

**BENTON-DECATUR  
SPECIAL SEWER DISTRICT**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEAR  
ENDED JUNE 30, 2011**

**BENTON-DECATUR SPECIAL SEWER DISTRICT**  
**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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## **INTRODUCTORY SECTION**

**BENTON-DECATUR SPECIAL SEWER DISTRICT**

**DIRECTORY**

**JUNE 30, 2011**

**BOARD MEMBERS**

Russell Keeton, Chairman

Randy Patton

Roger Pafford

Eugene Tubbs

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  
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Decaturville, TN 38329  
731.852.3100  
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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, 2011 and June 30, 2010 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Benton-Decatur Special Sewer District as of June 30, 2011 and June 30, 2010, 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 17, 2011, 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.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the 2011 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 other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 do not express an opinion or provide any assurance on them.

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

Brasher Accounting  
Decaturville, Tennessee  
November 17, 2011

**BENTON-DECATUR SPECIAL SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Benton-Decatur Special Sewer District's basic financial statements. The District presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting. In layman's terms, this presentation means that financial information is reported using accounting methods similar to those followed by private sector companies. The statements offer both short-term and long-term financial information about the activities of the Benton-Decatur Special Sewer District. To further aid the reader with their analysis and comprehension of the information presented, two years of financial data is provided.

The basic financial statements provide information about the District's business-type activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

**Required Financial Statements for Business-Type Activities**

Reporting on the operations of its enterprise funds, the Benton-Decatur Special Sewer District's basic financial statements include a Statement of Net Assets; a Statement of Revenues, Expenses and Changes in Net Assets; and a Statement of Cash Flows. To help provide our users with a contextual frame of reference, comparative information from the financial statements of the previous fiscal year is also provided. The financial statements also include notes that are considered essential to a full understanding of the data that is being presented on the face of the statements. The primary purpose of the notes is to provide additional discussion, enhanced disclosures and tabular presentation of data to further explain information in the financial statements and to provide more detailed data.

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

**BENTON-DECATUR SPECIAL SEWER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine whether Benton-Decatur Special Sewer District has successfully recovered all of its costs through user fees and other charges. It provides the user with basic financial information about the profitability and credit worthiness of the District.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the fiscal year. The statement reports cash receipts, cash payments and net changes in cash resulting from operating; noncapital financing; capital and related financing; and investing activities. The purpose of this statement is to tell the user where the District's cash came from, what the cash was used for, and by how much the cash balance changed over the course of the fiscal year.

**Financial Analysis of the District's Business-Type Activities**

When analyzing the financial statements of the Benton-Decatur Special Sewer District's business-type activities, the primary consideration should be whether the District as a whole is financially 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 are designed to report information about the District's activities that will help the user determine how good or bad a year it was from a financial perspective. These two statements report the net assets of the District and changes in them.

One can think of the District's net assets (i.e. the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the District's net assets are a general indicator of whether its financial health is improving or deteriorating. In addition to the relative change in net assets, one will also have to take into consideration the impact on operations of other non-financial factors and external influences. These would include, but are not limited to, economic conditions, population growth, changes in governmental legislation, restrictions on sewer use, the issuances of new regulations and the utilization of new technologies.

**BENTON-DECATUR SPECIAL SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
FOR THE YEAR ENDED JUNE 30, 2011**

**Financial Analysis of the Fiscal Year Ended June 30, 2011**

Considering the negative financial impact of the recession, revenues from sewer services were used to pay all operating and maintenance costs and debt service obligations.

**Condensed Statements of Net Assets**

The Statements of Net Assets, shown in tabular format below, represents information on all of the District's assets and liabilities with the difference between the two reported as net assets. The District's total net assets increased from the prior fiscal year by approximately \$23 thousand or about 3.57 percent for the period.

Given the significant budgetary problems that have been plaguing most governmental entities over the past couple of years, it is a significant accomplishment that the net assets of the District actually increased during the 2011 fiscal year. Our analysis that follows focuses on the District's net assets (shown in Table 1A and 1B) and the changes in net assets (shown in Table 2A and 2B) during the year and prior fiscal year.

