

TENNESSEE DUCK RIVER
DEVELOPMENT AGENCY

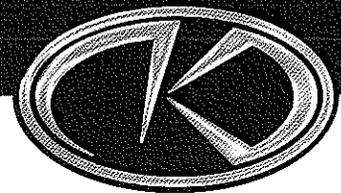
FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND REPORTS OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2009

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY
FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION, AND REPORTS OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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KraftCPAs
PLLC

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Tennessee Duck River Development Agency
Shelbyville, Tennessee

We have audited the accompanying financial statements of the governmental activities and each major fund of the Tennessee Duck River Development Agency (the "Agency"), as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents, pages 7 through 17. These financial statements are the responsibility of the management of the Tennessee Duck River Development Agency. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Tennessee Duck River Development Agency, as of June 30, 2009, and the respective changes in financial position for the year 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 October 21, 2009, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS (CONTINUED)

Management's Discussion and Analysis on pages 3 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.

Our audit was conducted for the purpose of forming an opinion on the Agency's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a part of the basic financial statements of the Agency. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Kraft CPAs PLLC

Columbia, Tennessee
October 21, 2009

Management's Discussion and Analysis

As management of the Tennessee Duck River Development Agency (the "Agency"), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2009.

Financial Highlights

- The assets of the Agency exceeded its liabilities at the close of the most recent fiscal year by \$67,339 (*net assets*). Except for investments in capital assets, all of this amount may be used to meet the Agency's ongoing obligations to projects and vendors.
- The Agency's total net assets increased by \$7,082. This increase is mostly attributable to the Agency not spending funds that were budgeted for salaries and related payroll expense due to the Agency utilizing part-time assistance, instead of a full-time Director of Finance, to facilitate bookkeeping responsibilities in the last quarter of the fiscal year.
- As of the close of the current fiscal year, the Agency's General Fund reported ending fund balance of \$26,428, an increase of \$11,847 in comparison with the prior year. This represents 6.61% of total general fund expenditures. The entire amount is *available for spending* at the Agency's discretion (*unreserved fund balance*).

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Agency'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 Agency is improving or deteriorating.

The *statement of activities* presents information showing how the Agency'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.

The governmental activities of the Agency include the operating and administrative fund.

Fund financial statements. A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The General Fund, the only fund of the Agency, is a governmental fund.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Agency maintains one governmental fund, the General Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and is considered to be a major fund.

The Agency adopts an annual budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide 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 Agency, assets exceeded liabilities by \$67,339 at the close of the most recent fiscal year.

By far the largest portion of the Agency's net assets (60.8 percent) reflects its investment in capital assets (e.g., land, buildings, and building improvements). There is no outstanding debt related to the Agency's capital assets. The Agency uses these capital assets to provide services to constituents; consequently, these assets are not available for future spending.

| | 2009 | 2008 |
|----------------------------|-----------|-----------|
| Current assets | \$ 36,518 | \$ 21,781 |
| Capital assets | 40,911 | 45,676 |
| Total assets | 77,429 | 67,457 |
| Current liabilities | 10,090 | 7,200 |
| Invested in capital assets | 40,911 | 45,676 |
| Unrestricted net assets | 26,428 | 14,581 |
| Total net assets | \$ 67,339 | \$ 60,257 |

The remaining balance of unrestricted net assets (\$26,428) may be used to meet the Agency's ongoing obligations to constituents and creditors.

At the end of both the current fiscal and prior years, the Agency reported positive balance in both categories of net assets. There was an increase of \$11,847 in net assets reported. Of this amount, approximately \$9,400 of the increase is due to the Agency not spending funds that were budgeted for salaries and related payroll expense due to the Agency utilizing part-time assistance, instead of a full-time Director of Finance, to facilitate bookkeeping responsibilities in the last quarter of the fiscal year.

