LAUDERDALE COUNTY WATER SYSTEM

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

INTRODUCTORY SECTION

LAUDERDALE COUNTY WATER SYSTEM

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LAUDERDALE COUNTY WATER SYSTEM
COMMISSIONERS AND MANAGEMENT
FOR THE YEAR ENDED JUNE 30, 2009

Martha Webb

William Jarrett

Carlton Gay

Mack Curtis

Johnny Land

Talmadge Crihfield—Ex-Officio Member

Dan E. Beard—Superintendent (retired 2009)

Randy Newman—Superintendent

Cheryl Chism, Bookkeeper

FINANCIAL SECTION

MARTHA CRITES

Certified Public Accountant

115 South Front • Halls, TN 38040
(731) 836-5987

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, 2009, 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, 2009, and the results of its operations and cash flows, for the year then ended in conformity with accounting principles generally accepted in the Unites 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 August 21, 2009 on my consideration of the District's internal control over financial reporting and my tests

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PRIVATE COMPANIES PRACTICE SECTION
TENNESSEE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

of 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 Cites

August 21, 2009

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, 2009. 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 $6,261,027 (*net assets*). Of this amount, $2,341,222 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors. The remaining amount, $3,919,805 (*invested in capital assets, net of related debt*) reflects the net assets invested in capital assets.

- The total net assets increased by $483,464 for the fiscal year ended June 30, 2009.

- The Water System ended the year June 30, 2009 with cash and investments of $2,407,051, representing a decrease of $256,711 over the prior 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 $6,261,027 at the close of the fiscal year.

The largest portion of the Water System's assets, (65%), are investments in property, plant and equipment, followed by investments, (26%), and cash and cash equivalents, (8%). 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

	2009	2008
Current assets	$ 2,559,460	$ 2,753,896
Fixed assets	4,678,131	4,041,062
Total assets	$ 7,237,591	$ 6,794,958
Current liabilities	$ 243,436	$ 258,744
Long-term liabilities	733,128	758,651
Total Liabilities	976,564	1,017,395
Net assets invested in capital assets, net of related debt	3,919,805	3,258,467
Net assets--unrestricted	2,341,222	2,519,096
Total Liabilities and Net Assets	$ 7,237,591	$ 6,794,958

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

	2009	2008
Operating revenues	$ 1,637,010	$ 1,173,889
Operating expenses	1,165,782	1,109,992
Operating income	471,228	63,897
Nonoperating income (expense)	12,236	71,771
Change in net assets	$ 483,464	$ 135,668
Net assets at beginning of period	5,777,563	5,641,895
Net assets at end of period	$ 6,261,027	$ 5,777,563

Capital Assets

The Lauderdale County Water System's investment in capital assets was $4,678,131 (net of accumulated depreciation) as of June 30, 2009 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 $42,759, and to Rural Economic and Community Development for another bond issuance, totaling $715,567. 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, 2009 was $24,269. No new debt was incurred in the fiscal year 2009.

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 was able to make improvements to its system in the years 2008 and 2009. The Water System replaced 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 2009 were $493,798.

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.

Randy Newman

LAUDERDALE COUNTY WATER SYSTEM
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 557,051	
Investments	1,850,000	
Accounts receivable	104,190	
Prepaid expenses	19,690	
Inventory	24,957	
Accounts receivable--Annexation	3,572	
Total Current Assets		$ 2,559,460
PROPERTY, PLANT, AND EQUIPMENT		
Utility plant in service	$ 8,158,974	
Equipment	428,459	
Total	$ 8,587,433	
Less accumulated depreciation	3,909,302	
Total Property, Plant, and Equipment		4,678,131
Total Assets		$ 7,237,591
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 6,396	
Accrued interest	3,253	
Bond payable--current	25,198	
Accrued wages	23,487	
Customer meter deposits	181,530	
Deferred revenue	3,572	
Total Current Liabilities		$ 243,436
LONG-TERM LIABILITIES		
Bonds payable	$ 733,128	
Total Long-Term Liabilities		733,128
Total Liabilities		$ 976,564
NET ASSETS		
Invested in capital assets, net of related debt	$ 3,919,805	
Unrestricted	2,341,222	
Total Net Assets		6,261,027
Total Liabilities and Net Assets		$ 7,237,591

