

**BENTON – DECATUR SPECIAL SEWER DISTRICT**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2008 AND 2007**

**BENTON – DECATUR SPECIAL SEWER DISTRICT  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2007**

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## **INTRODUCTORY SECTION**

**BENTON – DECATUR SPECIAL SEWER DISTRICT  
DIRECTORY  
JUNE 30, 2008**

**BOARD MEMBERS**

Russell Keeton, Chairman  
David Boroughs, Vice Chairman  
Randy Patton, Secretary/Treasurer  
Roger Pafford  
Sam Long  
Jimmy Kelley

**MANAGEMENT TEAM**

Emily Ferguson, Certified Public Accountant

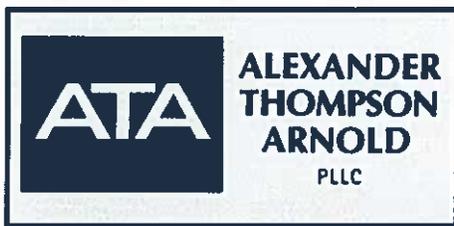
**COUNSEL**

Wood Law Offices, P.C.  
Parsons, Tennessee

**INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Alexander Thompson Arnold PLLC  
Jackson, Tennessee

## **FINANCIAL SECTION**



Certified Public Accountants

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Independent Auditor's Report

Board of Directors  
Benton – Decatur Special Sewer District  
Parsons, Tennessee

We have audited the accompanying financial statements of the Benton – Decatur Special Sewer District (the District) as of and for the years ended June 30, 2008 and 2007, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District'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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2008 and 2007, and the respective changes in financial position and cash flows, where applicable, thereof 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 September 3, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 4 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Dyersburg, TN  
Fulton, KY  
Henderson, TN  
Jackson, TN  
Martin, TN

McKenzie, TN  
Milan, TN  
Murray, KY  
Paris, TN  
Trenton, TN  
Union City, TN

Board of Directors  
Benton – Decatur Special Sewer District  
Parsons, Tennessee

Our audits were conducted for the purpose of forming opinions on the accompanying financial statements that collectively comprise the District's basic financial statements. The introductory section and the accompanying financial information listed as other supplementary information in the Table of Contents is presented for purposes of additional analysis, and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements, and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Alexander Thompson Arnold PLLC*

Certified Public Accountants  
Jackson, Tennessee  
September 3, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Benton – Decatur Special Sewer District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008 and 2007. All amounts, unless otherwise indicated, are expressed in actual dollars.

### FINANCIAL HIGHLIGHTS

Management believes the District's financial condition is strong. The District is well within its more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets at year-end were \$2,859,039 and exceeded liabilities in the amount of \$597,356 (i.e. net assets).
- Unrestricted net assets decreased \$4,175.
- Operating expenses were \$29,030 and operating revenues were \$22,918. The District began operations as of May 22, 2008.
- The operating loss for the year was \$6,112.

### OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements and Other Supplementary Information are made up of four sections: 1) the introductory section, 2) the financial section, 3) the other supplementary information section, 4) and the internal control and compliance section. The introductory section includes the District's directory. The financial section includes the MD&A, the independent auditor's report, and the financial statements with accompanying notes. The other supplementary information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

### REQUIRED FINANCIAL STATEMENTS

A Proprietary Fund is used to account for the operations of the District, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements report information about the District, using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The *Statement of Net Assets* includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

## REQUIRED FINANCIAL STATEMENTS (Cont.)

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the District's operations and can be used to determine whether the District has successfully recovered all of its costs. This statement also measures the District's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

The *Notes to the Financial Statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

## FINANCIAL ANALYSIS

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the District's activities in a way that will help answer this question. These two statements report the net assets of the District, and the changes in the net assets. Net assets are one way to measure the financial health or financial position of the District. Over time, increases or decreases in the District's net assets is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The District's total assets increased \$1,527,427 for the fiscal years ended June 30, 2008. The District's net assets increased \$301,651 for the period ended June 30, 2008.

Table 1A  
CONDENSED STATEMENTS OF NET ASSETS

|                            | June 30, 2008     | June 30, 2007     | Increase (Decrease) |         |
|----------------------------|-------------------|-------------------|---------------------|---------|
|                            |                   |                   | Amount              | Percent |
| Current and other assets   | \$ 181,020        | \$ 481,202        | \$ (300,182)        | -62.38% |
| Capital assets             | <u>2,678,019</u>  | <u>850,410</u>    | <u>1,827,609</u>    | 214.91% |
| Total assets               | 2,859,039         | 1,331,612         | 1,527,427           | 114.71% |
| Long-term liabilities      | 2,139,346         | 617,563           | 1,521,783           | 246.42% |
| Other liabilities          | <u>122,337</u>    | <u>418,344</u>    | <u>(296,007)</u>    | -70.76% |
| Total liabilities          | 2,261,683         | 1,035,907         | 1,225,776           | 118.33% |
| Invested in capital assets | 538,673           | 232,847           | 305,826             | 131.34% |
| Unrestricted               | <u>58,683</u>     | <u>62,858</u>     | <u>(4,175)</u>      | -6.64%  |
| Total net assets           | <u>\$ 597,356</u> | <u>\$ 295,705</u> | <u>\$ 301,651</u>   | 102.01% |