Governmental activities. Governmental activities make up the entire net asset balance, thus are responsible for the increase of total net assets. Key elements of this increase are as follows:

| | 2009 | 2008 |
|------------------------------------|------------------|------------------|
| Revenues: | | |
| Trust Fund B - Administration | \$ 180,650 | \$ 179,738 |
| Trust Fund B - Programs | 193,888 | 121,719 |
| TVA Reimbursements | 29,850 | 28,614 |
| Insurance proceeds | 7,114 | - |
| Miscellaneous income | 39 | 562 |
| Interest Income | 3 | 5 |
| Grant income | - | 1,000 |
| Trust Fund B - Retirement Funding | - | 15,900 |
| Total revenues | <u>411,544</u> | <u>347,538</u> |
| Expenses: | | |
| Administration | 174,470 | 207,849 |
| Programs | 229,992 | 151,333 |
| Total expenses | <u>404,462</u> | <u>359,182</u> |
| Increase (decrease) in net assets | 7,082 | (11,644) |
| Net assets - beginning of the year | 60,257 | 71,901 |
| Net assets - end of the year | <u>\$ 67,339</u> | <u>\$ 60,257</u> |

Financial Analysis of the Government's Funds

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Agency's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable resources*. Such information is useful in assessing the Agency's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Agency. At the end of the current fiscal year, unreserved fund balance of the general fund was \$26,428.

The fund balance of the Agency's General Fund increased \$7,082 during the current fiscal year due to management utilizing existing funds rather than withdrawing additional funds from Trust Fund B.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget can be briefly summarized as follows:

- Additional revenue withdrawals were approved by the Board of Directors for funding related to the Comprehensive Water Supply Plan. These revenue withdrawals were spent on attorney fees, advertising costs, and meeting expenses related to the Agency's preparation of long-term water resource planning for the Duck River watershed.
- Other revenue withdrawals related to upgrading the Oasis Model, which is a computer-aided tool to assist with long-term water resource planning.
- The Agency increased its commitment for funding of the stabilization of the Old Columbia Dam.

There were two significant budget to actual variations. The Agency is not committed to reimburse the Columbia Water System for the old Columbia Dam Stabilization Project until completion of the project. The project was not completed during the fiscal year. It is management's strategy to limit withdrawals to necessary expenses in administrative uses. During 2009, management was able to leave \$19,863 of the administrative budget in Trust Fund B for future projects.

Additionally, during the fiscal year, the Agency had more environmental projects that were being serviced in relation to the progression of the USGS Land Use Effects on Bacteria Loads and Water Quality project and the Comprehensive Water Supply Plan.

Capital Asset Administration

Capital assets. The Agency's investment in capital assets for its governmental type activities as of June 30, 2009, amounts to \$40,911 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and building improvements. There were no additions in the current year. The decrease in total capital assets was due to annual depreciation of \$4,765.

| | 2009 | 2008 |
|----------------------------|------------------|------------------|
| Land | \$ 6,000 | \$ 6,000 |
| Buildings and improvements | 34,911 | 39,676 |
| Total capital assets | <u>\$ 40,911</u> | <u>\$ 45,676</u> |

Additional information on the Agency's capital assets can be found in Note 3 of the Financial Section of this report.

Economic Factors and Next Year's Budget

The Agency's revenues for operations are limited to a maximum of sixty percent of the contributions by seven water systems in the Duck River Region in the prior year. Since the current year contributions totaled \$354,764, the Agency's 2010 fiscal year budget for the operating fund is limited to \$212,858.

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

STATEMENT OF NET ASSETS

JUNE 30, 2009

| | <u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u> |
|--|---|
| ASSETS | |
| Cash and cash equivalents - unrestricted | \$ 25,104 |
| Contract receivable | 7,550 |
| Prepaid expenses | 3,348 |
| Deposits | 516 |
| Capital assets, net of accumulated depreciation: | |
| Land | 6,000 |
| Buildings and improvements | <u>34,911</u> |
| Total assets | <u>77,429</u> |
| LIABILITIES | |
| Contract payable and accrued expenses | <u>10,090</u> |
| Total liabilities | <u>10,090</u> |
| NET ASSETS | |
| Invested in capital assets | 40,911 |
| Unrestricted | <u>26,428</u> |
| Total net assets | <u>\$ 67,339</u> |

See accompanying notes to financial statements.