Table 1A  
**CONDENSED STATEMENTS OF NET ASSETS**

	<b>June 30, 2011</b>	<b>June 30, 2010</b>	<b>Increase (Decrease)</b>	
			<b>Amount</b>	<b>Percent</b>
Current and other assets	\$ 141,010	\$ 154,140	\$ (13,130)	-8.52%
Capital assets	2,514,705	2,570,578	(55,874)	-2.17%
Total Assets	<u>2,655,715</u>	<u>2,724,718</u>	<u>(69,003)</u>	<u>-2.53%</u>
Long-term liabilities	1,873,114	1,968,344	(95,230)	-4.84%
Other liabilities	96,404	93,842	2,562	100.00%
Total liabilities	<u>1,969,518</u>	<u>2,062,186</u>	<u>(92,668)</u>	<u>-4.49%</u>
Net Assets:				
Invested in capital assets, net of related debt	546,359	508,392	37,966	7.47%
Restricted	-	-	-	0.00%
Unrestricted	139,838	154,140	(14,301)	-9.28%
Total Net Assets	<u>\$ 686,197</u>	<u>\$ 662,532</u>	<u>\$ 23,665</u>	<u>3.57%</u>

**BENTON-DECATUR SPECIAL SEWER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

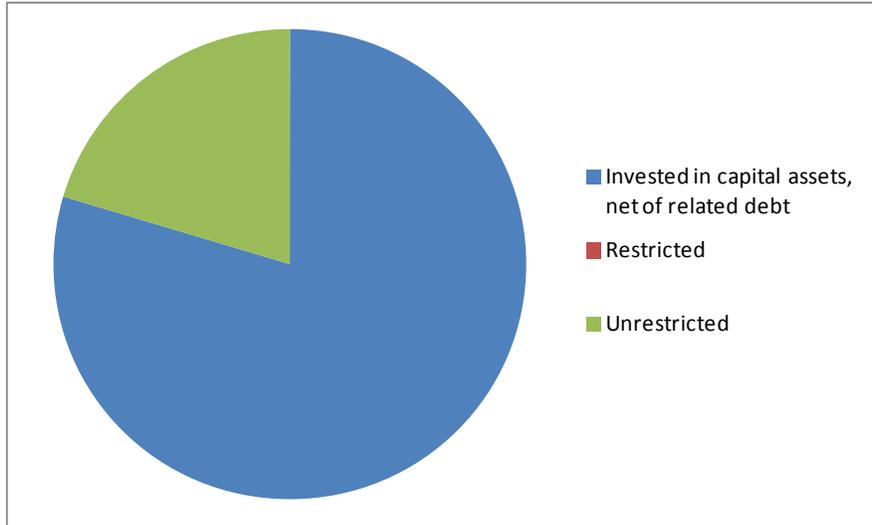
Table 1B  
**CONDENSED STATEMENTS OF NET ASSETS**

			<b>Increase (Decrease)</b>	
	<b>June 30, 2010</b>	<b>June 30, 2009</b>	<b>Amount</b>	<b>Percent</b>
Current and other assets	\$ 154,140	\$ 145,110	\$ 9,030	6.22%
Capital assets	2,570,578	2,622,349	(51,771)	-1.97%
Total Assets	<u>2,724,718</u>	<u>2,767,459</u>	<u>(42,741)</u>	<u>-1.54%</u>
Long-term liabilities	1,968,344	2,062,190	(93,846)	-4.55%
Other liabilities	93,842	77,156	16,686	0.00%
Total liabilities	<u>2,062,186</u>	<u>2,139,346</u>	<u>(77,160)</u>	<u>-3.61%</u>
<b>Net Assets:</b>				
Invested in capital assets, net of related debt	508,392	482,003	26,389	5.47%
Restricted	-	-	-	0.00%
Unrestricted	154,140	146,110	8,030	5.50%
Total Net Assets	<u>\$ 662,532</u>	<u>\$ 628,113</u>	<u>\$ 34,419</u>	<u>5.48%</u>

**Analysis of Net Assets**

To better understand the District's actual financial position and its ability to deliver services in future periods, the reader will need to review the various components of the net asset category and obtain an understanding of how each relate specifically to the business activities that the District's performs. For example, the vast majority of the net assets (\$546,359 or approximately 79.62 percent of total net assets) represent investment in plant assets, which is the lifeblood to the provision of sewer services.