## FINANCIAL ANALYSIS (Cont.)

Table 1B  
**CONDENSED STATEMENTS OF NET ASSETS**

|                            | June 30, 2007 | June 30, 2006 | Increase (Decrease) |         |
|----------------------------|---------------|---------------|---------------------|---------|
|                            |               |               | Amount              | Percent |
| Current and other assets   | \$ 481,202    | \$ 92,507     | \$ 388,695          | 420.18% |
| Capital assets             | 850,410       | 111,762       | 738,648             | 660.91% |
| Total assets               | 1,331,612     | 204,269       | 1,127,343           | 551.89% |
| Long-term liabilities      | 617,563       | -             | 617,563             | 0.00%   |
| Other liabilities          | 418,344       | -             | 418,344             | 0.00%   |
| Total liabilities          | 1,035,907     | -             | 1,035,907           | 0.00%   |
| Invested in capital assets | 232,847       | 111,763       | 121,084             | 108.34% |
| Unrestricted               | 62,858        | 92,506        | (29,648)            | -32.05% |
| Total net assets           | \$ 295,705    | \$ 204,269    | \$ 91,436           | 44.76%  |

The increase in capital assets and long-term liabilities was due to construction being completed on the sewer system in 2008. The decrease in current assets and liabilities was due to a reduction in accounts payable and the related loan draw down.

Changes in the District's net assets can be determined by reviewing the following condensed Statement of Revenues, Expenses and Changes in Net Assets for the years.

Table 2A  
**CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

|  | June 30, 2008 | June 30, 2007 | Increase (Decrease) |           |
|--|---------------|---------------|---------------------|-----------|
|  |               |               | Amount              | Percent   |
| Operating revenues                         | \$ 22,918     | \$ -          | \$ 22,918           | 100.00%   |
| Non-operating revenues                     | 1,473         | 194           | 1,279               | 659.28%   |
| Total revenues                             | 24,391        | 194           | 24,197              | 12472.68% |
| Administrative and general                 | 29,030        | 3,000         | 26,030              | 867.67%   |
| Non-operating expenses                     | 16,392        | 700           | 15,692              | 2241.71%  |
| Total expenses                             | 45,422        | 3,700         | 41,722              | 1127.62%  |
| Income (loss) before capital contributions | (21,031)      | (3,506)       | (17,525)            | 499.86%   |
| Contributed capital                        | 322,682       | 94,942        | 227,740             | 239.87%   |
| Change in net assets                       | 301,651       | 91,436        | 210,215             | 229.90%   |
| Beginning net assets                       | 295,705       | 204,269       | 91,436              | 44.76%    |
| Ending net assets                          | \$ 597,356    | \$ 295,705    | \$ 301,651          | 102.01%   |

## FINANCIAL ANALYSIS (Cont.)

Table 2B

**CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

|  | June 30, 2007 | June 30, 2006 | Increase (Decrease) |         |
|--|---------------|---------------|---------------------|---------|
|  |               |               | Amount              | Percent |
| Operating revenues                         | \$ -          | \$ -          | \$ -                | 100.00% |
| Non-operating revenues                     | 194           | 127           | 67                  | 52.76%  |
| Total revenues                             | 194           | 127           | 67                  | 52.76%  |
| Administrative and general                 | 3,000         | 2,055         | 945                 | 45.99%  |
| Non-operating expenses                     | 700           | 13,800        | (13,100)            | -94.93% |
| Total expenses                             | 3,700         | 15,855        | (12,155)            | -76.66% |
| Income (loss) before capital contributions | (3,506)       | (15,728)      | 12,222              | -77.71% |
| Contributed capital                        | 94,942        | 132,375       | (37,433)            | -28.28% |
| Change in net assets                       | 91,436        | 116,647       | (25,211)            | -21.61% |
| Beginning net assets                       | 204,269       | 87,622        | 116,647             | 133.13% |
| Ending net assets                          | \$ 295,705    | \$ 204,269    | \$ 91,436           | 44.76%  |

The District began operations in May 2008 which resulted in an increase in operating revenues and operating expenses during the year. Contributed capital was also up for the year, because the majority of the construction took place during the year.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets** – At the end of the current fiscal year, the District had \$2,678,019 (net of accumulated depreciation and amortization) invested in a broad range of utility capital assets. This investment includes land, startup costs and sewer facilities and is classified as such for financial purposes. See Note 3c for details.

**Long-term debt** – At the end of the current fiscal year, the District had long-term debt in the amount of \$2,139,346. See Note 3d for details.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Operations began on May 22, 2008 with first payments received in June 2008. The district does not have a budget for 2008; however, will have a budget for 2009.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances, and to demonstrate the District's accountability for the money it receives. Questions concerning any information provided in this report, or requests for any additional information should be directed to the Chairman of the Benton – Decatur Special Sewer District, P.O. Box 594, Parsons, TN 38363.