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

| <u>FUNCTIONS/PROGRAMS</u> | <u>EXPENSES</u> | <u>PROGRAM REVENUES</u> | <u>OPERATING GRANTS</u> | <u>AND CONTRIBUTIONS</u> | <u>NET (EXPENSE) REVENUE</u> | <u>AND CHANGES IN</u> | <u>NET ASSETS</u> | <u>GOVERNMENTAL</u> | <u>ACTIVITIES</u> |
|--------------------------------|-------------------|-------------------------|-------------------------|--------------------------|------------------------------|-----------------------|-------------------|---------------------|-------------------|
| Governmental activities: | | | | | | | | | |
| Environmental programs | \$ 229,992 | \$ 223,738 | | | (6,254) | | | | |
| Administration | 174,470 | 187,803 | | | 13,333 | | | | |
| Total governmental activities: | <u>\$ 404,462</u> | <u>\$ 411,541</u> | | | <u>7,079</u> | | | | |
| General Revenues: | | | | | | | | | |
| Interest | | | | | 3 | | | | |
| Total general revenues | | | | | 3 | | | | |
| Change in net assets | | | | | | | | | 7,082 |
| Net Assets - beginning of year | | | | | | | | | <u>60,257</u> |
| Net Assets - ending of year | | | | | | | | | <u>\$ 67,339</u> |

See accompanying notes to financial statements.

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

BALANCE SHEET

GOVERNMENTAL FUND

JUNE 30, 2009

| <u>ASSETS</u> | <u>GENERAL FUND</u> |
|---|-------------------------|
| Cash and cash equivalents - unrestricted | \$ 25,104 |
| Contract receivable | 7,550 |
| Prepaid items | 3,348 |
| Deposits | <u>516</u> |
| TOTAL ASSETS AND OTHER DEBITS | <u>\$ 36,518</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | |
| LIABILITIES | |
| Contract payable and accrued expenses | <u>\$ 10,090</u> |
| FUND BALANCE | |
| Fund balance - unreserved | <u>26,428</u> |
| TOTAL FUND BALANCE | <u>26,428</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 36,518</u> |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Total fund balance | \$ 26,428 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | <u>40,911</u> |
| Net assets of governmental activities | <u>\$ 67,339</u> |

See accompanying notes to the financial statements.

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENDITURES, AND NET CHANGE IN FUND BALANCE

GOVERNMENTAL FUND

JUNE 30, 2009

| | <u>GENERAL FUND</u> |
|---------------------------------------|-------------------------|
| REVENUES | |
| Trust Fund B - administrative | \$ 180,650 |
| Trust Fund B - environmental programs | 193,888 |
| TVA reimbursements | 29,850 |
| Insurance proceeds | 7,114 |
| Miscellaneous income | 39 |
| Interest income | <u>3</u> |
| TOTAL REVENUES | <u>411,544</u> |
| EXPENDITURES | |
| Current: | |
| Environmental programs | 229,992 |
| Administration | <u>169,705</u> |
| TOTAL EXPENDITURES | <u>399,697</u> |
| NET CHANGE IN FUND BALANCE | 11,847 |
| FUND BALANCE, beginning of year | <u>14,581</u> |
| FUND BALANCE, end of year | <u>\$ 26,428</u> |

Amounts reported for governmental activities in the Statement of Activities different from amounts reported for governmental funds in the Schedule of Revenues and Expenditures, and Net Change in Fund Balance because:

| | |
|--|---------------------|
| Net change in fund balance - governmental funds | \$ 11,847 |
| Governmental funds report capital outlays as expenditures. However, the cost of those assets is allocated over their useful lives and reported as depreciation expense for governmental activities | <u>(4,765)</u> |
| Change in Net Assets of Governmental Activities | <u>\$ 7,082</u> |

See accompanying notes to the financial statements.