**BENTON-DECATUR SPECIAL SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
FOR THE YEAR ENDED JUNE 30, 2011**



For the 2011 fiscal year, Net Assets Invested in Capital Assets, Net of Related Debt increased \$37,966 or about 7.47 percent compared to the previous year. The increase in this category is primarily due to the reduction of related debt as a result of debt payments. The amount shown in this category is calculated by taking the depreciated value of our capital assets and subtracting the associated debt.

In comparing the total amount of Restricted Net Assets with the previous fiscal year, there was no change.

Compared to the prior year's balance, there was a decrease in the Unrestricted Net Assets category of \$14,302 or 9.28 percent. The decrease in this component is directly linked to the increase in the invested in capital assets, net of related debt.

Unrestricted Net Assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**BENTON-DECATUR SPECIAL SEWER DISTRICT  
MANAGEMENT’S DISCUSSION AND ANALYSIS (continued)  
FOR THE YEAR ENDED JUNE 30, 2011**

**Analysis of Current Assets**

The textbook definition of “current assets” is balance sheet items which equals the sum of cash and cash equivalents, accounts receivable, inventory, marketable securities, prepaid expenses, and other assets that could be converted to cash in less than one year. Current assets are important in any financial analysis because it is from current assets that a business funds its ongoing, day-to-day operations. A comparison of the June 30, 2011 and 2010 balances by asset classification is shown in the table below.

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 124,407	\$ 154,140
Accounts receivable	16,603	-
<b>Total Current Assets</b>	<u>141,010</u>	<u>154,140</u>

The increase of roughly \$16 thousand that occurred in the Accounts Receivable category can be primarily traced to timing of month end billings.

**Analysis of Noncurrent Assets**

Noncurrent assets represent assets that are not reasonably expected to be realized in cash or sold or consumed during the next fiscal year. When making the distinction between whether an asset should be considered current or noncurrent, liquidity or nearness to cash is not the proper basis for determining the classification. In making this determination, any encumbrances on the use of the asset must also be considered. Thus, cash investments intended for liquidation of liabilities due beyond the one-year period are noncurrent assets, as would assets segregated or restricted for the liquidation of long-term debts (including amounts due within the next operating cycle). Assets designated to be used to acquire, construct, or improve capital assets would also be noncurrent.

In the following table, the Noncurrent Assets of the District at June 30, 2011 and 2010 are compared by major classification. As indicated by the tabular information, total noncurrent assets decreased by \$55,874 or slightly more than 2.17 percent during the 2011 fiscal year.

**BENTON-DECATUR SPECIAL SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
FOR THE YEAR ENDED JUNE 30, 2011**

<b>Property, Plant and Equipment</b>		
Land	28,500	28,500
Startup costs	55,435	55,435
Sewer facilities	<u>2,602,828</u>	<u>2,602,828</u>
<b>Total Property, Plant and Equipment</b>	<b>2,686,763</b>	<b>2,686,763</b>
Less: Accumulated Amortization	(11,394)	(7,699)
Less: Accumulated Depreciation	<u>(160,664)</u>	<u>(108,485)</u>
<b>Net Property, Plant and Equipment</b>	<b><u>2,514,705</u></b>	<b><u>2,570,578</u></b>

The presentation effectively demonstrates the relatively large investment that the District has made in capital assets. At the end of the 2011 fiscal year, capital assets represented 100 percent of the noncurrent assets.

**Analysis of Liabilities**

In financial accounting, the term “liability” is defined as an obligation of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future. This section analyzes the various claims that creditors have against the District’s assets.

Current Liabilities Payable from Unrestricted Assets had a net increase in its various components of \$1,172 or 100 percent compared to the previous fiscal year’s balance. This is due to the accrual of management fees payable and payroll taxes payable.

In terms of gauging the relative short-term financial strength of the District, it should be noted that there are roughly \$139,838 in Unrestricted Current Assets available at June 30, 2011 to extinguish the \$1,172 in Current Liabilities Payable from Unrestricted Assets. With a resulting asset to liability ratio of 119.316, the District has placed itself in a strong financial position to meet its immediate obligations.