**BENTON - DECATUR SPECIAL SEWER DISTRICT  
STATEMENTS OF NET ASSETS**

|  | JUNE 30,          |                   |
|--|-------------------|-------------------|
|  | 2008              | 2007              |
| <b>ASSETS</b>                                    |                   |                   |
| <b>Current assets:</b>                           |                   |                   |
| Cash and cash equivalents on deposit             | \$ 138,196        | \$ 201,889        |
| Accounts receivable                              | 11,556            | -                 |
| State revolving fund loan receivable             | 2,400             | 258,965           |
| Grant receivable                                 | 28,868            | 20,348            |
| <b>Total current assets</b>                      | <b>181,020</b>    | <b>481,202</b>    |
| <b>Noncurrent assets:</b>                        |                   |                   |
| Capital assets, not being depreciated:           |                   |                   |
| Land   | 28,500            | 28,500            |
| Construction in process                          | -                 | 766,475           |
| Capital assets, net of accumulated depreciation: |                   |                   |
| Startup costs (net of amortization)              | 55,127            | 55,435            |
| Sewer facilities                                 | 2,594,392         | -                 |
| <b>Total capital assets</b>                      | <b>2,678,019</b>  | <b>850,410</b>    |
| <b>Total assets</b>                              | <b>2,859,039</b>  | <b>1,331,612</b>  |
| <b>LIABILITIES</b>                               |                   |                   |
| <b>Current liabilities:</b>                      |                   |                   |
| Accounts payable                                 | 122,337           | 418,344           |
| <b>Noncurrent liabilities:</b>                   |                   |                   |
| Notes payable                                    | 2,139,346         | 617,563           |
| <b>Total liabilities</b>                         | <b>2,261,683</b>  | <b>1,035,907</b>  |
| <b>NET ASSETS</b>                                |                   |                   |
| Invested in capital assets, net of related debt  | 538,673           | 232,847           |
| Unrestricted                                     | 58,375            | 62,858            |
| <b>Total net assets</b>                          | <b>\$ 597,048</b> | <b>\$ 295,705</b> |

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

**BENTON - DECATUR SPECIAL SEWER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

|  | FOR THE YEARS ENDED JUNE 30, |                   |
|--|------------------------------|-------------------|
|  | 2008                         | 2007              |
| <b>Operating revenues:</b>                     |                              |                   |
| Charges for sales and service                  | \$ <u>22,918</u>             | \$ <u>-</u>       |
| <b>Operating expenses:</b>                     |                              |                   |
| Administrative and general expense             | 24,391                       | 3,000             |
| Depreciation and amortization expense          | 4,639                        | -                 |
| <b>Total operating expenses</b>                | <u>29,030</u>                | <u>3,000</u>      |
| <b>Operating income (loss)</b>                 | <u>(6,112)</u>               | <u>(3,000)</u>    |
| <b>Nonoperating revenues (expenses):</b>       |                              |                   |
| Interest and dividend income                   | 1,473                        | 194               |
| Interest and other expense                     | (16,392)                     | (700)             |
| <b>Total nonoperating revenues (expenses)</b>  | <u>(14,919)</u>              | <u>(506)</u>      |
| Net income (loss) before capital contributions | <u>(21,031)</u>              | <u>(3,506)</u>    |
| <b>Capital contributions</b>                   |                              |                   |
| Benton County                                  | 25,000                       | 25,000            |
| Decatur County - CDBG                          | 297,682                      | 69,942            |
| <b>Total capital contributions</b>             | <u>322,682</u>               | <u>94,942</u>     |
| <b>Change in net assets</b>                    | <b>301,651</b>               | <b>91,436</b>     |
| <b>Total net assets - beginning</b>            | <u>295,705</u>               | <u>204,269</u>    |
| <b>Total net assets - ending</b>               | <u>\$ 597,356</u>            | <u>\$ 295,705</u> |

