LAUDERDALE COUNTY WATER SYSTEM

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

INTRODUCTORY SECTION

LAUDERDALE COUNTY WATER SYSTEM

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LAUDERDALE COUNTY WATER SYSTEM
COMMISSIONERS AND MANAGEMENT
FOR THE YEAR ENDED JUNE 30, 2011

Martha Webb

William Jarrett

Carlton Gay

Mack Curtis

Johnny Land

Talmadge Crihfield—Ex-Officio Member

Randy Newman—Superintendent

Stacy Crowder, Bookkeeper

FINANCIAL SECTION

MARTHA CRITES

Certified Public Accountant

115 South Front • Halls, TN 38040
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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners

Lauderdale County Water System

Ripley, Tennessee

I have audited the accompanying basic financial statements 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, 2011, as listed in the table of contents. These financial statements are the responsibility of the Water System's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States 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 our opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water System as of June 30, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* I have also issued my report dated December 15, 2011 on my consideration of the Water System's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. 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 results of my audit.

Management's discussion and analysis on pages 3-5 and schedule of unaccounted water on page 16 are 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.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lauderdale County Water System's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements.

Martha Cirtes CPA

December 15, 2011

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, 2011. 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 $6,251,791 (*net assets*). Of this amount, $2,416,050 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors. The remaining amount, $3,835,741 (*invested in capital assets, net of related debt*) reflects the net assets invested in capital assets.

- The total net assets increased by $19,544 for the fiscal year ended June 30, 2011.

- The Water System ended the year June 30, 2011 with cash and investments of $2,456,472, representing a increase of $69,547 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 $6,251,791 at the close of the fiscal year.

The largest portion of the Water System's assets, (63%), 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

	2011	2010
Current assets	$ 2,625,541	$ 2,564,606
Fixed assets	4,546,312	4,632,662
Total assets	$ 7,171,853	$ 7,197,268
Current liabilities	$ 227,132	$ 254,914
Long-term liabilities	692,930	710,107
Total Liabilities	920,062	965,021
Net assets invested in capital assets, net of related debt	3,835,741	3,899,533
Net assets--unrestricted	2,416,050	2,332,714
Total Liabilities and Net Assets	$ 7,171,853	$ 7,197,268

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

	2011	2010
Operating revenues	$ 1,211,413	$ 1,173,487
Operating expenses	1,192,519	1,213,818
Operating income (loss)	18,894	- 40,331
Nonoperating income (expense)	650	11,550
Change in net assets	$ 19,544	$ - 28,781
Net assets at beginning of period	6,232,247	6,261,028
Net assets at end of period	$ 6,251,791	$ 6,232,247

Capital Assets

The Lauderdale County Water System's investment in capital assets was $4,546,312 (net of accumulated depreciation) as of June 30, 2011 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 one bond issuance, totaling $17,289, and to Rural Economic and Community Development for another bond issuance, totaling $693,281. Our current debt requirement per annum is $49,449 which reflects both principal and interest requirements. Debt retirement in the fiscal year ended June 30, 2011 was $22,559. No new debt was incurred in the fiscal year 2011.

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.

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, 2011

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 606,472	
Investments	1,850,000	
Accounts receivable	127,010	
Prepaid expenses	1,254	
Inventory	40,294	
Accounts receivable--Annexation	511	
Total Current Assets		$ 2,625,541
PROPERTY, PLANT, AND EQUIPMENT		
Utility plant in service	$ 8,204,763	
Equipment	423,941	
Total	$ 8,628,704	
Less accumulated depreciation	4,082,392	
Total Property, Plant, and Equipment		4,546,312
Total Assets		$ 7,171,853
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 5,364	
Accrued interest	2,359	
Bond payable--current	17,640	
Accrued wages	17,192	
Customer meter deposits	184,066	
Deferred revenue	511	
Total Current Liabilities		$ 227,132
LONG-TERM LIABILITIES		
Bonds payable	$ 692,930	
Total Long-Term Liabilities		692,930
Total Liabilities		$ 920,062
NET ASSETS		
Invested in capital assets, net of related debt	$ 3,835,741	
Unrestricted	2,416,050	
Total Net Assets		6,251,791
Total Liabilities and Net Assets		$ 7,171,853