In the Long-Term Liabilities Outstanding category, the balance decreased by \$95,232 or about 4.84 percent from the previous fiscal year.

**BENTON-DECATUR SPECIAL SEWER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

As the reader of the financial statements might surmise from the preceding discussion, an argument can certainly be made that the District's financial position has indeed improved over that of the previous year. However, the cash flow has decreased due to the payment of long-term debt as compared to operating income. Future cash flows must be reassessed in order to maintain payments of current and long-term liabilities.

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**

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

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
<b>Revenues:</b>				
Operating revenues	\$ 199,923	\$ 197,005	\$ 2,918	1.48%
Non-operating revenue	309	457	(149)	-32.48%
Total Revenues	<u>200,232</u>	<u>197,462</u>	<u>2,770</u>	<u>1.40%</u>
<b>Expenses</b>				
Administrative and general	146,879	132,022	14,857	11.25%
Non-operating expenses	29,688	31,021	(1,333)	-4.30%
Total Expenses	<u>176,567</u>	<u>163,043</u>	<u>13,523</u>	<u>8.29%</u>
Income (loss) before capital contributions	<u>23,665</u>	<u>34,419</u>	<u>(10,754)</u>	<u>-31.24%</u>
Contributed capital	-	-	-	0.00%
Change in net assets	23,665	34,419	(10,754)	-31.24%
Adjustment to prior year net assets	-	-	-	0.00%
Net assets-beginning	<u>662,532</u>	<u>628,113</u>	<u>34,419</u>	<u>5.48%</u>
Net assets - ending	<u>\$ 686,197</u>	<u>\$ 662,532</u>	<u>\$ 23,665</u>	<u>3.57%</u>

**BENTON-DECATUR SPECIAL SEWER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
<b>Revenues:</b>				
Operating revenues	\$ 197,005	\$ 202,057	\$ (5,052)	100.00%
Non-operating revenue	457	185	272	147.22%
Total Revenues	<u>197,462</u>	<u>202,242</u>	<u>(4,780)</u>	<u>-2.36%</u>
<b>Expenses</b>				
Administrative and general	132,022	125,972	6,050	4.80%
Non-operating expenses	31,021	34,958	(3,936)	-11.26%
Total Expenses	<u>163,043</u>	<u>160,929</u>	<u>2,114</u>	<u>1.31%</u>
Income (loss) before capital contributions	<u>34,419</u>	<u>41,313</u>	<u>(6,894)</u>	<u>-16.69%</u>
Contributed capital	-	28,868	(28,868)	0.00%
Change in net assets	34,419	70,181	(35,762)	-50.96%
Adjustment to prior year net assets	-	(39,424)	39,424	0.00%
Net assets-beginning	<u>628,113</u>	<u>597,356</u>	<u>30,757</u>	<u>5.15%</u>
Net assets - ending	<u>\$ 662,532</u>	<u>\$ 628,113</u>	<u>\$ 34,419</u>	<u>5.48%</u>