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

**BENTON - DECATUR SPECIAL SEWER DISTRICT  
STATEMENTS OF CASH FLOWS**

|  | FOR THE YEARS ENDED JUNE 30, |                   |
|--|------------------------------|-------------------|
|  | 2008                         | 2007              |
| <b>Cash flows from operating activities:</b>   |                              |                   |
| Cash received from consumers   | \$ 11,362                    | \$ -              |
| Cash paid to suppliers for goods and services  | (17,291)                     | (400)             |
| Cash paid to Board members for management fees   | (7,100)                      | (2,600)           |
| Net cash provided by (used in) operating activities:   | (13,029)                     | (3,000)           |
| <b>Cash flows from investing activities:</b>   |                              |                   |
| Interest and dividends paid on investments   | 1,473                        | 194               |
| <b>Cash flows from capital and related financing activities:</b>                                   |                              |                   |
| Acquisition & construction of assets   | (2,128,255)                  | (265,570)         |
| Capital contributions  | 314,162                      | 74,595            |
| Issuance of debt   | 1,778,348                    | 358,598           |
| Interest expense on debt   | (16,392)                     | -                 |
| Net cash provided by (used in) financing activities:   | (52,137)                     | 167,623           |
| <b>Increase (decrease) in cash and cash equivalents</b>  | <b>(63,693)</b>              | <b>164,817</b>    |
| <b>Cash and cash equivalents - beginning</b>   | <b>201,889</b>               | <b>37,072</b>     |
| <b>Cash and cash equivalents - ending</b>  | <b>\$ 138,196</b>            | <b>\$ 201,889</b> |
| <b>Reconciliation of operating income to net cash provided by (used for) operating activities:</b> |                              |                   |
| Net operating income (loss)  | \$ (6,112)                   | \$ (3,700)        |
| Adjustments to reconcile net income to net cash provided by operating activities:                  |                              |                   |
| Depreciation   | 4,639                        | -                 |
| Accrued Interest   | -                            | 700               |
| Changes in operating assets and liabilities:   |                              |                   |
| Accounts receivable  | (11,556)                     | -                 |
| Net cash provided by (used in) operating activities  | \$ (13,029)                  | \$ (3,000)        |
| <b>Noncash investing, capital, and financing activities:</b>                                       |                              |                   |
| Capital asset purchases included in accounts payable   | \$ 121,337                   | \$ 417,644        |

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

**BENTON – DECATUR SPECIAL SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2008 AND 2007

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

These are proprietary fund financial statements, and include only the financial activities of Benton – Decatur Special Sewer District. The District was created when under the authority of Title 12, Chapter 68, *Tennessee Code Annotated*, authorizing local government to construct sewer systems for public use for the purpose of providing sewer service to portions of Benton and Decatur counties. The District is jointly owned between Benton and Decatur counties and will be jointly operated between the two. It is agreed that the District will be operated by a board appointed by the County Executives of each respective government entity. The ownership of the property and facilities of the District are held by the respective counties as tenants in common, in equal shares of 50 percent. The District's Management Board must file a quarterly financial report with each respective county. The District began operations as of May 22, 2008.

**B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The District's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounting policies of the District conform to applicable generally accepted accounting principles as defined in the pronouncements of the *Governmental Accounting Standards Board (GASB)*, *Financial Accounting Standards Board (FASB) Statements and Interpretations*, *Accounting Principle Board (APB) Opinions*, and *Accounting Research Bulletins (ARBs)*, issued on or before November 30, 1989. The District does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges for sales to customers for sales and service. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**C. Assets, Liabilities, and Equity**

***Deposits and Investments***

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

***Accounts Receivable***

Trade receivables result from unpaid billings for water service to customers. The billing and collections for the District are prepared and collected by the North Utility District. The North Utility District remits to the District the entire amount of the billings on a monthly basis. Due to operations beginning on May 22, 2008 with first payments received in June 2008, an allowance for uncollectible accounts receivable is considered unnecessary at this time but will be considered in future audits.

**BENTON – DECATUR SPECIAL SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
JUNE 30, 2008 AND 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**C. Assets, Liabilities, and Net Assets (Cont.)**

***Capital Assets***

Capital assets, which include property, plant equipment, organizational costs, and construction in progress, are defined by the District as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value at the date of donation. The organizational costs include initial one time expenses associated with the research and development of the District.

The costs of normal maintenance and repairs that do not add value to the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Assets described as construction in progress represent costs related to the construction of the sewerage facility. Operations began May 22, 2008.

Property, plant, equipment and organizational cost of the District are depreciated using the straight line method over the following useful lives:

|                      |          |
|----------------------|----------|
| Sewerage facility    | 50 years |
| Organizational costs | 15 years |

***Other Assets***

The District incurred \$55,435 in startup costs related to beginning the process of building the system. The costs will be amortized over 15 years with current amortization costs of \$308.

***Net Assets***

Equity is classified as net assets and displayed in the following two components:

- Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.
- Unrestricted - All other net assets that do not meet the description of the above categories.

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary Information**

A Budget is required as part of the agreement with Benton County and Decatur County for the District; however, a budget has not been adopted.

**BENTON – DECATUR SPECIAL SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Cont.)**  
**JUNE 30, 2008 AND 2007**

**NOTE 3 – DETAILED NOTES**

**A. Deposits and Investments**

***Custodial Credit Risk***

The District's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statute required that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the District's agent in the District's name, or by the treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations, and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United

States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2008 and 2007, all bank deposits were fully collateralized or insured.