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, 2011

Operating Revenues		
Water revenues	$ 1,205,434	
Other revenue	4,771	
Sale of material	1,208	
Total Operating Revenue		$ 1,211,413
Operating Expenses		
City water purchased	$ 148,689	
Salaries	337,389	
Contract meter reading	43,923	
Payroll tax expense	24,421	
Retirement expense	23,183	
Uniform and clothing	2,279	
Commissioner's compensation	4,641	
Postage	12,181	
Freight charges	82	
State fees	5,615	
Membership fees	1,780	
Public relation expense	738	
Electrical	98,599	
Gas	2,493	
Telephone	2,576	
Professional fees	4,980	
Truck repairs	2,475	
Backhoe repairs	705	
Ditcher repairs	464	
Tires and tire repairs	3,134	
Fuel expense	24,382	
Line repairs and maintenance	5,671	
Plant repairs and maintenance	23,400	
Travel	715	
Lab test and lab equipment	2,708	
Office expense	16,135	
Chemical expense	25,786	
Supplies-lab	1,576	
Supplies--miscellaneous	3,382	
Supplies--repair	41,453	
Insurance expense	66,075	
Depreciation	260,269	
Bank service charges	620	
Total Operating Expense		1,192,519
Operating Income		$ 18,894
Nonoperating Revenue (Expenses)		
Interest income	$ 33,685	
Interest expense	(33,035)	
Total nonoperating revenues (expenses)		650
Change in Net Assets		$ 19,544
Net Assets at July 1, 2010		6,232,247
Net Assets at June 30, 2011		$ 6,251,791

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

LAUDERDALE COUNTY WATER SYSTEM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 1,203,797	
Cash payments to suppliers	(592,782)	
Cash payments to employees	(345,177)	
Net Cash Provided by Operating Activities		$ 265,838
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	$ (173,919)	
Interest paid on bonds	(33,035)	
Payment on long-term debt	(22,559)	
Net Cash Used by Capital and Related Financing Activities		(229,513)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	$ 33,222	
Net Cash Provided by Investing Activities		33,222
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		$ 69,547
CASH AND CASH EQUIVALENTS--JULY 1, 2010		536,925
CASH AND CASH EQUIVALENTS--JUNE 30, 2011		$ 606,472
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating Income (loss)		$ 18,894
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	$ 260,269	
Net change in current assets and liabilities:		
Receivables	(9,123)	
Inventory	(5,704)	
Prepaid expenses	23,439	
Accounts payable	(15,656)	
Customer deposits	1,507	
Accrued wages	(7,788)	
Total Adjustments		246,944
NET CASH PROVIDED BY OPERATING ACTIVITIES		$ 265,838

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), a component unit of Lauderdale County, Tennessee, 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 (a component unit of Lauderdale County, Tennessee) 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 or its agencies, direct obligations of the State of Tennessee or its agencies, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, certificates of deposit if insured by a Federal Deposit Insurance Corporation or the Tennessee Collateral Pool. During the year ended June 30, the Water System did not own any types of securities other than those permitted by statute.

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

b. Capital Assets

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

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

	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, 2011, 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, 2011 consist of the following:

Deposits:	
Cash on hand	$ 225
Cash in bank	9,070
Cash on deposit through County Trustee	597,177
Total Cash and Cash Equivalents	$ 606,472
Investments:	
Certificates of Deposit managed by County Trustee	$ 1,850,000

The Water System's deposits and investments at June 30, 2011 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, 2011 is also reflected as deferred revenue.

NOTE 5: CAPITAL ASSETS

Capital asset activity was as follows:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011
Capital assets not being depreciated:				
Land	$ 10,000	$ 0	$ 0	$ 10,000
Capital assets being depreciated:				
Water Plant	8,140,039	124,309	69,585	8,194,763
Plant Equipment	104,882	21,198	38,760	87,320
Office Equipment	67,914	6,516	25,940	48,490
Equipment	266,234	21,897	0	288,131
Total Capital Assets Being Depreciated	8,579,069	173,920	134,285	8,618,704
Less—Accumulated depreciation for:				
Water Plant	3,711,989	213,777	69,585	3,856,181
Plant Equipment	66,065	6,109	38,760	33,414
Office Equipment	49,906	4,514	25,940	28,480
Equipment	128,447	35,870	0	164,317
Total Accumulated Depreciation	3,956,407	260,270	134,285	4,082,392
Total Capital Assets Being Depreciated, Net	4,622,662	(86,350)	0	4,536,312
Business-Type Activities Capital Assets, Net	$ 4,632,662	$ (86,350)	$ 0	$ 4,546,312

