

LAUDERDALE COUNTY WATER SYSTEM
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

LAUDERDALE COUNTY WATER SYSTEM

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MARTHA CRITES

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Lauderdale County Water System
Ripley, Tennessee

I have audited the accompanying basic financial statement of the Lauderdale County Water System (the Water System), a discretely presented component unit of Lauderdale County, Tennessee, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United State of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinions.

As described in Note 1, the financial statements present only the financial position of the Water System, and do not present the financial position of Lauderdale County, Tennessee in conformity with accounting principles generally accepted in the United States of America.

In my opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Water System, at June 30, 2008, and the results of its operations and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3-5 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. I have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued my report dated July 28, 2008 on my consideration of the District's internal control over financial reporting and my tests of

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
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TENNESSEE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

its compliance with certain provisions, of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the result of my audit.

Martha Crites CPA

July 28, 2008

**LAUDERDALE COUNTY WATER SYSTEM
551 CENTRAL CURVE ROAD
RIPLEY, TENNESSEE 38063**

Management's Discussion and Analysis

The following discussion and analysis of the Lauderdale County Water System's financial performance provides an overview of the System's financial activities for the fiscal year ended June 30, 2008. Management encourages readers to consider the information presented here in conjunction with the System's financial statements.

Financial Highlights

- The assets of the Lauderdale County Water System exceeded its liabilities at the close of the most recent fiscal year by \$5,777,563 (*net assets*). Of this amount, \$2,519,096 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors. The remaining amount, \$3,258,467 (*invested in capital assets, net of related debt*) reflects the net assets invested in capital assets.
- The total net assets increased by \$135,668 for the fiscal year ended June 30, 2008.
- The Water System ended the year June 30, 2008 with cash and investments of \$2,613,762, representing a growth of \$368,879 over the year. None of this cash is restricted for specific purposes. As identified by the Statement of Cash Flows, this increase arose principally from operating activities.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Lauderdale County Water System's financial statements which consist of two components: fund financial statements and notes to the financial statements.

As an enterprise fund, the financial statements of Lauderdale County Water System are presented on the full accrual basis, presenting assets and liabilities of the Water System in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Lauderdale County Water System's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Water System is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the government's net assets changed during the most recent fiscal 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 related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected water revenue and earned but unused employee compensated absences).

The *statement of cash flows* reports cash and cash equivalent activities for the fiscal year resulting from operating activities, capital and related financing activities, non-capital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash balance total to the cash and cash equivalent balance at the end of the current fiscal year.

The *notes to financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Lauderdale County Water System, assets exceeded liabilities by \$5,777,563 at the close of the fiscal year.

The largest portion of the Water System's assets, (60%), are investments in property, plant and equipment, followed by investments, (27%), and cash and cash equivalents, (12%). The investment in property, plant and equipment are used to provide services to citizens. Consequently, these assets are not available for future spending.

Lauderdale County Water System's Net Assets

	2008	2007
Current assets	\$ 2,753,896	\$ 2,434,185
Fixed assets	<u>4,041,062</u>	<u>4,246,736</u>
Total assets	<u>\$ 6,680,921</u>	<u>\$ 6,680,921</u>
Current liabilities	\$ 258,744	\$ 256,431
Long-term liabilities	<u>758,561</u>	<u>782,595</u>
Total Liabilities	1,017,395	1,039,026
Net assets invested in capital assets, net of related debt	3,258,467	3,441,388
Net assets--unrestricted	<u>2,519,096</u>	<u>2,200,507</u>
Total Liabilities and Net Assets	<u>\$ 6,794,958</u>	<u>\$ 6,680,921</u>

Lauderdale County Water System's Statement of Revenues, Expenses and Changes in Net Assets

	2008	2007
Operating revenues	\$ 1,173,889	\$ 1,106,804
Operating expenses	<u>1,109,992</u>	<u>1,089,429</u>
Operating income	63,897	17,375
Nonoperating income (expense)	<u>71,771</u>	<u>47,142</u>
Change in net assets	\$ 135,668	\$ 64,517
Net assets at beginning of period	<u>5,641,895</u>	<u>5,577,378</u>
Net assets at end of period	<u>\$ 5,777,563</u>	<u>\$ 5,641,895</u>

Capital Assets

The Lauderdale County Water System's investment in capital assets was \$4,041,062 (net of accumulated depreciation) as of June 30, 2008. This included water processing plants, water towers, pumping stations, water lines and operating structures necessary to provide water service to customers.