**B. Receivables**

Receivables as of the fiscal year ends were made up of the following:

|                                      | June 30,         |                   |
|--------------------------------------|------------------|-------------------|
|                                      | <u>2008</u>      | <u>2007</u>       |
| Customer receivables                 | \$ 11,556        | \$ -              |
| Grants receivable                    | 28,868           | 20,348            |
| State revolving loan fund receivable | <u>2,400</u>     | <u>258,965</u>    |
| Total                                | <u>\$ 42,824</u> | <u>\$ 279,313</u> |

**BENTON – DECATUR SPECIAL SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Cont.)**  
**JUNE 30, 2008 AND 2007**

**NOTE 3 – DETAILED NOTES (Cont.)**

**C. Capital Assets**

Capital asset activity during the years ending June 30, 2008 and 2007 was as follows:

| <b>CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION</b> |                             |                     |             |                    |                             |
|--|-----------------------------|---------------------|-------------|--------------------|-----------------------------|
|  | Balance at<br>June 30, 2007 | Additions           | Disposal    | Reclassification   | Balance at<br>June 30, 2008 |
| Capital assets, not being depreciated:                 |                             |                     |             |                    |                             |
| Land   | \$ 28,500                   | \$ -                | \$ -        | \$ -               | \$ 28,500                   |
| Construction in process                                | 766,475                     | 1,832,248           | -           | (2,598,723)        | -                           |
| Total capital assets, not being depreciated            | <u>794,975</u>              | <u>1,832,248</u>    | <u>-</u>    | <u>(2,598,723)</u> | <u>28,500</u>               |
| Capital assets, being depreciated:                     |                             |                     |             |                    |                             |
| Startup costs  | 55,435                      | -                   | -           | -                  | 55,435                      |
| Sewer facilities                                       | -                           | -                   | -           | 2,598,723          | 2,598,723                   |
| Total capital assets, being depreciated                | <u>55,435</u>               | <u>-</u>            | <u>-</u>    | <u>2,598,723</u>   | <u>2,654,158</u>            |
| Less accumulated depreciation/amortization for:        |                             |                     |             |                    |                             |
| Startup costs  | -                           | 308                 | -           | -                  | 308                         |
| Sewer facilities                                       | -                           | 4,331               | -           | -                  | 4,331                       |
| Total accumulated depreciation                         | <u>-</u>                    | <u>4,639</u>        | <u>-</u>    | <u>-</u>           | <u>4,639</u>                |
| Total capital assets, being depreciated, net           | <u>55,435</u>               | <u>(4,639)</u>      | <u>-</u>    | <u>2,598,723</u>   | <u>2,649,519</u>            |
| Total capital assets                                   | <u>\$ 850,410</u>           | <u>\$ 1,827,609</u> | <u>\$ -</u> | <u>\$ -</u>        | <u>\$ 2,678,019</u>         |

| <b>CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION</b> |                             |                   |             |                  |                             |
|--|-----------------------------|-------------------|-------------|------------------|-----------------------------|
|  | Balance at<br>June 30, 2006 | Additions         | Disposal    | Reclassification | Balance at<br>June 30, 2007 |
| Capital assets, not being depreciated:                 |                             |                   |             |                  |                             |
| Land   | \$ 28,500                   | \$ -              | \$ -        | \$ -             | \$ 28,500                   |
| Construction in process                                | 83,262                      | 683,213           | -           | -                | 766,475                     |
| Total capital assets, not being depreciated            | <u>111,762</u>              | <u>683,213</u>    | <u>-</u>    | <u>-</u>         | <u>794,975</u>              |
| Capital assets, being depreciated:                     |                             |                   |             |                  |                             |
| Startup costs  | 55,435                      | -                 | -           | -                | 55,435                      |
| Sewer facilities                                       | -                           | -                 | -           | -                | -                           |
| Total capital assets, being depreciated                | <u>55,435</u>               | <u>-</u>          | <u>-</u>    | <u>-</u>         | <u>55,435</u>               |
| Less accumulated depreciation/amortization for:        |                             |                   |             |                  |                             |
| Startup costs  | -                           | -                 | -           | -                | -                           |
| Sewer facilities                                       | -                           | -                 | -           | -                | -                           |
| Total accumulated depreciation                         | <u>-</u>                    | <u>-</u>          | <u>-</u>    | <u>-</u>         | <u>-</u>                    |
| Total capital assets, being depreciated, net           | <u>55,435</u>               | <u>-</u>          | <u>-</u>    | <u>-</u>         | <u>55,435</u>               |
| Total capital assets                                   | <u>\$ 167,197</u>           | <u>\$ 683,213</u> | <u>\$ -</u> | <u>\$ -</u>      | <u>\$ 850,410</u>           |

Depreciation expense amounted to \$4,331 for the fiscal year ended June 30, 2008.

**BENTON – DECATUR SPECIAL SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Cont.)**  
 JUNE 30, 2008 AND 2007

**NOTE 3 – DETAILED NOTES (Cont.)**

**D. Long Term Debt**

The District has a note payable for a joint sewer project between Benton and Decatur County financed through the Clean Water State Revolving Fund. The project was originally approved June 29, 2004 with each County being approved for \$600,000. This amount was increased by \$500,000 on December 18, 2006 for a total loan of \$1,100,000 to each County for which the District is responsible for repaying. The interest rate on the loans is 1.47% and the District is currently repaying interest only. The project was placed in operation on May 22, 2008. Principal repayment will begin in September 2009. The loan term is for a period of 20 years.