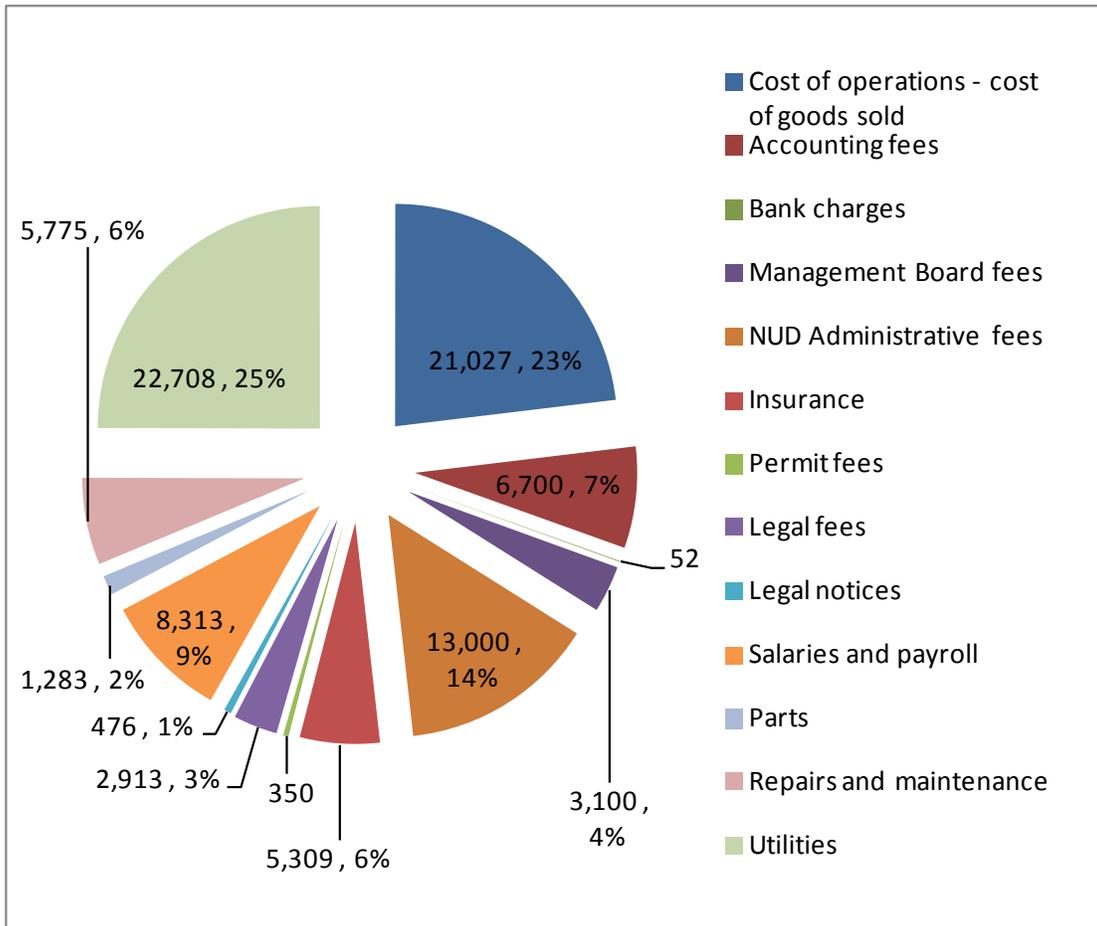
**Analysis of Revenues**

For the 2011 fiscal year, the Operating Revenues of the District totaled \$199,923. This amount represented an increase of \$2,918 or about 1.48 percent more than the previous year's total of \$197,005. However, of this total amount of Operating Revenues, the timing of the month end billings created 13 monthly billing cycles of the District, whereas the normal 12 billing cycles would have only yielded Operating Revenues of \$183,320.

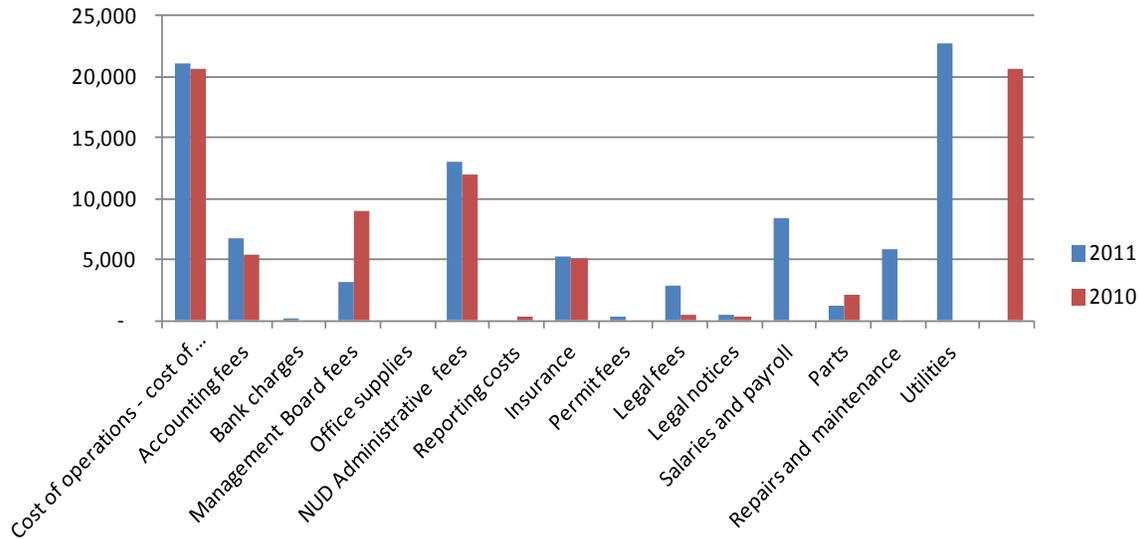
**BENTON-DECATUR SPECIAL SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
FOR THE YEAR ENDED JUNE 30, 2011**

