

**BENTON-DECATUR
SPECIAL SEWER DISTRICT**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2009**

BENTON-DECATUR SPECIAL SEWER DISTRICT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	1
Directory	2
FINANCIAL SECTION	3
Independent Auditor's Report	4
Management's Discussion and Analysis	6
Financial Statements:	
Statements of Net Assets	11
Statements of Revenues, Expenses, and Changes in Net Assets	12
Statements of Cash Flows	13
Notes to Financial Statements	14
OTHER SUPPLEMENTARY INFORMATION SECTION	21
Schedules of Operating Income and Expenses	22
Schedule of Long-Term Debt	23
Sewer Rates in Force	24
Schedule of Expenditures of Federal and State Awards	25
INTERNAL CONTROL AND COMPLIANCE SECTION	26
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27
Schedule of Findings, Recommendations and Corrective Action Plans	29

INTRODUCTORY SECTION

BENTON-DECATUR SPECIAL SEWER DISTRICT

DIRECTORY

JUNE 30, 2009

BOARD MEMBERS

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

MANAGEMENT TEAM

Emily Ferguson, Certified Public Accountant

COUNSEL

Wood Law Offices, P.C.
Parsons, Tennessee

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Brasher Accounting
Decaturville, Tennessee

FINANCIAL SECTION



Lori R. Brasher, CPA

**PO Box 276
60 N. Pleasant Street
Decaturville, TN 38329
731.852.3100
Fax 731.852.3106
lori@lrbrasher.com**

Independent Auditor's Report

To the Management Board
Benton-Decatur Special Sewer District
Parsons, Tennessee

We have audited the accompanying statement of net assets of Benton-Decatur Special Sewer District (the District) as of June 30, 2009 and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of Benton-Decatur Special Sewer District as of and for the year ended June 30, 2008 were audited by other auditors whose report dated September 3, 2009 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the auditing 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 2009 financial statements referred to above present fairly, in all material respects, the financial position of Benton-Decatur Special Sewer District as of June 30, 2009, and the changes in its net assets and its cash flows 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 November 1, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over



financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 10 and page 22 are not a required part of the financial statements but are 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 opinions on the 2009 financial statements that collectively comprise the District's basic financial statements. The introductory section and the accompanying financial information listed as other supplementary information in the Table of Contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basis financial statements of the District. The other supplementary 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. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in black ink, appearing to read 'L. Brasher'.

November 1, 2010

**BENTON-DECATUR SPECIAL SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

As management of the Benton – Decatur Special Sewer District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended June 30, 2009 and 2008. All amounts, unless otherwise indicated, are expressed in actual dollars.

Financial Highlights

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

- Total assets at year-end were \$2,767,459 and exceeded liabilities in the amount of \$628,113 (i.e. net assets).
- Unrestricted net assets increased \$87,427.
- Operating expenses were \$125,972 and operating revenues were \$202,057.
- The operating income for the year was \$76,086.

Overview of the Financial Statements and Supplementary Information

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Required Financial Statements

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

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

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

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

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

Financial Analysis

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The District's total assets decreased \$91,580 for the fiscal year ended June 30, 2009. The District's net assets increased \$30,757 for the period ended June 30, 2009.

Table 1A
CONDENSED STATEMENTS OF NET ASSETS

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
Current and other assets	\$ 145,110	\$ 181,020	\$ (35,910)	-19.84%
Capital assets	2,622,349	2,678,019	(55,670)	-2.08%
Total Assets	<u>2,767,459</u>	<u>2,859,039</u>	<u>(91,580)</u>	<u>-3.20%</u>
Long-term liabilities	2,062,190	2,139,346	(77,156)	-3.61%
Other liabilities	77,156	122,337	(45,181)	-36.93%
Total liabilities	<u>2,139,346</u>	<u>2,261,683</u>	<u>(122,337)</u>	<u>-5.41%</u>
Net Assets:				
Invested in capital assets, net of related debt	482,003	538,673	(56,670)	-10.52%
Restricted	-	-	-	0.00%
Unrestricted	146,110	58,683	87,427	148.98%
Total Net Assets	<u>\$ 628,113</u>	<u>\$ 597,356</u>	<u>\$ 30,757</u>	<u>5.15%</u>