The scheduled annual requirements for long-term debt at June 30, 2008 are as follows:

| Year Ending June 30, | Principal           | Interest          | Total               |
|----------------------|---------------------|-------------------|---------------------|
| 2009                 | \$ -                | \$ 34,958         | \$ 34,958           |
| 2010                 | 77,156              | 31,024            | 108,180             |
| 2011                 | 93,842              | 29,684            | 123,526             |
| 2012                 | 95,231              | 28,295            | 123,526             |
| 2013                 | 96,641              | 26,885            | 123,526             |
| 2014 - 2018          | 505,085             | 112,545           | 617,630             |
| 2019 - 2023          | 543,582             | 74,048            | 617,630             |
| 2024 - 2028          | 585,013             | 32,617            | 617,630             |
| 2029 - 2030          | 142,796             | 1,317             | 144,113             |
|                      | <u>\$ 2,139,346</u> | <u>\$ 371,373</u> | <u>\$ 2,510,719</u> |

Activity for the years ending June 30, 2008 and 2007 was as follows:

| June 30, 2007 | Additions    | Repayments | June 30, 2008 | Due Within One Year |
|---------------|--------------|------------|---------------|---------------------|
| \$ 617,563    | \$ 1,521,783 | \$ -       | \$ 2,139,346  | \$ -                |
| June 30, 2006 | Additions    | Repayments | June 30, 2007 | Due Within One Year |
| \$ -          | \$ 617,563   | \$ -       | \$ 617,563    | \$ -                |

**E. Net Assets**

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

|   | June 30,           |                   |
|---|--------------------|-------------------|
|   | 2008               | 2007              |
| Capital assets, net                             | \$ 2,682,658       | \$ 850,410        |
| Accumulated depreciation                        | (4,639)            | -                 |
| Debt as disclosed in Note 3D                    | <u>(2,139,346)</u> | <u>(617,563)</u>  |
| Invested in capital assets, net of related debt | 538,673            | 232,847           |
| Unrestricted                                    | <u>58,683</u>      | <u>62,858</u>     |
| Total net assets                                | <u>\$ 597,356</u>  | <u>\$ 295,705</u> |

**BENTON – DECATUR SPECIAL SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Cont.)**  
JUNE 30, 2008 AND 2007

**NOTE 4 – OTHER INFORMATION**

**A. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During the years ended June 30, 2008 and 2007, the District purchased commercial insurance for all of the above risks. There have been no settled claims in the past.

**B. Litigation and Contingencies**

The District was sued by an individual regarding a dispute over the portion of the individual's condemned property used by the District and the assigned value of the condemned property. A judgment was rendered in the matter against the District for \$97,357.36 as of August 30, 2008. The District appealed the case with an oral argument heard on July 21, 2009, however the ultimate resolution is pending the Court's ruling. No provision has been made in the financial records in the event of an unfavorable ruling. The District is represented by Wood Law Offices in this matter.

**OTHER SUPPLEMENTARY INFORMATION SECTION**

**BENTON - DECATUR SPECIAL SEWER DISTRICT  
SCHEDULES OF OPERATING INCOME AND EXPENSES**

|   | FOR THE YEARS ENDED JUNE 30, |            |
|---|------------------------------|------------|
|   | 2008                         | 2007       |
| <b>Operating revenues:</b>                |                              |            |
| Charges for sales and service             | \$ 22,918                    | \$ -       |
| <b>Operating expenses:</b>                |                              |            |
| Administrative and general expenses       |                              |            |
| Accounting fees                           | 2,850                        | 400        |
| Bank charges                              | 28                           | -          |
| Management Board fees                     | 7,100                        | 2,600      |
| Office supplies                           | 6                            | -          |
| NUD Administrative Fees                   | 2,000                        | -          |
| Reporting Costs                           | 429                          | -          |
| Insurance and Bonds                       | 4,680                        | -          |
| Legal Fees                                | 5,537                        | -          |
| Legal notices                             | 654                          | -          |
| Utilities                                 | 1,107                        | -          |
| Total administrative and general expenses | 24,391                       | 3,000      |
| Depreciation and amortization expense     | 4,639                        | -          |
| Total operating expenses                  | 29,030                       | 3,000      |
| Operating income (loss)                   | \$ (6,112)                   | \$ (3,000) |

See independent auditor's report.

**BENTON- DECATUR SPECIAL SEWER DISTRICT**  
**SCHEDULE OF LONG-TERM DEBT**  
**JUNE 30, 2008**

| Year Ended<br>June 30, | Principal           | Interest          |
|------------------------|---------------------|-------------------|
| 2009                   | \$ -                | \$ 34,958         |
| 2010                   | 77,156              | 31,024            |
| 2011                   | 93,842              | 29,684            |
| 2012                   | 95,231              | 28,295            |
| 2013                   | 96,641              | 26,885            |
| 2014                   | 98,071              | 25,455            |
| 2015                   | 99,522              | 24,004            |
| 2016                   | 100,995             | 22,531            |
| 2017                   | 102,490             | 21,036            |
| 2018                   | 104,007             | 19,519            |
| 2019                   | 105,546             | 17,980            |
| 2020                   | 107,108             | 16,418            |
| 2021                   | 108,693             | 14,833            |
| 2022                   | 110,301             | 13,225            |
| 2023                   | 111,934             | 11,592            |
| 2024                   | 113,590             | 9,936             |
| 2025                   | 115,272             | 8,255             |
| 2026                   | 116,977             | 6,549             |
| 2027                   | 118,709             | 4,817             |
| 2028                   | 120,465             | 3,060             |
| 2029                   | 122,247             | 1,278             |
| 2030                   | 20,549              | 39                |
|                        | <u>\$ 2,139,346</u> | <u>\$ 371,373</u> |

See independent auditor's report.