NOTE 6: BONDS PAYABLE

Bonds payable at June 30, 2011 consist of the following:

	Current	Long-Term	Total
FHA; 5%; payable in annual installments of $6,345 including interest	$ 5,475	$ 11,814	$ 17,289
Rural Economic and Community Development; 4.5%; payable in monthly installments of $3,592	12,165	681,116	693,281
Total	$ 17,640	$ 692,930	$ 710,570

The annual maturities of long-term bonds as of June 30, 2011 are:

Year ended June 30,	
2012	17,640
2013	18,473
2014	19,346
2015	13,951
2016-2020	79,808
2021-2025	99,903
2026-2030	125,058
2031-2035	156,548
2036-2040	179,843
Total	$ 710,570

Net changes for the year ended June 30, 2011 in bond balances are:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011
FHA 5%	$ 22,507	$ 0	$ 5,218	$ 17,289
FHA 6%	6,176	0	6,176	0
Rural Economic and Community Development	704,446	0	11,165	693,281
Total	$ 733,129	$ 0	$ 22,559	$ 710,570

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 8.68% 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
SCHEDULE OF UNACCOUNTED FOR WATER
FOR THE YEAR ENDED JUNE 30, 2011

(All amounts in gallons)

A	Water Treated and Purchased:		
B	Water Pumped (potable)	259,140,000	
C	Water Purchased	49,322,500	
D	Total Water Treated and Purchased (Sum Lines B and C)		308,462,500
E	Accounted for Water:		
F	Water Sold	214,000,800	
G	Metered for Consumption (in house usage)	54,700	
H	Fire Deparment Usage	192,850	
I	Flushing	525,350	
J	Tank Cleaning/Filling	460,000	
K	Street Cleaning	0	
L	Bulk Sales	44,000	
M	Water Bill Adjustments	3,083,500	
N	Total Accounted for Water (Sum Lines F thru M)		218,361,200
O	Unaccounted for Water (Line D minus Line N)		90,101,300
P	Percent Unaccounted for Water (Line O divided by Line D times 100)		30
Q	Other (explain)		

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, 2011

	Budget Original	Budget Final	Actual June 30, 2011	Variances to Final Budget
Operating Revenues				
Water sales	$ 1,200,000	$ 1,200,000	$ 1,139,740	$ (60,260)
Water sales–bad debts collected	4,000	4,000	2,318	(1,682)
Other revenue	15,000	15,000	3,575	(11,425)
Penalties income	50,000	50,000	45,944	(4,056)
Service installation	12,000	12,000	7,070	(4,930)
Cash Over/Short	-	-	18	18
Reconnections	18,000	18,000	16,236	(1,764)
Sale of material	5,000	5,000	1,208	(3,792)
Total Operating Revenues	$ 1,304,000	$ 1,304,000	$ 1,216,109	$ (87,891)
Operating Expenses				
City water purchased	$ 240,000	$ 220,000	$ 148,689	$ 71,311
Salaries	350,000	370,000	337,389	32,611
Contract meter reading	46,000	46,000	43,923	2,077
Bad debt expense	8,000	8,000	4,696	3,304
Payroll tax expense	29,000	29,000	24,421	4,579
Retirement expense	25,000	25,000	23,183	1,817
Uniform and clothing	5,000	5,000	2,279	2,721
Commissioner's compensation	5,000	5,000	4,641	359
Postage	17,000	17,000	12,181	4,819
Freight	200	200	82	118
License	300	300	57	243
State fees	8,500	8,500	5,558	2,942
Membership fees	5,000	5,000	1,780	3,220
Public relations	2,000	2,000	738	1,262
Electrical	100,000	100,000	98,599	1,401
Gas	6,000	6,000	2,493	3,507
Telephone	4,000	4,000	2,576	1,424
Lab tests and lab expense	5,000	5,000	2,708	2,292
Legal services	2,500	2,500	675	1,825
Professional fees	6,500	5,500	4,305	1,195
Engineering expense	6,000	6,000	-	6,000
Truck repairs	5,000	5,000	2,475	2,525
Backhoe repairs	2,000	2,000	705	1,295
Ditcher repairs	2,000	2,000	464	1,536
Radio repairs	3,000	3,000	-	3,000
Tires and tire repairs	3,000	4,000	3,134	866
Fuel expense	30,000	30,000	24,382	5,618
Line repairs and maintenance	20,000	7,000	5,671	1,329
Plant repairs and maintenance	15,000	38,000	23,400	14,600
Travel--staff	1,100	1,100	715	385
Travel--board	100	100	-	100
Office expense	19,000	19,000	16,135	2,865
Chemical expense	25,000	25,000	25,786	(786)
Supplies--lab	2,500	2,500	1,576	924
Supplies--miscellaneous	5,000	5,000	3,382	1,618
Supplies--repair	55,000	55,000	41,453	13,547
Insurance expense	60,000	60,000	57,862	2,138
Depreciation	-	-	260,269	(260,269)
Insurance expense-employee deductable	10,000	10,000	8,213	1,787
Emergency transfer funds	10,000	-	-	-
Bank service charges	1,000	1,000	620	380
Deposit expense	100	100	-	100
Total Operating Expenses	$ 1,139,800	$ 1,139,800	$ 1,197,215	$ (57,415)
Operating Income	$ 164,200	$ 164,200	$ 18,894	$ (145,306)
Nonoperating Revenues (Expenses)				
Interest income	$ 45,000	$ 45,000	$ 33,685	$ (11,315)
Gain on sale of assets	-	-	-	-
Interest expense	(32,739)	(32,739)	(33,035)	707
Total nonoperating revenues (expenses)	$ 12,261	$ 12,261	$ 650	$ (10,608)
Change in Net Assets	176,461	176,461	19,544	(155,914)
Net Assets as of July , 12010	6,232,247	6,232,247	6,232,247	-
Net Assets at June 30, 2011	$ 6,408,708	$ 6,408,708	$ 6,251,791	$ (155,914)