Table 1B
CONDENSED STATEMENTS OF NET ASSETS

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
Current and other assets	\$ 181,020	\$ 481,202	\$ (300,182)	-62.38%
Capital assets	2,678,019	850,410	1,827,609	214.91%
Total Assets	<u>2,859,039</u>	<u>1,331,612</u>	<u>1,527,427</u>	<u>114.71%</u>
Long-term liabilities	2,139,346	617,563	1,521,783	246.42%
Other liabilities	122,337	418,344	(296,007)	-70.76%
Total liabilities	<u>2,261,683</u>	<u>1,035,907</u>	<u>1,225,776</u>	<u>118.33%</u>
Net Assets:				
Invested in capital assets, net of related debt	538,673	232,847	305,826	131.34%
Restricted	-	-	-	0.00%
Unrestricted	58,683	62,858	(4,175)	-6.64%
Total Net Assets	<u>\$ 597,356</u>	<u>\$ 295,705</u>	<u>\$ 301,651</u>	<u>102.01%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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

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

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	Increase (Decrease)	
			Amount	Percent
Revenues:				
Operating revenues	\$ 202,057	\$ 22,918	\$ 179,139	781.65%
Non-operating revenue	185	1,473	(1,288)	-87.44%
Total Revenues	<u>202,242</u>	<u>24,391</u>	<u>177,851</u>	<u>729.17%</u>
Expenses				
Administrative and general	125,972	29,030	96,942	333.94%
Non-operating expenses	<u>34,958</u>	<u>16,392</u>	<u>18,566</u>	<u>113.26%</u>
Total Expenses	<u>160,929</u>	<u>45,422</u>	<u>115,507</u>	<u>254.30%</u>
Income (loss) before capital contributions	<u>41,313</u>	<u>(21,031)</u>	<u>62,344</u>	<u>-296.44%</u>
Contributed capital	28,868	322,682	(293,814)	-91.05%
Change in net assets	70,181	301,651	(231,470)	-76.73%
Adjustment to prior year net assets	(39,424)			
Net assets-beginning	<u>597,356</u>	<u>295,705</u>	<u>301,651</u>	<u>102.01%</u>
Net assets - ending	<u>\$ 628,113</u>	<u>\$ 597,356</u>	<u>\$ 30,757</u>	<u>5.15%</u>

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The District began operations in May 2008 which resulted in an increase in operating revenues and operating expenses during the fiscal year ending June 30, 2009 as compared to the fiscal year ending June 30, 2008.

Capital Assets and Debt Administration

Capital Assets – At the end of the current fiscal year, the District had \$2,622,349 (net of accumulated depreciation and amortization) invested in a broad range of utility capital assets. This investment includes land, startup costs and sewer facilities and is classified as such for financial purposes. See Note 3B for details.

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

Contacting the District's Financial Management

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

BENTON-DECATUR SPECIAL SEWER DISTRICT

Statement of Net Assets

June 30

	<u>2009</u>	<u>2008</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 145,110	\$ 138,196
Accounts receivable	-	11,556
State revolving fund loan receivable	-	2,400
Grant receivable	-	28,868
Total Current Assets	<u>145,110</u>	<u>181,020</u>
Property, Plant and Equipment		
Land	28,500	28,500
Startup costs	55,435	55,435
Sewer facilities	2,598,723	2,598,723
Total Property, Plant and Equipment	<u>2,682,658</u>	<u>2,682,658</u>
Less: Accumulated Amortization	(4,004)	(308)
Less: Accumulated Depreciation	(56,306)	(4,331)
Net Property, Plant and Equipment	<u>2,622,349</u>	<u>2,678,019</u>
Total Assets	<u>\$ 2,767,459</u>	<u>\$ 2,859,039</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ -	\$ 122,337
Current portion of long-term debt	77,156	-
Total Current Liabilities	<u>77,156</u>	<u>122,337</u>
Long-term Liabilities		
Bonds and notes payable after one year	2,062,190	2,139,346
Total Long-term Liabilities	<u>2,062,190</u>	<u>2,139,346</u>
Total Liabilities	<u>2,139,346</u>	<u>2,261,683</u>
Net Assets		
Invested in capital assets, net of related debt	482,003	538,673
Restricted	-	-
Unrestricted	146,110	58,683
Total Net Assets	<u>628,113</u>	<u>597,356</u>
Total Liabilities and Net Assets	<u>\$ 2,767,459</u>	<u>\$ 2,859,039</u>