**BENTON- DECATUR SPECIAL SEWER DISTRICT**  
**SEWER RATES IN FORCE**  
JUNE 30, 2008

|   |    |          |
|---|----|----------|
| Residential Rate Schedule                 |    |          |
| Connection Fee                            | \$ | 1,500.00 |
| Sewer charge - per 1,000 gallons of water |    | 19.75    |
| <br>Commercial Rate Schedule              |    |          |
| Connection Fee                            | \$ | 2,500.00 |
| Sewer charge - per 1,000 gallons of water |    | 19.75    |
| <br>Number of Customers                   |    | 1,295    |

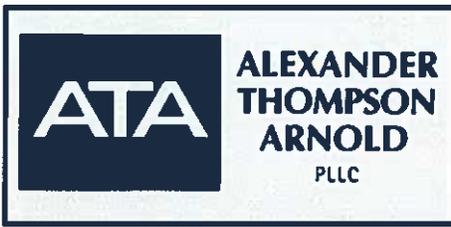
**BENTON- DECATUR SPECIAL SEWER DISTRICT  
SCHEDULE OF STATE FINANCIAL ASSISTANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

| <b>STATE</b>  | <u>Agency or<br/>Pass-through<br/>Number</u> | <u>Balance<br/>Unearned<br/>(Receivable)<br/>7/1/07</u> | <u>Cash<br/>Receipts</u> | <u>Expenditures/<br/>Amount Earned/<br/>Amount Issued</u> | <u>Balance<br/>Unearned<br/>(Receivable)<br/>6/30/08</u> |
|---|--|---|--------------------------|---|--|
| <b>TENNESSEE DEPARTMENT OF ECONOMIC AND<br/>COMMUNITY DEVELOPMENT</b> |  |   |                          |   |  |
| Community Development Block Grant Program                             | GG-07-12833                                  | \$ (20,348)   | \$ 289,162               | \$ 297,682  | \$ (28,868)  |
| <b>TENNESSEE DEPARTMENT OF ENVIRONMENT<br/>AND CONSERVATION</b>       |  |   |                          |   |  |
| Clean Water State Revolving Loan Fund                                 | SRF-02-163                                   | (129,483)   | 889,174                  | 760,891   | (1,200)  |
|   | SRF-02-163A                                  | <u>(129,482)</u>  | <u>889,174</u>           | <u>760,892</u>  | <u>(1,200)</u>   |
|   |  | <u>(258,965)</u>  | <u>1,778,348</u>         | <u>1,521,783</u>  | <u>(2,400)</u>   |
| <b>Total State Financial Assistance</b>                               |  | <u>\$ (279,313)</u>                                     | <u>\$ 2,067,510</u>      | <u>\$ 1,819,465</u>                                       | <u>\$ (31,268)</u>                                       |

Loans Outstanding:

At June 30, 2008, there were outstanding loan balances of \$2,139,346 on loans obtained through Benton and Decatur counties through the Clean Water State Revolving Loan Fund. Payments on the loans are scheduled to begin on September 2009.

**INTERNAL CONTROL AND COMPLIANCE SECTION**



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Report on Internal Control Over Financial  
Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards*

Board of Directors  
Benton – Decatur Special Sewer District  
Parsons, Tennessee

We have audited the financial statements of the Benton – Decatur Special Sewer District (the District) as of and for the year ended June 30, 2008, and have issued our report thereon dated September 3, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered the District’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District’s financial statements that is more than inconsequential will not be prevented or detected by the District’s internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting and are described as items 07-01, 07-02, and 08-01 through 08-03.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We identified one deficiency in internal control over financial reporting, described as item 08-03, that we consider to be a material weakness, as defined above.

Dyersburg, TN  
Fulton, KY  
Henderson, TN  
Jackson, TN  
Martin, TN

McKenzie, TN  
Milan, TN  
Murray, KY  
Paris, TN  
Trenton, TN  
Union City, TN

Board of Directors  
Benton – Decatur Special Sewer District  
Parsons, Tennessee

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's 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*.

The District's responses to the findings identified in our audit are described in the accompanying summary of findings and recommendations. We did not audit the District's response and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, and the Comptroller of the Treasury, State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

*Alexander Thompson Clark PLLC*

Certified Public Accountants  
Jackson, Tennessee  
September 3, 2009

**BENTON – DECATUR SPECIAL SEWER DISTRICT  
SUMMARY OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2008 AND 2007**

**Prior Year Findings:**

**07-01 EXPENSE REPORTS (Significant Deficiency)**

**Condition:** Per the agreement to establish the Benton-Decatur Special Sewer District, board members are not to receive compensation except for reimbursements for expenses incurred. No expense reports were available to support the payments made to board members for each meeting they attended.