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General and nature of entity

The Tennessee Duck River Development Agency (the "Agency") was established by a Public Act of the General Assembly of the State of Tennessee (the "State") in 1965 for the purpose of developing the natural and economic resources of the Duck River Basin. A 17-member Board of Directors ("DRA Board"), whose members are appointed by the Governor of Tennessee, governs the Agency. In 1998, the Agency adopted a new mission – "to develop, protect, and sustain a clean and dependable water resource for all citizens of the Duck River region."

The Agency, in agreement with Tennessee Valley Authority (TVA) and the State of Tennessee, receives funding from three trust funds. The Water Supply Fund and the Water Supply Escrow Fund are to be used only for the support of new or improved water supply infrastructure projects in the Duck River Watershed. Trust Fund B receives a nickel for every 1,000 gallons of water sold by seven Water Systems in the Duck River region. It allows the Agency to make annual withdrawals for its administrative budget up to 60% of the prior year's total contributions to the fund, and additional amounts for projects not to exceed \$50,000, provided the project is included in the Agency's Annual Work Plan. Other withdrawals may be made only with the written consent of both the Agency and a majority (60%) of the Water Systems.

Financial reporting entity

The financial statements present the accounts and operations of the Agency, which is the reporting entity. Because the Water Supply Escrow Fund, Trust Fund B, and the Water Supply Trust Fund are separate legal entities from the Agency, and the Agency is not financially accountable for the Water Supply Escrow Fund, Trust Fund B, or the Water Supply Trust Fund, the Trusts' assets, liabilities, and operations are excluded from the reporting entity.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the special purpose government.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and fund financial statements (continued)

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All revenues collected by the Agency are susceptible to accrual. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except for prepaid expenses, which are recognized when paid.

Measurement focus, basis of accounting, and financial statement presentation

The *general fund* is the Agency's primary operating fund. It accounts for all financial resources of the Agency, and is reported as a major governmental fund.

Budgetary data

Included as supplementary information is a budget to actual schedule of revenues and expenditures for the general fund, although the budget is not legally adopted. Formal budgetary accounting is employed as a management control by the Agency.

Cash equivalents

Cash and cash equivalents include highly liquid investments that have an original maturity date when acquired of three months or less.

Statutes authorize the System to invest in: (1) U. S. government securities and obligations guaranteed by the U. S. government; (2) deposit accounts at state and federal chartered banks and savings and loan associations; (3) the Local Government Investment Pool of the State of Tennessee; and (4) obligations of the United States or its agencies under repurchase agreements with certain restrictions.

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash equivalents (continued)

Deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. Financial institutions that participate in the bank collateral pool, as administered by the Treasurer of the State of Tennessee, determine the aggregate balance of their deposits for the System. Securities are pledged to the State Treasurer on behalf of the bank collateral pool as collateral for the participating institution's public deposits. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

Receivables

Receivables consist of payments due from other government agencies for contracted services. Based on favorable collection history, no provision for uncollectible accounts receivable has been recorded.

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets acquired for general governmental purposes are recorded as expenditures of applicable governmental funds and accounted for in the government-wide Statement of Net Assets. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are recorded at estimated fair market value at the time received. Depreciation expense is recorded on a straight-line basis, with lives ranging from 5 – 20 years. The Agency applies a capitalization threshold whereby an individual asset with a per unit cost of \$5,000 or more qualifies for capitalization. Certain exceptions may apply to this policy depending on the nature and expected life of the asset.

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 2 – CASH AND CASH EQUIVALENTS

As of June 30, 2009, the Agency's demand deposit accounts amounted to \$24,954 and the petty cash balance amounted to \$150. Bank balances for such accounts totaled \$69,291, all of which was covered by federal depository insurance, or by an additional assessment agreement from financial institutions participating in the state collateral pool.

