-</u>	<u>(13,581,456)</u>
Total Capital Assets Being Depreciated Net of Accumulated Depreciation	<u>34,759,253</u>	<u>(98,426)</u>	<u>-</u>	<u>34,660,829</u>
Total Capital Assets Net of Accumulated Depreciation	<u>\$ 35,955,767</u>	<u>\$ 761,792</u>	<u>\$ (354,928)</u>	<u>\$ 36,362,632</u>

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

Note E – Capital Assets (continued)

Capital asset activity for the years ended June 30, 2011 and 2010 was as follows:

	Balance <u>July 1, 2010</u>	Transfers In And Additions	Transfers Out And Retirements	Balance <u>June 30, 2011</u>
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, 2012 AND 2011

Note F – Bonds & Notes Payable

Bonds and notes payable as of June 30, 2012 and 2011 are as follows:

Series, Rates of Interest, & Maturity Dates	2012	2011
Waterworks Revenue Refunding and Improvement Bonds Series 1993, dated 5/1/93. Interest of 4.625% - 6% less unamortized bond discount of \$7,733 and \$11,600 respectively, and deferred loss on refinancing of \$33,405 and \$50,107 for June 30, 2012 and 2011, respectively.	\$ 998,862	\$ 1,463,292
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.	4,132,762	3,885,115
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	227,515	230,969
Local Government Public Improvement Bonds Series IV-E-1, dated 10/24/06. Interest at 4% - 5%.	5,455,157	5,743,421
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.	1,601,497	837,716
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.	147,085	192,819
Total Bonds & Notes Payable	\$ 12,562,878	\$ 12,353,332
Less Current Portion	(992,603)	(844,187)
Long-Term Debt	<u>\$ 11,570,275</u>	<u>\$ 11,509,145</u>

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

Note F – Bonds & Notes Payable (Continued)

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

	<u>2012</u>	<u>2011</u>
Total Long-Term Debt At Beginning of Year	\$ 12,371,619	\$ 12,820,561
Notes Payable Proceeds	763,781	115,763
Accreted Interest On Capital Appreciation Bonds	247,648	232,804
Notes Payable Principal Paid	(45,734)	(44,207)
Bond Retirements Paid	<u>(798,453)</u>	<u>(753,302)</u>
Total Long-Term Debt At End of Year	12,538,860	12,371,619
Refunding Revenue Bond Unamortized Discount	(7,733)	(11,600)
Unamortized Deferred Loss on Refundings	<u>31,751</u>	<u>(6,687)</u>
Total Long-Term Debt At End of Year Net of Unamortized Discount & Deferred Loss	12,562,878	12,353,332
Less Current Portion	<u>(992,603)</u>	<u>(844,187)</u>
Non-Current Portion	<u>\$ 11,570,275</u>	<u>\$ 11,509,145</u>

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

Fiscal Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 992,603	\$ 385,892	\$ 1,378,495
2014	1,032,198	337,797	1,369,995
2015	1,086,932	287,563	1,374,495
2016	1,089,309	236,688	1,325,997
2017	1,132,494	185,003	1,317,497
2018-2022	6,008,362	676,087	6,684,449
2023-2027	4,242,065	346,421	4,588,486
2028-2032	864,317	85,107	949,424
2033-2037	48,608	20,272	68,880
2038-2042	60,847	8,033	68,880
2043	3,636	6	3,641
	<u>\$ 16,561,370</u>	<u>\$ 2,568,870</u>	<u>\$ 19,130,239</u>

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

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, 2012 and 2011, amounted to \$64,503 and \$63,178.

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 \$13,200 and \$21,025 for the fiscal years ended June 30, 2012 and 2011, 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.

WATER & WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

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

Net assets invested in capital assets, net of related debt at June 30, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
Utility Plant & Equipment, net of Accumulated Depreciation	\$ 36,362,632	\$ 35,955,767
Restricted Investments - Unspent Debt Proceeds	491,274	368,518
Deferred Bond Issue Costs, net of Amortization	257,134	282,042
Current Portion of Long-Term Debt	(992,603)	(844,187)
Long-Term Debt, net of Unamortized Discount and Loss	<u>(11,570,275)</u>	<u>(11,509,145)</u>
	<u>\$ 24,548,162</u>	<u>\$ 24,252,995</u>