**Criteria:** Expense reports are important to identify expenses being reimbursed to board members.

**Effect:** Expense reports support amounts reimbursed to board members to ensure that all payments made to board members are for reimbursements only as stated in the agreement to establish the Benton-Decatur Special Sewer District.

**Recommendation:** We recommend that each reimbursement be accompanied by an approved expense report for each respective board member being reimbursed for their expenses.

**Response:** Expense reports are required as of August 13, 2008.

**07-02 BUDGET (Significant Deficiency)**

**Condition:** Per the agreement to establish the Benton-Decatur Special Sewer District, the District is to submit a budget to each party involved in the District. No purchase and or expenditure in excess of the budget may be made with out approval of the parties involved.

**Criteria:** The District did not have a budget for the fiscal year ended June 30, 2008.

**Effect:** The Counties involved in the District are not given the oversight per the agreement to establish the District if a budget is not used. The agreement specifically states that a budget must be submitted to each party involved.

**Recommendation:** We recommend that the District comply with the agreement to establish it between the parties involved and adopt a budget for future periods. The District should also get approval from the parties should a purchase and or expenditure exceed the original budget present to the parties.

**Response:** The District prepared a budget for the fiscal year ending June 30, 2009 and was approved by the Board at the January 9, 2009 meeting.

**BENTON – DECATUR SPECIAL SEWER DISTRICT  
SUMMARY OF FINDINGS AND RECOMMENDATIONS (Cont.)  
JUNE 30, 2008 AND 2007**

**Current Year Findings:**

**08-01 DUAL SIGNATURES FOR DISBURSEMENTS (Significant Deficiency)**

Condition: During our subsequent events testing, we noted that there were three checks bearing only the signature of Emily Ferguson. Exceptions noted are as follows:

- Check 1799, payable to North Utility District, 7/30/08, \$14.00
- Check 1800, payable to Division of Bond Finance, 7/30/08, \$1,310.35
- Check 1801, payable to Division of Bond Finance, 7/30/08, \$1,310.35

Criteria: In accordance with the Agreement to establish the Benton-Decatur Special Sewer District, "Two (2) signatures shall be required for any disbursement from the fund".

Effect: Control procedures for disbursements as established by the agreement were not followed.

Recommendation: We recommend that the District comply with the agreement which requires two signatures on all disbursements.

Response: We concur with the finding and will make sure that all disbursements are signed by two persons in the future.

**08-02 CAPITALIZATION POLICY AND DEPRECIATION OF ASSETS (Significant Deficiency)**

Condition: There is no capitalization policy in place and no depreciation of the assets. Operations began May 22, 2008.

Criteria: Written guidelines should be in place to document the District's capitalization policy. Accumulated depreciation and expense records should be maintained since operations began.

Effect: Lack of written guidelines presents a lack of Board oversight and control. Assets are overstated and expense is understated.

Recommendation: We recommend that a policy for containing capitalization requirements be established and approved by the Board. Procedures should be implemented to ensure appropriate accounting for the depreciation of assets.

Response: We concur.

**BENTON – DECATUR SPECIAL SEWER DISTRICT  
SUMMARY OF FINDINGS AND RECOMMENDATIONS (Cont.)  
JUNE 30, 2008 AND 2007**

**08-03 CONTROL ACTIVITIES FOR REVENUES AND RECEIVABLES (Material Weakness)**

Condition: Betty Vitt, collects receivables, serves as cashier, prepares and mails bills, opens/processes mail, and deposit cash receipts. These duties are considered an inadequate segregation of duties. Ms. Vitt is responsible for all of the following duties:

- Preparation of billings
- Mailing of billings
- Payment processing and posting of receipts to the accounts receivable sub-ledger (customer in-person payments, night depository, payments by mail, and cash payments)
- Balancing of payments
- Balancing cash drawer
- Deposit preparation and making the deposit
- Account Maintenance
- Receipt/Processing of Service calls and complaints

Criteria: Individuals who collect receivables should not: Prepare and mail customer bills, post receipts to the receivables subledger, edit the receivables master file, or process customer service calls and complaints. Individuals who post cash receipts should not: Edit the accounts receivables master file, process customer service calls and complaints, open the mail and process receipts, prepare deposits, or deposit receipts. Procedures should be in place for cash drawers where a responsible person other than the cashier takes periodic readings of the register and compares the readings with the contents of the register.

Effect: Inadequate segregation of duties exist which increases the risk of undetected errors or irregularities.

Recommendation: We recommend that the Board review the duties performed by Ms. Vitt and make the appropriate changes to properly segregate. Should management determine that it is cost prohibitive to segregate the duties, we recommend that management's acceptance of such risk be formally documented.

Response: We concur.