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

BENTON-DECATUR SPECIAL SEWER DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets

June 30

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Charges for sales and service	\$ 202,057	\$ 22,918
Total Operating Revenues	<u>202,057</u>	<u>22,918</u>
Operating Expenses		
Administrative and general expense	70,301	24,391
Depreciation and amortization expense	55,670	4,639
Total Operating Expenses	<u>125,972</u>	<u>29,030</u>
Operating Income (Loss)	76,086	(6,112)
Nonoperating Revenues (Expenses)		
Interest income	185	1,473
Interest expense	(34,958)	(16,392)
Total Nonoperating Revenues (Expenses)	<u>(34,773)</u>	<u>(14,919)</u>
Net Income (Loss) before Contributions	<u>41,313</u>	<u>(21,031)</u>
Capital contributions		
Benton County	-	25,000
Decatur County - CDBG	28,868	297,682
Total Capital Contributions	<u>28,868</u>	<u>322,682</u>
Net Increase (Decrease) in Net Assets	70,181	301,651
Adjustment to prior year net assets	(39,424)	
Net Assets - beginning of year	<u>597,356</u>	<u>295,705</u>
Net Assets - end of year	<u>\$ 628,113</u>	<u>\$ 597,356</u>

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

BENTON-DECATUR SPECIAL SEWER DISTRICT

Statement of Cash Flows

June 30

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities		
Cash received from consumers	\$ 190,057	\$ 11,362
Cash payments to suppliers	(51,601)	(17,291)
Cash paid to Board members for management fees	(6,700)	(7,100)
Net Cash Provided (Used) by Operating Activities	<u>131,756</u>	<u>(13,029)</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of fixed assets	(121,337)	(2,128,255)
Capital contributions	28,868	314,162
Issuance of debt	2,400	1,778,348
Interest paid on long-term debt	(34,958)	(16,392)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(125,027)</u>	<u>(52,137)</u>
Cash Flows from Investing Activities		
Interest earned	185	1,473
Net Cash Provided (Used) by Investing Activities	<u>185</u>	<u>1,473</u>
Net Increase (Decrease) in Cash and Cash Equivalents	6,914	(63,693)
Cash and Cash Equivalents at beginning of year	<u>138,196</u>	<u>201,889</u>
Cash and Cash Equivalents at end of year	<u>\$ 145,110</u>	<u>\$ 138,196</u>
<hr/>		
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Net operating income (loss)	\$ 76,086	\$ (6,112)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	55,670	4,639
Changes in Assets and Liabilities:		
(Increase) Decrease in accounts receivable		(11,556)
Total Adjustments	55,670	(6,917)
Net Cash Provided (Used) by Operating Activities	<u>\$ 131,756</u>	<u>\$ (13,029)</u>
Noncash investing, capital, and financing activities:		
Capital asset purchases included in accounts payable		<u>\$ 121,337</u>

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

BENTON – DECATUR SPECIAL SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of cash flows. In accordance with generally accepted accounting principles, the District has elected to apply all applicable Financial Accounting Standard Board pronouncements issued on or before November 30, 1989, except for those that conflict with Governmental Accounting Standards Board pronouncements.

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

BENTON – DECATUR SPECIAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)

C. Assets, Liabilities, and Net Assets

Deposits and Investments

The District considers all highly liquid investments with original maturities of three months or less to be cash or cash equivalents. These include cash on hand, amounts held in bank accounts and certificates of deposit. State statutes authorize the District to invest in certificates of deposit, obligations of the United States Treasury, agencies and instrumentalities, obligations guaranteed by the United States government or its agencies, repurchase agreements and the state's investment pool.

Accounts Receivable

Trade receivables result from unpaid billings for water service to customers. The billing and collections for the District are prepared and collected by the North Utility District. The North Utility District remits to the District the entire amount of the billings on a monthly basis. Due to lack of prior operations, an allowance for uncollectible accounts receivable is considered unnecessary at this time but will be considered in future years.