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, 2009

Operating Revenues		
Water revenues	$ 1,131,931	
Other revenue	6,113	
Grant income	493,798	
Sale of material	5,168	
Total Operating Revenue		$ 1,637,010
Operating Expenses		
City water purchased	$ 183,035	
Salaries	324,270	
Contract meter reading	44,437	
Payroll tax expense	26,152	
Retirement expense	22,440	
Uniform and clothing	4,553	
Commissioner's compensation	4,840	
Postage	11,331	
Freight charges	132	
State fees	5,104	
Membership fees	4,891	
Electrical	94,998	
Gas	3,937	
Telephone	2,339	
Professional fees	4,305	
Truck repairs	1,800	
Backhoe repairs	1,093	
Ditcher repairs	4,490	
Radio repairs	631	
Tires and tire repairs	1,357	
Fuel expense	22,241	
Line repairs and maintenance	21,835	
Plant repairs and maintenance	7,231	
Public relations expense	1,294	
Lab test and lab equipment	1,921	
Office expense	15,550	
Chemical expense	20,956	
Supplies--lab	1,197	
Supplies--miscellaneous	3,506	
Supplies--repair	38,013	
Insurance expense	55,437	
Depreciation	229,876	
Bank service charges	590	
Total Operating Expense		1,165,782
Operating Income		$ 471,228
Nonoperating Revenue (Expenses)		
Interest income	$ 41,925	
Gain on sale of asset	5,065	
Interest expense	(34,754)	
Total nonoperating revenues (expenses)		12,236
Change in Net Assets		$ 483,464
Net Assets at July 1, 2008		5,777,563
Net Assets at June 30, 2009		$ 6,261,027

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	$ 1,641,802	
Cash payments to suppliers	(631,402)	
Cash payments to employees	(338,500)	
Net Cash Provided by Operating Activities		$ 671,900
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	$ (866,579)	
Related financing activities	(34,754)	
Sale of fixed asset	5,065	
Payment on long-term debt	(24,268)	
Net Cash Used by Capital and Related Financing Activities		(920,536)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in certificate of deposits	$ (50,000)	
Interest income	41,925	
Net Cash Provided by Investing Activities		(8,075)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		$ (256,711)
CASH AND CASH EQUIVALENTS--JULY 1, 2008		813,762
CASH AND CASH EQUIVALENTS--JUNE 30, 2009		$ 557,051
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating Income		$ 471,228
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	$ 229,876	
Net change in current assets and liabilities:		
Receivables	4,792	
Inventory	278	
Prepaid expenses	(18,875)	
Accounts payable	(3,698)	
Customer deposits	2,529	
Accrued wages	(14,230)	
Total Adjustments		200,672
NET CASH PROVIDED BY OPERATING ACTIVITIES		$ 671,900

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

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.

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 of 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:

	Estimated Useful Life
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.

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, 2009, 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, 2009 consist of the following:

Deposits:	
Cash on hand	$ 225
Cash in bank	23,863
Cash on deposit through County Trustee	532,963
Total Cash and Cash Equivalents	$ 557,051
Investments:	
Certificates of Deposit managed by County Trustee	$ 1,850,000

The Water System's deposits and investments at June 30, 2009 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.

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, 2009 is also reflected as deferred revenue.

NOTE 5: CAPITAL ASSETS

Capital asset activity was as follows:

	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009
Capital assets not being depreciated:				
Land	$ 10,000	$ 0	$ 0	$ 10,000
Capital assets being depreciated:				
Water Plant	7,353,309	795,665	0	8,148,974
Plant Equipment	105,175	499	792	104,882
Office Equipment	67,848	7,409	0	75,257
Equipment	226,745	63,006	41,431	248,320
Total Capital Assets Being Depreciated	7,753,077	866,579	42,223	8,577,433
Less—Accumulated depreciation for:				
Water Plant	3,419,252	195,935	0	3,615,187
Plant Equipment	55,888	5,619	788	60,719
Office Equipment	58,390	6,149	370	64,169
Equipment	188,485	22,173	41,431	169,227
Total Accumulated Depreciation	3,722,015	229,876	42,589	3,909,302
Total Capital Assets Being Depreciated, Net	4,031,062	636,703	(366)	4,668,131
Business-Type Activities Capital Assets, Net	$ 4,041,062	$ 636,703	$ (366)	$ 4,678,131

NOTE 6: BONDS PAYABLE

Bonds payable at June 30, 2009 consist of the following:

	Current	Long-Term	Total
FHA; 5%; payable in annual installments of $6,345 including interest	$ 4,966	$ 22,507	$ 27,473
FHA; 6%; payable in monthly installments of $815 including interest	9,111	6,176	15,287
Rural Economic and Community Development; 4.5%; payable in monthly installments of $3,592	11,121	704,446	715,567
Total	$ 25,198	$ 733,129	$ 758,327

The annual maturities of long-term bonds as of June 30, 2009 are:

Year ended June 30,	
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	67,007
Total	$ 758,327

Net changes for the year ended June 30, 2009 in bond balances are:

	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009
FHA 5%	$ 32,314	$ 0	$ 4,841	$ 27,473
FHA 6%	23,861	0	8,574	15,287
Rural Economic and Community Development	726,420	0	10,853	715,567
Total	$ 782,595	$ 0	$ 24,268	$ 758,327

NOTE 7: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITLY

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 7.96% 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.

SUPPLEMENTARY INFORMATION

LAUDERDALE COUNTY WATER SYSTEM
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2009

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	3,909
Inactive Accounts	6

UNACCOUNTED FOR WATER

(Gallons lost as a percentage of total gallons pumped/purchased)	4.79%

See accountant's report

LAUDERDALE COUNTY WATER SYSTEM
COMPARISON OF ACTUAL REVENUES AND EXPENDITURES TO BUDGETED REVENUES AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2009

	Budget Original	Budget Final	Actual June 30, 2009	Variances to Final Budget
Operating Revenues				
Water sales	$ 1,055,000	$ 1,055,000	$ 1,063,560	$ 8,560
Water sales--bad debts collected	2,000	2,000	3,471	1,471
Other revenue	15,000	15,000	11,296	(3,704)
Penalties income	40,000	40,000	44,363	4,363
Service installation	12,000	12,000	8,700	(3,300)
Cash Over/Short	-	-	(118)	(118)
Grant Income	-	-	493,798	493,798
Reconnections	17,000	17,000	16,910	(90)
Sale of material	5,000	5,000	5,168	168
Total Operating Revenue	$ 1,146,000	$ 1,146,000	$ 1,647,148	$ 501,148
Operating Expenses				
City water purchased	$ 180,000	$ 188,000	$ 183,035	$ 4,965
Salaries	325,000	353,000	324,270	28,730
Contract meter reading	45,000	45,000	44,437	563
Bad debt expense	8,000	8,000	5,073	2,927
Payroll tax expense	28,000	28,000	26,152	1,848
Retirement expense	24,000	24,000	22,440	1,560
Uniform and clothing	5,000	5,000	4,553	447
Commissioner's compensation	5,000	5,000	4,840	160
Postage	17,000	17,000	11,331	5,669
Freight	200	200	132	68
License	300	300	-	300
State fees	7,000	7,000	5,104	1,896
Membership fees	3,500	3,500	4,891	(1,391)
Public relations	1,500	1,500	1,294	206
Electrical	90,000	96,000	94,998	1,002
Gas	6,000	6,000	3,937	2,063
Telephone	4,000	4,000	2,339	1,661
Lab tests and lab expense	5,000	5,000	1,921	3,079
Legal services	2,500	-	-	-
Professional fees	6,000	6,000	4,305	1,695
Engineering expense	6,000	-	-	-
Truck repairs	5,000	2,500	1,801	699
Backhoe repairs	2,000	2,000	1,093	907
Ditcher repairs	10,000	10,000	4,490	5,510
Radio repairs	3,000	1,000	630	370
Tires and tire repairs	3,000	3,000	1,357	1,643
Fuel expense	30,000	23,000	22,241	759
Line repairs and maintenance	15,000	23,000	21,835	1,165
Plant repairs and maintenance	15,000	15,000	7,232	7,768
Travel--staff	1,100	1,100	-	1,100
Travel--board	100	100	-	100
Office expense	18,000	18,000	15,550	2,450
Chemical expense	25,000	25,000	20,956	4,044
Supplies--lab	2,500	2,500	1,196	1,304
Supplies--miscellaneous	5,000	5,000	3,506	1,494
Supplies--repair	55,000	35,000	38,011	(3,011)
Insurance expense	55,000	55,000	55,439	(439)
Depreciation	-	-	229,876	(229,876)
Emergency transfer funds	10,000	-	-	-
Bank service charges	700	700	590	110
Deposit expense	100	100	-	100
Total Operating Expense	$ 1,024,500	$ 1,024,500	$ 1,170,855	$ (146,355)
Operating Income	$ 121,500	$ 121,500	$ 476,293	$ 354,793
Nonoperating Revenue (Expenses)				
Interest income	$ 50,000	$ 50,000	$ 41,925	$ (8,075)
Interest expense	(35,285)	(35,285)	(34,754)	16,490
Total nonoperating revenues (expenses)	$ 14,715	$ 14,715	$ 7,171	$ 8,415
Change in Net Assets	$ 136,215	$ 136,215	$ 483,464	$ 363,208
Net Assets at July 1, 2008	577,563	557,563	5,777,563	-
Net Assets at June 30, 2009	$ 713,778	$ 693,778	$ 6,261,027	$ 363,208