See accountant's report.

INTERNAL CONTROL AND COMPLIANCE

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Lauderdale County Water System
Ripley, Tennessee

I have audited the financial statement of Lauderdale County Water System, a discretely presented component unit of Lauderdale County, Tennessee, as of and for the year ended June 30, 2011 and have issued my report dated December 15, 2011. 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, but 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.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of finding and questioned costs, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies. (2011-01, 2011-02, 2011-05)

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. (2011-03)

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items. (2011-04)

Lauderdale County Water System's responses to the findings identified in my audit are described in the accompanying Schedule of Findings, Recommendations, and Replies. I did not audit Lauderdale County Water System's responses and, accordingly, I express no opinion on it.

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.

December 15, 2011

Martha Crites CPA

2010-01 Finding—Material Audit Adjustments Were Required for Proper Financial Statements Presentation (Material Weakness Under *Government Auditing Standards)*. See finding 2011-01.

2010-02 Finding—Lauderdale County Water System Does Not Have The Resources to Produce Its Financial Statements and Footnotes (Material Weakness Under *Government Auditing Standards)*. See finding 2011-02.

2010-03 Finding—Expenses Exceed Budget. Line items of expenses exceeded the budget. See finding 2011-03.

CURRENT FINDINGS, RECOMMENDATIONS, AND REPLIES

2011-01 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, 2011 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. We will provide additional training to our bookkeeper.

2011-02 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 the 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. However, we believe that our knowledge and experience enables us to review the report and understand it fully.

2011-03 Finding—Expenses Exceed Budget. Line items of expenses exceeded the budget. (Significant Weakness Under *Government Auditing Standards)*

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.

2011-04 Finding—Forms 941 were not prepared for the first and second quarters of 2011 in a timely fashion. (Compliance)

Recommendation—Management should familiarize itself with reporting requirements to ensure that all required forms are properly filed.

Response—We will comply with this recommendation.

2011-05 Finding—Bank reconciliations were not being timely prepared. (Material Weakness Under *Government Auditing Standards)*

Recommendation—The Water System's bank account is co-mingled with the County Trustee's bank account. The Water System has to wait until the Trustee's office reconciles before the Water System can begin its reconciliation. Also, drafts from the bank account are not being reported to the Water System from the Trustee's office in a timely manner. The Water System, as it has a separate accounting system, may establish a separate bank account to eliminate the co-mingling of funds, thus the reconciliations will be prepared more timely and the bank drafts from the account will only affect the Water System's transactions. Another alternative would be to obtain the list of drafts from the Trustee's office on a more timely basis.

Response—We will comply with this recommendation.