Debt

The Water System is indebted to FHA for two bond issuances, totaling \$56,175, and to Rural Economic and Community Development for another bond issuance, totaling \$726,420. Our current debt requirement per annum is \$59,229 which reflects both principal and interest requirements. Debt retirement in the fiscal year ended June 30, 2008 was \$22,753. No new debt was incurred in the fiscal year 2008.

Future Projections

The primary goals of the Lauderdale County Water System are to continue providing quality services to the water customers of Lauderdale County. The System continues to work to improve the services offered. Through a grant awarded in 2008, not to exceed \$500,000, the Water System is able to make improvements to its system in the years 2008 and 2009. The Water System plans on replacing 37,100 linear feet of 6-inch line and 5,000 feet of 8-inch line. The grant was awarded by the State of Tennessee, Department of Economic and Community Development. Funds expended under the grant for the fiscal year 2008 were \$8,100. Grant funds of \$6,201.97 have been received from the State at June 30, 2008.

Requests for Information

This financial report is intended to provide an overview of the finances of the Water System's finances for those with an interest in this organization. Questions concerning any information within this report may be directed to the Superintendent of Lauderdale County Water System, PO Box 527, Ripley, TN 38063.

A handwritten signature in cursive script that reads "Dan Beard". The signature is written in black ink and is positioned in the lower-left quadrant of the page.

**LAUDERDALE COUNTY WATER SYSTEM
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 813,762	
Investments	1,800,000	
Accounts receivable	108,982	
Prepaid expenses	815	
Inventory	25,235	
Accounts receivable--Annexation	<u>5,102</u>	
 Total Current Assets		 \$ 2,753,896

PROPERTY, PLANT, AND EQUIPMENT

Utility plant in service	\$ 7,362,263	
Equipment	<u>400,814</u>	
Total	\$ 7,763,077	
Less accumulated depreciation	<u>3,722,015</u>	
 Total Property, Plant, and Equipment		 <u>4,041,062</u>
 Total Assets		 <u>\$ 6,794,958</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 9,521	
Accrued interest	3,459	
Bond payable--current	23,944	
Accrued wages	37,717	
Customer meter deposits	179,001	
Deferred revenue	<u>5,102</u>	
 Total Current Liabilities		 \$ 258,744

LONG-TERM LIABILITIES

Bonds payable	\$ <u>758,651</u>	
 Total Long-Term Liabilities		 <u>758,651</u>
 Total Liabilities		 \$ 1,017,395

NET ASSETS

Invested in capital assets, net of related debt	\$ 3,258,467	
Unrestricted	<u>2,519,096</u>	
 Total Net Assets		 <u>5,777,563</u>
 Total Liabilities and Net Assets		 <u>\$ 6,794,958</u>

See accountant's audit report and notes to financial statements.