NOTE 3 - PROPERTY AND EQUIPMENT

A summary of changes in capital assets for the year ended June 30, 2009, is presented below:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------|---------------------------|
| Governmental activities: | | | |
| Capital assets, not being depreciated: | | | |
| Land | \$ 6,000 | \$ - | \$ 6,000 |
| Capital assets, being depreciated: | | | |
| Buildings and improvements | 103,046 | - | 103,046 |
| Less accumulated depreciation for: | | | |
| Buildings and improvements | <u>(63,370)</u> | <u>(4,765)</u> | <u>(68,135)</u> |
| Total capital assets, being depreciated, net | <u>39,676</u> | <u>(4,765)</u> | <u>34,911</u> |
| Governmental activities capital assets, net | <u>\$ 45,676</u> | <u>\$ (4,765)</u> | <u>\$ 40,911</u> |

Depreciation expense of \$4,765 was all charged to administration.

NOTE 4 - RISK MANAGEMENT

The Agency has purchased commercial insurance against the risk of losses on property, general liability, and workers compensation. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 5 - RETIREMENT PLAN

Plan Description

As of July 1, 2008, employees of Tennessee Duck River Development Agency became members of the Political Subdivision Pension Plan ("PSPP"), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System ("TCRS"). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Participants joining the system after July 1, 1979 become vested after five years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated ("TCA"). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Agency participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or can be accessed at <http://treasury.state.tn.us/tcrs/>.

Funding Policy

The Agency requires employees to contribute 5.00% of earnable compensation.

The Agency is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2009 was 34.84% of annual covered payroll. The Agency's contribution for 2009 included the prior service costs for all participants of \$31,800. The contribution requirement of plan members is set by state statute. The contribution requirement for the Agency is established and may be amended by the TCRS Board of Trustees.

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 5 - RETIREMENT PLAN (CONTINUED)

Annual Pension Cost

For the year ending June 30, 2009, the Agency's annual pension cost of \$38,390 to TCRS was equal to the Agency's required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The Agency's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 0 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008. The Agency was not a participant in the plan at the time of the actuarial valuation.

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|---------------------------|----------------------------------|--------------------------------------|-------------------------------|
| 6/30/2009 | \$ 38,390 | 100.00% | \$ - |

Funded Status and Funding Progress

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

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarially Accrued Liability (AAL) - Frozen Entry Age* (b)</u> | <u>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</u> | <u>Funded Ratio (a/b)</u> | <u>Covered Payroll (c)</u> | <u>Unfunded Actuarial Accrued Liability as a % of Covered Payroll (b-a)/c</u> |
|---------------------------------|--------------------------------------|--|--|---------------------------|----------------------------|---|
| 7/1/2007 | \$ - | \$ - | \$ - | 0.00% | \$ - | 0.00% |

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 6 – CONTRACTS AND COMMITMENTS

During 2009, the Agency entered into a contract with O'Brien and Gere Engineers, Inc. to develop a regional Comprehensive Water Supply Plan for future water supply demand of the Duck River region. The contract is for an amount not to exceed \$348,874. The Plan is expected to be completed during the fiscal year ended June 30, 2010.

Also during 2009, the Agency committed \$935,000 to assist Columbia Water System in funding a stabilization project at the Old Columbia Dam. The project is expected to be completed during the fiscal year ended June 30, 2010.