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

SUPPLEMENTARY INFORMATION

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

	2008	2009	2010	2011	2012
Operating Revenues					
Water Sales	\$ 3,100,489	\$ 3,223,337	\$ 3,244,719	\$ 3,233,271	\$ 3,573,329
Wastewater Income	765,477	753,448	946,279	942,636	1,187,747
Other Charges	211,265	191,543	179,885	179,528	188,621
Total Operating Revenues	<u>4,077,231</u>	<u>4,168,328</u>	<u>4,370,883</u>	<u>4,355,435</u>	<u>4,949,697</u>
Operating Expenses					
Operations, Administration, & General	2,652,775	2,610,219	2,778,749	2,788,125	2,976,443
Depreciation	1,020,972	1,082,363	1,130,250	1,171,177	1,200,041
Total Operating Expenses	<u>3,673,747</u>	<u>3,692,582</u>	<u>3,908,999</u>	<u>3,959,302</u>	<u>4,176,484</u>
Non-Operating Revenues (Expenses)					
Interest Income	258,460	133,142	84,062	61,342	48,059
Gain (Loss) On Sale Of Assets	25,748	-	-	-	-
Reimbursement Revenue, net of expenses	-	-	-	17,807	14,800
Grant Income	-	-	-	30,884	10,295
Interest & Amortization Expense	(588,268)	(624,620)	(602,455)	(581,140)	(558,974)
Flood Damages	-	-	(46,721)	-	-
Total Non-Operating Expenses	<u>(304,060)</u>	<u>(491,478)</u>	<u>(565,114)</u>	<u>(471,107)</u>	<u>(485,820)</u>
Income (Loss) Before Contributions	99,424	(15,732)	(103,230)	(74,974)	287,393
Capital Contributions					
Capital Reimbursement	30,962	111,428	-	-	-
Tap Fees & Fire Hydrant	203,000	192,500	115,000	41,500	59,500
Developer Contributions of Transmission Lines	2,503,688	1,009,300	1,476,700	685,700	713,350
Total Capital Contributions	<u>2,737,650</u>	<u>1,313,228</u>	<u>1,591,700</u>	<u>727,200</u>	<u>772,850</u>
Increase In Net Assets	<u>\$ 2,837,074</u>	<u>\$ 1,297,496</u>	<u>\$ 1,488,470</u>	<u>\$ 652,226</u>	<u>\$ 1,060,243</u>

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 SCHEDULE OF DEBT SERVICE TO MATURITY
 (UNAUDITED)
 JUNE 30, 2012

Fiscal Year Ended June 30,	1993 Series		2000 Series Capital Appreciation Bonds		2002 Series Revenue Bonds		2006 Series "Refunding" Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
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					4,132.67	9,643.33	825,000.00	83,950.00
2017			345,000.00		4,322.52	9,453.48	515,000.00	42,700.00
2018			905,000.00		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		
	<u>\$ 1,040,000.00</u>	<u>\$ 94,500.00</u>	<u>\$ 7,005,000.00</u>	<u>\$ -</u>	<u>\$ 227,515.49</u>	<u>\$ 189,405.70</u>	<u>\$ 3,055,000.00</u>	<u>\$ 697,650.00</u>

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
SCHEDULE OF DEBT SERVICE TO MATURITY
(UNAUDITED)
JUNE 30, 2012

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
2013	\$ 125,000.00	\$ 99,112.50	\$ 47,352.61	\$ 5,144.91	\$ 106,638.62	\$ 69,470.14	\$ 992,602.92	\$ 385,891.86
2014	130,000.00	94,112.50	49,008.96	3,488.56	109,411.71	66,697.05	1,032,198.28	337,796.50
2015	135,000.00	88,912.50	50,723.48	1,774.27	112,256.96	63,851.80	1,086,931.60	287,563.41
2016	145,000.00	82,162.50			115,176.18	60,932.58	1,089,308.85	236,688.41
2017	150,000.00	74,912.50			118,171.30	57,937.46	1,132,493.82	185,003.44
2018	155,000.00	68,912.50			121,244.37	54,864.39	1,185,765.46	155,131.80
2019	160,000.00	62,712.50			124,397.30	51,711.46	1,189,126.10	145,571.16
2020	170,000.00	56,312.50			127,632.26	48,476.50	1,202,578.31	135,718.95
2021	175,000.00	49,512.50			130,951.31	45,157.45	1,211,124.57	125,372.69
2022	180,000.00	42,075.00			134,356.68	41,752.08	1,219,767.60	114,292.16
2023	190,000.00	34,425.00			137,850.61	38,258.15	1,228,510.10	102,899.66
2024	200,000.00	26,350.00			141,435.42	34,673.34	1,247,354.92	90,979.84
2025	205,000.00	17,850.00			145,113.41	30,995.35	1,236,304.82	78,529.94
2026	215,000.00	9,137.50			148,887.09	27,221.67	370,362.96	43,659.30
2027					152,758.86	23,349.90	159,532.22	30,352.54
2028					156,731.35	19,377.41	163,815.88	26,068.88
2029					160,807.14	15,301.62	168,217.12	21,667.64
2030					164,988.89	11,119.87	172,739.30	17,145.46
2031					169,279.41	6,829.35	177,385.87	12,498.89
2032					173,680.13	2,428.63	182,159.00	7,725.76
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
	<u>\$ 2,335,000.00</u>	<u>\$ 806,500.00</u>	<u>\$ 147,085.05</u>	<u>\$ 10,407.74</u>	<u>\$ 2,751,769.00</u>	<u>\$ 770,406.20</u>	<u>\$ 16,561,369.54</u>	<u>\$ 2,568,869.64</u>