**LAUDERDALE COUNTY WATER SYSTEM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008**

Operating Revenues	
Water revenues	\$ 1,161,089
Other revenue	6,034
Grant income	6,202
Sale of material	<u>564</u>
Total Operating Revenue	\$ 1,173,889
Operating Expenses	
City water purchased	\$ 154,374
Salaries	307,995
Contract meter reading	44,529
Payroll tax expense	23,718
Retirement expense	22,338
Uniform and clothing	4,416
Commissioner's compensation	4,243
Postage	11,135
State fees	4,059
Membership fees	784
Public relations	982
Electrical	81,019
Gas	3,038
Telephone	2,267
Lab tests and lab expense	1,335
Professional fees	4,100
Truck repairs	14,575
Backhoe repairs	670
Ditcher repairs	4,556
Radio repairs	631
Tires and tire repairs	2,655
Fuel expense	26,010
Line repairs and maintenance	3,733
Plant repairs and maintenance	19,938
Office expense	15,710
Chemical expense	22,315
Supplies--lab	1,582
Supplies--miscellaneous	3,175
Supplies--repair	28,748
Insurance expense	57,959
Depreciation	236,279
Bank service charges	<u>1,124</u>
Total Operating Expense	<u>1,109,992</u>
Operating Income	\$ 63,897
Nonoperating Revenue (Expenses)	
Interest income	\$ 95,670
Gain on sale of asset	12,500
Interest expense	<u>(36,399)</u>
Total nonoperating revenues (expenses)	<u>71,771</u>
Change in Net Assets	\$ 135,668
Net Assets at July 1, 2007	<u>5,641,895</u>
Net Assets at June 30, 2008	<u>\$ 5,777,563</u>

See accountant's audit report and notes to financial statements.

**LAUDERDALE COUNTY WATER SYSTEM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 1,073,652
Cash payments to suppliers	(416,857)
Cash payments to employees	<u>(306,329)</u>

Net Cash Provided by Operating Activities \$ 350,466

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	\$ (30,605)
Related financing activities	(36,399)
Sale of fixed asset	12,500
Payment on long-term debt	<u>(22,753)</u>

Net Cash Used by Capital and Related Financing Activities (77,257)

CASH FLOWS FROM INVESTING ACTIVITIES

Investment in certificate of deposits	\$ 2,306
Interest income	<u>95,670</u>

Net Cash Provided by Investing Activities 97,976

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS \$ 371,185

CASH AND CASH EQUIVALENTS--JULY 1, 2007 442,577

CASH AND CASH EQUIVALENTS--JUNE 30, 2008 \$ 813,762

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED
BY (USED FOR) OPERATING ACTIVITIES**

Change in net assets	\$ 63,897
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	\$ 236,279
Net change in current assets and liabilities:	
Receivables	17,732
Inventory	(135)
Prepaid expenses	30,041
Accounts payable	(2,015)
Customer deposits	3,001
Accrued wages	<u>1,666</u>

Total Adjustments 286,569

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 350,466

**LAUDERDALE COUNTY WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lauderdale County Water System (the Water System) have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Lauderdale County Water System (the Water System) was created in 1974. These financial statements are limited to the assets, liabilities, fund balance, and results of operations of the Lauderdale County Water System. They are not intended to present the assets, liabilities, fund balances and results of operations of Lauderdale County taken as a whole. The County Commission of Lauderdale County appoints the five member Commissioners of the Lauderdale County Water System, approves the operating budget of the Water System and is liable for any unpaid debt of the Water System. The Water System provides water service to unincorporated areas of Lauderdale County, Tennessee.

In accordance with the requirements of Statement No. 14, *The Financial Reporting Entity, of the Governmental Accounting Standards Board (GASB)* as amended by the GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the financial statements must present the Water System (the primary government) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

The Water System is a proprietary fund; its operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives essentially equal values. Nonoperating revenues, such as interest income, result from nonexchange transactions or ancillary activities.

Only one fund is presented within these financial statements.

b. Measurement Focus, Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Water System, the reporting entity. Revenues are reported when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

**LAUDERDALE COUNTY WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

3. Financial Statement Amounts

a. Deposits and Investments

The Water System'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.

Under the laws of Tennessee the Water System is authorized to invest with obligations of the United States or its agencies, direct obligations of the State of Tennessee or its agencies, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, certificates of deposit if insured by a Federal Deposit Insurance Corporation or the Tennessee Collateral Pool. During the year ended June 30, the Water System did not own any types of securities other than those permitted by statute.