SUPPLEMENTARY INFORMATION

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

GENERAL FUND

SCHEDULE OF REVENUES AND EXPENDITURES, AND NET CHANGE IN FUND BALANCE, BUDGET TO ACTUAL

FOR THE YEAR ENDED JUNE 30, 2009

| | <u>BUDGETED AMOUNTS</u> | | | <u>VARIANCE WITH FINAL BUDGET OVER (UNDER)</u> |
|--|-------------------------|------------------|------------------|--|
| | <u>ORIGINAL</u> | <u>FINAL</u> | <u>ACTUAL</u> | |
| REVENUES | | | | |
| Trust Fund B - administrative | \$ 200,513 | \$ 200,513 | \$ 180,650 | \$ (19,863) |
| Trust Fund B - environmental programs | 137,241 | 177,241 | 193,888 | 16,647 |
| Water Supply Fund - Old Columbia Dam stabilization | 600,000 | 935,000 | - | (935,000) |
| TVA reimbursements | 28,614 | 28,614 | 29,850 | 1,236 |
| Insurance proceeds | - | - | 7,114 | 7,114 |
| Miscellaneous income | - | - | 39 | 39 |
| Interest income | 15 | 15 | 3 | (12) |
| TOTAL REVENUES | <u>966,383</u> | <u>1,341,383</u> | <u>411,544</u> | <u>(929,839)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Administration: | | | | |
| Insurance | 5,000 | 5,000 | 4,411 | (589) |
| Maintenance | 3,000 | 6,450 | 6,179 | (271) |
| Miscellaneous | 200 | 200 | 312 | 112 |
| Office supplies and expense | 1,000 | 1,000 | 1,629 | 629 |
| Payroll taxes and employee benefits | 20,000 | 20,000 | 17,246 | (2,754) |
| Printing and postage | 600 | 600 | 341 | (259) |
| Professional services | 13,000 | 13,000 | 9,792 | (3,208) |
| Salaries | 125,000 | 125,000 | 115,598 | (9,402) |
| Telephone and utilities | 10,000 | 10,000 | 9,630 | (370) |
| Travel and meetings | 4,500 | 4,500 | 4,567 | 67 |
| Total Administration | <u>182,300</u> | <u>185,750</u> | <u>169,705</u> | <u>(16,045)</u> |
| Environmental programs: | | | | |
| Old Columbia Dam stabilization | 600,000 | 935,000 | - | (935,000) |
| Streamgauges on main stem of the Duck River | 28,614 | 28,614 | 29,850 | 1,236 |
| Streamgauges on tributaries of the Duck River | 34,250 | 34,250 | 36,550 | 2,300 |
| Land Use Effects on Bacteria Loads and Water Quality Study | 85,730 | 85,730 | 124,513 | 38,783 |
| Comprehensive Water Supply Plan | - | 10,000 | 7,054 | (2,946) |
| Oasis Model | - | 30,000 | 30,000 | - |
| Regional Duck River cleanup | 1,500 | 1,500 | 1,500 | - |
| Duck River Education committee | 5,000 | 5,000 | - | (5,000) |
| Water Quality and Conservation education | 5,000 | 5,000 | - | (5,000) |
| Webpage redesign | 5,761 | 5,761 | 525 | (5,236) |
| Total environmental programs | <u>765,855</u> | <u>1,140,855</u> | <u>229,992</u> | <u>(910,863)</u> |
| TOTAL EXPENDITURES | <u>948,155</u> | <u>1,326,605</u> | <u>399,697</u> | <u>(926,908)</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ 18,228</u> | <u>\$ 14,778</u> | <u>\$ 11,847</u> | <u>\$ (2,931)</u> |

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

NOTE TO SUPPLEMENTARY INFORMATION

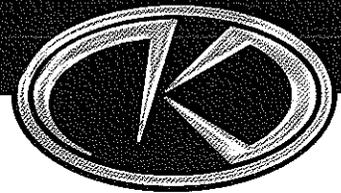
JUNE 30, 2009

NOTE 1- STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Annual budgets are adopted for the general fund on a basis consistent with generally accepted accounting principles ("GAAP"). Prior to June 30, the Finance Committee prepares a proposed operating budget for the fiscal year beginning July 1. This budget is submitted to the Board of Directors for review and approval. The budget includes all proposed expenditures and the anticipated means of financing them. Any revisions to the budget must be approved by the Board.

OTHER REPORT



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PLLC

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
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*

The Board of Directors
Tennessee Duck River Development Agency
Shelbyville, Tennessee

We have audited the accompanying financial statements of the governmental activities and each major fund of the Tennessee Duck River Development Agency (the "Agency"), as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated October 21, 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 audit, we considered the Agency'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 the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 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
(CONTINUED)

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 entity'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 did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Kraft CPAs PLLC

Columbia, Tennessee
October 21, 2009