Capital Assets

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

The costs of normal maintenance and repairs that do not add value to the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Sewerage facility	50 years
Organizational costs	15 years

BENTON – DECATUR SPECIAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)

Net Assets

Equity is classified as net assets and classified into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in Capital Assets, Net of Related Debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted Net Assets – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets – This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

A budget is required as part of the agreement with Benton County and Decatur County for the District. The annual operating budget is submitted to each county on or before April 1 of each year. The total expenditures of the District in any fiscal year are determined by the approved budget. The respective counties must approve any purchases or expenditures in excess of the sum allotted in the annual budget.

NOTE 3: DETAILED NOTES

A. Deposits and Investments

Custodial Credit Risk

The District's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statute requires that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits.

BENTON – DECATUR SPECIAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)

The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the District’s agent in the District’s name, or by the treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations, and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state polled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2009 and 2008, all bank deposits were fully collateralized or insured.

B. Capital Assets

Capital asset activity during the years ending June 30, 2009 and 2008 was as follows:

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION				
	<u>Balance 7/1/08</u>	<u>Additions / Completions</u>	<u>Retirements / Adjustments</u>	<u>Balance 06/30/09</u>
Capital assets not being depreciated				
Land	\$ 28,500	\$ -	\$ -	\$ 28,500
Total Capital assets not being depreciated	<u>28,500</u>	<u>-</u>	<u>-</u>	<u>28,500</u>
Capital assets being depreciated				
Startup costs	55,435	-	-	55,435
Sewer facilities	2,598,723	-	-	2,598,723
Total Capital assets being depreciated	<u>2,654,158</u>	<u>-</u>	<u>-</u>	<u>2,654,158</u>
Less accumulated depreciation/amortization for:				
Startup costs	308	3,696	-	4,004
Sewer facilities	4,331	51,974	-	56,305
Total accumulated depreciation/amortization	<u>4,639</u>	<u>55,670</u>	<u>-</u>	<u>60,309</u>
Total capital assets, being depreciated, net	<u>2,649,519</u>	<u>(55,670)</u>	<u>-</u>	<u>2,593,849</u>
Governmental activities capital assets, net	<u>\$ 2,678,019</u>	<u>\$ (55,670)</u>	<u>\$ -</u>	<u>\$ 2,622,349</u>

BENTON – DECATUR SPECIAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	<u>Balance 7/1/07</u>	<u>Additions / Completions</u>	<u>Retirements / Adjustments</u>	<u>Balance 06/30/08</u>
Capital assets not being depreciated				
Land	\$ 28,500	\$ -	\$ -	\$ 28,500
Construction in process	766,475	1,832,248	(2,598,723)	-
Total Capital assets not being depreciated	<u>794,975</u>	<u>1,832,248</u>	<u>(2,598,723)</u>	<u>28,500</u>
Capital assets being depreciated				
Startup costs	55,435	-	-	55,435
Sewer facilities	-	-	2,598,723	2,598,723
Total Capital assets being depreciated	<u>55,435</u>	<u>-</u>	<u>2,598,723</u>	<u>2,654,158</u>
Less accumulated depreciation/amortization for:				
Startup costs	-	308	-	308
Sewer facilities	-	4,331	-	4,331
Total accumulated depreciation/amortization	<u>-</u>	<u>4,639</u>	<u>-</u>	<u>4,639</u>
Total capital assets, being depreciated, net	<u>55,435</u>	<u>(4,639)</u>	<u>2,598,723</u>	<u>2,649,519</u>
Governmental activities capital assets, net	<u>\$ 850,410</u>	<u>\$ 1,827,609</u>	<u>\$ -</u>	<u>\$ 2,678,019</u>

C. Long Term Debt

The District has a note payable for a joint sewer project between Benton and Decatur counties financed through the Clean Water State Revolving Fund. The project was originally approved June 29, 2004 with each County being approved for \$600,000. This amount was increased by \$500,000 on December 18, 2006 for a total loan of \$1,100,000 to each county and a total loan of \$2,200,000 for the entire District for which the District is responsible for repaying. The interest rate on the loans is 1.47% and the District is currently repaying interest only. The project was placed in operation on May 22, 2008. Principle repayment will begin in September 2009. The loan term is for a period of 20 years.