Investments for the Water System are in the form of Certificates of Deposits and are reported at fair value.

b. Capital Assets

Purchased or constructed capital assets are reported at cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are being depreciated using the straight-line method over the following useful lives:

	<u>Estimated Useful Life</u>
Utility plant in service	10-50 years
Equipment	2-10 years

c. Receivable

Accounts receivable arise from water services rendered to the customers of the Water System. The board of directors authorizes write-downs of customer billings due to leaks and write-offs of accounts considered uncollectible. Amounts subsequently collected from a bad-debt write-off are recorded as income.

d. FASB Statements

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, the Water System has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989 that do not conflict with or contradict GASB pronouncements. Only GASB pronouncements issued after this date will be followed.

**LAUDERDALE COUNTY WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

e. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

f. Compensated Absences

The Water System accrues vacation and compensated time for its employees to use in future periods.

g. Inventory

Inventory of supplies are recorded at historical cost.

h. Risk Management

The Water System is exposed to various risks of loss related to tort; theft of, or damage to assets; errors and omissions; injuries to employees and natural disasters. During the year ended June 30, 2008, the Water Service was covered by insurance for these various risks at a cost it considered to be economically justifiable. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

NOTE 2: DEPOSITS AND INVESTMENTS

The System's deposits and investments at June 30, 2008 consist of the following:

Deposits:	
Cash on hand	\$ 225
Cash in bank	27,480
Cash on deposit through County Trustee	<u>786,057</u>
Total Cash and Cash Equivalents	<u>\$ 813,762</u>
Investments:	
Certificates of Deposit managed by County Trustee	<u>\$ 1,800,000</u>

The Water System's deposits and investments at June 30, 2008 were covered by federal depository insurance or by the Tennessee Collateral Pool or by securities held by the custodial bank in the County Trustee's name.

Interest rate risk. To minimize exposure to declines in fair value, the certificates of deposit have staggering maturity rates with maturity dates of one year.

Custodial credit risk. The certificates of deposit are held in the County Trustee's Office name for the benefit of the Water System, and are not subject to custodial credit risk.

**LAUDERDALE COUNTY WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Concentrations of credit risk. The certificates of deposit are not subject to concentrations of credit risk as the custodial banks are either a member of the Tennessee Collateral Pool or provide securities held by the custodial bank as security for the funds invested.

NOTE 3: ACCOUNTS RECEIVABLE—ANNEXATION

The City of Ripley, Tennessee annexed an area and agreed to pay the Water System for estimated revenue lost by the Water System from this annexation. The estimated revenue is payable over a ten year period. The amount not collected at June 30, 2008 is also reflected as deferred revenue.

NOTE 5: CAPITAL ASSETS

Capital asset activity was as follows:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008
Capital assets not being depreciated:				
Land	\$ 10,000	\$ 0	\$ 0	\$ 10,000
Capital assets being depreciated:				
Water Plant	7,322,704	30,605	0	7,353,309
Plant Equipment	105,175	0	0	105,175
Office Equipment	67,848	0	0	67,848
Equipment	<u>268,927</u>	<u>0</u>	<u>42,182</u>	<u>226,745</u>
Total Capital Assets Being Depreciated	7,764,654	30,605	42,182	7,753,077
Less—Accumulated depreciation for:				
Water Plant	3,219,572	199,680	0	3,419,252
Plant Equipment	50,030	5,858	0	55,888
Office Equipment	48,994	9,396	0	58,390
Equipment	<u>209,322</u>	<u>21,345</u>	<u>42,182</u>	<u>188,485</u>
Total Accumulated Depreciation	<u>3,527,918</u>	<u>236,279</u>	<u>42,182</u>	<u>3,722,015</u>
Total Capital Assets Being Depreciated, Net	<u>4,236,736</u>	<u>(205,674)</u>	<u>0</u>	<u>4,031,062</u>
Business-Type Activities Capital Assets, Net	<u>\$ 4,246,736</u>	<u>\$(205,674)</u>	<u>\$ 0</u>	<u>\$ 4,041,062</u>