See accountant's report.

INTERNAL CONTROL AND COMPLIANCE

MARTHA CRITES

Certified Public Accountant

115 South Front • Halls, TN 38040
(731) 836-5987

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, 2009 and have issued my report dated August 21, 2009. 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

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
TENNESSEE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

in internal control that might be significant deficiencies or material weaknesses. Material weaknesses are identified in the findings section of this report.

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.

August 21, 2009

Martha Cites

LAUDERDALE COUNTY WATER SYSTEM
SCHEDULE OF FINDINGS, RECOMMENDATIONS, AND REPLIES
FOR THE YEAR ENDED JUNE 30, 2009

2009-01 Finding—Material Audit Adjustments Were Required for Proper Financial Statements Presentation (Material Weakness Under *Government Auditing Standards)*

Generally accepted accounting principles require Lauderdale County Water System to have adequate internal controls over the maintenance of its accounting records. At June 30, 2009 the general ledger was not materially correct, and multiple audit adjustments were required for the financial statements to be materially correct at year-end. Therefore, the Water System's accounting system did not prevent, detect, or correct potential misstatements in the accounting records. Although it is permissible for me, as the external auditor, to assist the Water System in preparing its financial statements, it is a strong indicator of a material weakness in internal controls if the Water System has ineffective controls over the maintenance of its accounting records which are used to prepare the financial statements, including the related notes. I presented audit adjustments to management that they approved and posted to properly present the financial statements in this report.

Recommendation—The Lauderdale County Water System should have appropriate processes in place to ensure that its general ledger is materially correct.

Response—The Lauderdale County Water System does not have the resources to hire an employee with the educational level sufficient to ensure that no material journal entries would be necessary for the financial statements to be materially correct at year-end.

2009-02 Finding—Lauderdale County Water System Does Not Have The Resources to Produce Its Financial Statements and Footnotes (Material Weakness Under *Government Auditing Standards)*

Generally accepted auditing standards require that Lauderdale County Water System's financial statements be the product of a financial reporting system that offers reasonable assurance that management is able to produce financial statements and footnotes that comply with generally accepted accounting principles. The preparation of financial statements in accordance with generally accepted accounting principles requires that the county have internal controls over reporting financial statements, including the related notes. It is permissible for me, as the Water System's external auditor, to assist the Water System in preparing its financial statements and footnotes as a matter of convenience as long as the Water System has the skills needed to prepare its financial statements and footnotes. However, management, including the accounting staff, does not have sufficient knowledge of current generally accepted accounting principles to determine the completeness of financial statement information and disclosures. The inability to prepare financial statements and footnotes is an indication of lack of controls, or ineffective controls, because material misstatements may not be detected.

Recommendation—The Water System should develop the ability to produce financial statements and footnotes that comply with generally accepted

accounting principles. This could include having at least one staff member trained in financial statement presentation. This staff member should have sufficient skills necessary to prepare a complete set of year-end financial statements even though the external auditor prepares the Water System's financial statements as a matter of convenience. If I, as the external auditor, continue to prepare the Water System's financial statements, this individual must have sufficient knowledge to determine to completeness of financial statement information and disclosures.

Response—The Lauderdale County Water System does not have the resources to hire an employee with the educational level sufficient to prepare a complete set of year-end financial statements. The cost/benefit is not sufficient at this time to comply with this recommendation.

2009-03 Findings—Expenses Exceed Budget. Line items of expenses exceeded the budget.

Recommendation—Management should compare line items to budgeted amounts to expended amounts periodically. The budget should be amended to encompass unexpected expenditures that cause the budget to be exceeded.

Response—Budget amendments are periodically submitted to the Board of Commissioners.