BENTON – DECATUR SPECIAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)

The scheduled annual requirements for long-term debt at June 30, 2009 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 77,156	\$ 31,024	\$ 108,180
2011	93,842	29,684	123,526
2012	95,231	28,295	123,526
2013	96,641	26,885	123,526
2014	98,071	25,455	123,526
2015-2019	512,560	105,070	617,630
2020-2024	551,626	66,004	617,630
2025-2029	593,670	23,959	617,629
2030-2034	20,549	39	20,588
Total	<u>\$ 2,139,346</u>	<u>\$ 336,415</u>	<u>\$ 2,475,761</u>

Activity for the years ending June 30, 2009 and 2008 was as follows:

<u>June 30, 2008</u>	<u>Additions</u>	<u>Repayments</u>	<u>June 30, 2009</u>	<u>Due Within One Year</u>
<u>\$ 2,139,346</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,139,346</u>	<u>\$ 77,156</u>

<u>June 30, 2007</u>	<u>Additions</u>	<u>Repayments</u>	<u>June 30, 2008</u>	<u>Due Within One Year</u>
<u>\$ 617,563</u>	<u>\$ 1,521,783</u>	<u>\$ -</u>	<u>\$ 2,139,346</u>	<u>\$ -</u>

NOTE 4: OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During the years ended June 30, 2009 and 2008, the District purchased commercial insurance for all of the above risks. There have been no settled claims in the past.

BENTON – DECATUR SPECIAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)

B. Litigation and Contingencies

The District was sued by an individual regarding a dispute over the portion of the individual's condemned property used by the District and the assigned value of the condemned property. A judgment was rendered in the matter against the District for \$97,357.36 as of August 30, 2008. The District appealed the case with an oral argument heard on July 21, 2009. The appeal was dismissed and the matter was remanded to the Circuit Court for the trial judge to rule on the legal counsel's motion to amend and insert the correct property description for the property taken. As the legal counsel has been unable to convince the Judge to amend the pleadings, the former legal counsel advised to seek another attorney to handle the case going forward. Subsequently, for this case the District is represented by James G. Stranch, III from Nashville, Tennessee. This case is still pending appeal to the Circuit Court.

End of Notes to Financial Statements

OTHER SUPPLEMENTARY INFORMATION SECTION

BENTON-DECATUR SPECIAL SEWER DISTRICT
Schedule of Operating Income and Expenses
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Budget</u>	<u>Actual</u>	
Revenues				
Charges for sales and service	\$ 211,544	\$ 211,544	\$ 202,057	\$ (9,487)
Total revenues	<u>211,544</u>	<u>211,544</u>	<u>202,057</u>	<u>(9,487)</u>
Operating expenses				
Administrative and general expenses				
Cost of operations - cost of goods sold	21,297	21,297	22,177	(880)
Accounting fees	4,050	4,050	3,950	100
Bank charges	7	7	7	-
Management Board fees	7,200	7,200	6,700	500
Office supplies	159	159	59	100
NUD Administrative fees	12,000	12,000	12,000	-
Reporting costs	-	-	500	(500)
Insurance	4,680	4,680	4,978	(298)
Legal fees	2,000	2,000	-	2,000
Legal notices	253	253	237	17
Parts	-	-	355	(355)
Utilities	17,435	17,435	19,338	(1,904)
Total administrative and general expenses	<u>69,081</u>	<u>69,081</u>	<u>70,301</u>	<u>(1,220)</u>
Depreciation and amortization expense	<u>55,670</u>	<u>55,670</u>	<u>55,670</u>	<u>-</u>
Total operating expenses	<u>124,751</u>	<u>124,751</u>	<u>125,972</u>	<u>(1,220)</u>
Operating income (loss)	<u>\$ 86,793</u>	<u>\$ 86,793</u>	<u>\$ 76,086</u>	<u>\$ (10,707)</u>