**LAUDERDALE COUNTY WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 6: BONDS PAYABLE

Bonds payable at June 30, 2008 consist of the following:

	Current	Long-Term	Total
FHA; 5%; payable in annual installments of \$6,345 including interest	\$ 4,729	\$ 27,585	\$ 32,314
FHA; 6%; payable in monthly installments of \$815 including interest	8,582	15,279	23,861
Rural Economic and Community Development; 4.5%; payable in monthly installments of \$3,592	<u>10,633</u>	<u>715,787</u>	<u>726,420</u>
Total	<u>\$ 23,944</u>	<u>\$ 758,651</u>	<u>\$ 782,595</u>

The annual maturities of long-term bonds as of June 30, 2008 are:

Year ended June 30,	
2009	\$ 23,944
2010	25,198
2011	23,014
2012	17,641
2013	18,473
2014-2018	79,133
2019-2023	91,320
2024-2028	114,314
2029-2033	143,098
2034-2038	179,129
2039-2040	<u>67,331</u>
Total	<u>\$ 782,595</u>

Net changes for the year ended June 30, 2008 in bond balances are:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008
FHA 5%	\$ 36,818	\$ 0	\$ 4,504	\$ 32,314
FHA 6%	31,944	0	8,083	23,861
Rural Economic and Community Development	<u>736,586</u>	<u>0</u>	<u>10,166</u>	<u>726,420</u>
Total	<u>\$ 805,348</u>	<u>\$ 0</u>	<u>\$ 22,753</u>	<u>\$ 782,595</u>

**LAUDERDALE COUNTY WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 7: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

An annual budget is adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end. Some expenditures exceeded appropriations.

NOTE 8: CONCENTRATION OF CREDIT RISK

The Water System receives its operating funds from fees charged to water customers in Lauderdale County, Tennessee. While the Water System has a broad consumer base, the ability of customers to pay their accounts is dependent on the economic conditions of the area.

NOTE 9: RETIREMENT PLAN

The pension fund of the Lauderdale County Water System is included in the total retirement program for Lauderdale County, Tennessee under the Tennessee Consolidated Retirement System. Five percent (5%) is deducted from the employee's checks and the county pays a percentage match of 8.18% to fund the employees retirement. Retirement is based on thirty years of service or reaching the age of sixty. For details relative to the funding status and progress, actuarial determined contribution requirements and contributions made, and trend information refer to the Comprehensive Annual Financial Report for Lauderdale County.

**LAUDERDALE COUNTY WATER SYSTEM
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008**

UTILITY RATE STRUCTURE

Minimum rate	\$ 10.00 for first 2,000 gallons
Additional rate	\$ 4.50 per 1,000 gallons

NUMBER OF CUSTOMERS

Active Accounts	3,954
Inactive Accounts	9

UNACCOUNTED FOR WATER

(Gallons lost as a percentage of total gallons pumped/purchased)	5.86%
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MARTHA CRITES

Certified Public Accountant

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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 Commissioners
Lauderdale County Water System
Ripley, Tennessee

I have audited the financial statement of Lauderdale County Water System, a discretely presented component unit of Lauderdale County, Tennessee, as of and for the year ended June 30, 2008 and have issued my report dated July 28, 2008. I conducted my 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 my audit, I considered Lauderdale County Water System's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Water System's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Lauderdale County Water System's internal control over financial reporting.

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 Lauderdale County Water System'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 Lauderdale County Water System's financial statements that is more than inconsequential will not be prevented or detected by the Lauderdale County Water System's internal control.

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 Lauderdale County Water System's internal control.

My consideration of the 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lauderdale County Water System's financial statements are free of material misstatement, I 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 statements amounts. However, providing an opinion on compliance with these provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Lauderdale County Water System Commissioners, the Lauderdale County Commissioners, and the Tennessee State Comptroller's Office and other regulatory bodies, and is not intended to be and should not be used by anyone other than those specified parties.

July 28, 2008

Martha Critico CPA