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
SCHEDULE OF INSURANCE COVERAGE
(UNAUDITED)
JUNE 30, 2012

<u>Name of Company</u>	<u>Period Of Coverage</u>	<u>Coverage</u>	<u>Liability</u>
Utica	1/31/12 - 1/31/13	General Liability	\$1,000,000/\$1,000,000
Utica	1/31/12 - 1/31/13	Management Liability	\$3,000,000/\$3,000,000
Utica	1/31/12 - 1/31/13	Automobile Liability & Damage	\$1,000,000/\$1,000,000
Utica	1/31/12 - 1/31/13	Property	\$3,937,701
Utica	1/31/12 - 1/31/13	Employment Practices Liability	\$1,000,000/\$2,000,000
Utica	1/31/12 - 1/31/13	Worker's Compensation	\$1,000,000
St. Paul Travelers	7/19/12-7/19/13	Highway Replacement Bond	\$2,500
St. Paul Travelers	4/8/12 - 4/8/13	Fidelity Bond/Chairman	\$50,000
St. Paul Travelers	1/31/12 - 1/31/13	Fidelity Bond/Executive Director	\$50,000
St. Paul Travelers	2/4/12 - 2/4/13	Fidelity Bond/Treasurer	\$50,000
St. Paul Travelers	9/9/12 - 9/9/13	Fidelity Bond/Customer Service Rep	\$50,000
St. Paul Travelers	10/13/12-10/13/13	Fidelity Bond/Customer Service Rep	\$50,000
St. Paul Travelers	9/1/12-9/1/13	Fidelity Bond/Customer Service Rep	\$50,000
RLI	3/7/12 - 3/7/16	Notary Bond/Treasurer	\$10,000
RLI	6/6/11 - 6/6/15	Notary Bond/Executive Director	\$10,000

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 SCHEDULE OF GENERAL INFORMATION
 (UNAUDITED)
 JUNE 30, 2012

<u>Water Rate Schedule</u>	<u>Rate</u>
First 2,000 gallons	\$27.49 per month minimum
Next 3,000 gallons	\$ 9.72 per 1,000 gallons
Next 5,000 gallons	\$ 8.46 per 1,000 gallons
Over 10,000 gallons	\$ 7.61 per 1,000 gallons

<u>Year Ended June 30,</u>	<u>Number of Customers</u>
2012	7,560
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	5,662,500
Spring Hill Townhomes	3,379,300
Wilson County Schools	700,400
Bellwood Assisted Living	902,600
Roy Major	540,000
Jerry Hughes	643,200
Mike Stalnaker	221,000
Earl Watson	504,600
Stan Edwards	159,500
Tom & Betty Green	375,400

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 SCHEDULE OF UNACCOUNTED FOR WATER
 (UNAUDITED)
 JUNE 30, 2012

(All Amounts In Gallons)

A Water Treated & Purchased:

B Water Pumped (potable)	0	
C Water Purchased	388,287,193	
D Total Water Treated & Purchased (Sum Lines B and C)	388,287,193	388,287,193

E Accounted For Water

F Water Sold	313,534,680	
G Metered For Consumption (in house useage)	0	
H Fire Departments Usage	20,400	
I Flushing	2,562,813	
J Tank Cleaning/Filling	0	
K Street Cleaning	0	
L Bulk Sales	0	
M Water Bill Adjustments/plus or (minus)	0	
N Total Accounted For Water (Sum Lines F Through M)	316,117,893	316,117,893
O Unaccounted For Water (Line D Minus Line N)		72,169,300
P Percent Unaccounted For Water (Line O Divided By Line D Times 100)		18.587%

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, 2012

	<u>Bond & Interest Sinking Fund</u>	<u>Debt Service Reserve Fund</u>
Balance, June 30, 2011	\$ 1,322,497	\$ 582,500
Deposits & Transfers	2,275,102	-
Disbursements & Transfers	<u>(2,280,051)</u>	<u>-</u>
Balance, June 30, 2012	<u>\$ 1,317,548</u>	<u>\$ 582,500</u>

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
 SCHEDULE OF DEBT SERVICE COVERAGE
 (UNAUDITED)
 JUNE 30, 2012

Net Earnings From Operations	\$ 773,213
Add:	
Depreciation	1,200,041
Interest Income	48,059
Cash Contributions - Tap & Fire Hydrant Revenue	59,500
Cash Contributions - Utility Plant	-
	-
Amount Available For Debt Service	\$ 2,080,813
Annual Debt Service	\$ 1,378,495
Coverage	1.51

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, 2012, which collectively comprise the Water & Wastewater Authority of Wilson County's basic financial statements and have issued our report thereon dated December 19, 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 December 19, 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 Vintrease - Follis, PLLC

Lebanon, Tennessee
December 19, 2012

WATER & WASTEWATER AUTHORITY OF WILSON COUNTY
SCHEDULE OF FINDINGS & QUESTIONED COSTS
JUNE 30, 2012

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.