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

BENTON-DECATUR SPECIAL SEWER DISTRICT

Schedule of Long-term Debt Principal and Interest Requirements by Fiscal Year

June 30, 2009

Year Ending June 30,	Principal	Interest
2010	\$ 77,156	\$ 31,024
2011	93,842	29,684
2012	95,231	28,295
2013	96,641	26,885
2014	98,071	25,455
2015	99,522	24,004
2016	100,995	22,531
2017	102,490	21,036
2018	104,007	19,519
2019	105,546	17,980
2020	107,108	16,418
2021	108,693	14,833
2022	110,301	13,225
2023	111,934	11,592
2024	113,590	9,936
2025	115,272	8,255
2026	116,977	6,549
2027	118,709	4,817
2028	120,465	3,060
2029	122,247	1,278
2030	20,549	39
	\$ 2,139,346	\$ 336,415

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

BENTON-DECATUR SPECIAL SEWER DISTRICT

SEWER RATES IN FORCE

June 30, 2009

Residential Rate Schedule		
Connection Fee	\$	1,500.00
Sewer charge - per 1,000 gallons of water		19.75
Commercial Rate Schedule		
Connection Fee	\$	2,500.00
Sewer charge - per 1,000 gallons of water		19.75
Number of customers		1,295

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

BENTON-DECATUR SPECIAL SEWER DISTRICT
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Fiscal Year ended June 30, 2009

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Agency or Pass-through Number</u>	<u>Beginning (Accrued) / Deferred</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending (Accrued) / Deferred</u>
Tennessee Department of Economic and Community Development Community Development Block Grant Program	GG-07-12833	\$ (28,868.00)	\$ 28,868.00	\$ -	\$ -
Tennessee Department of Environment and Conservation Clean Water State Revolving Loan Fund	SRF-02-163 SRF-02-163A	(1,200) (1,200)	1,200 1,200	- -	- -
TOTAL FEDERAL & STATE AWARDS		<u>\$ (2,400.00)</u>	<u>\$ 31,268.00</u>	<u>\$ -</u>	<u>\$ -</u>

Loans Outstanding:

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

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

INTERNAL CONTROL AND COMPLIANCE SECTION



Lori R. Brasher, CPA

**PO Box 276
60 N. Pleasant Street
Decaturville, TN 38329
731.852.3100
Fax 731.852.3106
lori@lrbrasher.com**

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

To the Management Board
Benton-Decatur Special Sewer District
Parsons, Tennessee

We have audited the financial statements of Benton-Decatur Special Sewer District (the District) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 1, 2010. 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 District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the 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. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: 2008-01 and 2009-01.



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 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2008-03 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Benton-Decatur Special Sewer District'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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of management, Management Board, others within the entity, federal awarding agencies, and pass-through entities, and the Comptroller of the Treasury, State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read 'Lambert', with a long horizontal flourish extending to the right.

November 1, 2010

BENTON-DECATUR SPECIAL SEWER DISTRICT
SCHEDULE OF FINDINGS
JUNE 30, 2009

2008-01: Dual Signatures for Disbursements (Significant Deficiency)

Condition: As per the agreement to establish the Benton-Decatur Special Sewer District “Two (2) signatures shall be required for any disbursement from the fund.” Several checks bore only a single signature.

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

Response: This has since been corrected.

2008-03: Control Activities for Revenues and Receivables (Material Weakness)

Condition: Betty Vitt, collects receivables, serves as cashier, prepares and mails bills, opens/processes mail and deposits cash receipts. These duties are considered an inadequate segregation of duties.

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

Response: We concur.

BENTON-DECATUR SPECIAL SEWER DISTRICT
SCHEDULE OF FINDINGS (continued)

2009-01: Purchasing and Disbursement Documentation (Significant Deficiency)

Condition: Complete purchasing and disbursement documentation are not consistently vouchered. Purchase requisitions and purchase orders were not evident in the disbursement documentation. In testing of disbursement documentation, not all vendor invoices were available.

Recommendation: We recommend that the District implement usage of prenumbered purchase orders which describe the goods or services authorized, quantities needed and authorized prices. These purchase orders can then be compared to vendor invoices for matching of authorized disbursement of funds. We also recommend that an individual be tasked with verifying receipt and matching of disbursement documentation on a periodic basis to ensure vouchering is complete for each disbursement made. Performing this task on a regular basis would allow the District to obtain and analyze any missing documentation in compliance with internal controls.

Response: We concur.

DISPOSITION OF PRIOR YEAR FINDINGS

2007-01: Expense Reports

2007-02: Budget

2008-02: Capitalization Policy and Depreciation of Assets

End of Schedule of Findings