**Analysis of Expenses**

The Total Operating Expenses for fiscal year 2011 were \$146,879. That amount represents an increase of \$14,857 or about 11.25 percent more than the prior fiscal year total of \$132,222. The major categories of Operating Expenses are shown in the pie chart below. The amount of each expense class and its relative percentage of the total are provided. The bar graph below provides a side-by-side comparison of each category with the previous fiscal year.



**BENTON-DECATUR SPECIAL SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
FOR THE YEAR ENDED JUNE 30, 2011**



One of the impacts on the financial statements of operating in a capital asset intensive industry is the significant amount of depreciation and amortization expense. It is important to note that almost 32 percent of the total expenses of the District fall into this classification.

**Capital Assets and Debt Administration**

**Capital Assets**

At June 30, 2011, the Benton-Decatur Special Sewer District had an investment of about \$546,359 in capital assets, net of depreciation and amortization. This amount represents a net decrease (including additions and deletions) of approximately \$37,967 or 7.47 percent less than last year. Additional detailed information concerning the District's capital assets can be found in the notes to the financial statements in section 3.B. which appears on pages 26-27 of this report.

**BENTON-DECATUR SPECIAL SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
FOR THE YEAR ENDED JUNE 30, 2011**

**Debt**

At June 30, 2011, the Benton-Decatur Special Sewer District had roughly \$1,968,346 in debt outstanding, a net decrease of \$93,840, or approximately 4.55 percent less than the previous fiscal year. See Note 3.C for more details.

**Economic Factors, Rates and Next Year's Financial Activity**

**Economic Factors**

Over the past twelve months, the overall economy of the area continued to deteriorate and has shown very few signs of improving in recent months. With the area's growth in the past having been closely tied to a vibrant home construction industry and the migration of people to the area, the fallout from the bursting of the housing bubble and the ensuing recession has significantly impacted those sectors of economic growth. Fortunately, the provision of sewer services represents a necessary purchase for the residents and industries covered by the Benton-Decatur Special Sewer District. However, the underlying causes of this most recent recession have had an adverse impact on the District's revenues.

**Next Year's Budget**

The District's operating budget for the fiscal year ending June 30, 2012 took into consideration the anticipated impact of the economic factors. The operating budget was balanced with no appropriation of cash reserves.

**Sewer Rates**

The sewerage rate for all customers is \$19.75 per 1,000 gallons of metered water flow. Residential customers pay a connection fee of \$1,500. Commercial customers pay a connection fee of \$2,500. Historically, the District has been able to collect 100 percent of its sewer billings. The 2011 fiscal year yielded a collection of 100 percent of its sewer billings.

**BENTON-DECATUR SPECIAL SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
FOR THE YEAR ENDED JUNE 30, 2011**

**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**

	<b>2011</b>	<b>2010</b>
Cash and cash equivalents	\$ 124,407	\$ 154,140
Accounts receivable	16,603	-
<b>Total Current Assets</b>	<u>141,010</u>	<u>154,140</u>
<b>Property, Plant and Equipment</b>		
Land	28,500	28,500
Startup costs	55,435	55,435
Sewer facilities	2,602,828	2,602,828
<b>Total Property, Plant and Equipment</b>	<u>2,686,763</u>	<u>2,686,763</u>
Less: Accumulated Amortization	(11,394)	(7,699)
Less: Accumulated Depreciation	<u>(160,664)</u>	<u>(108,485)</u>
<b>Net Property, Plant and Equipment</b>	<u>2,514,705</u>	<u>2,570,578</u>
 <b>Total Assets</b>	 <u>\$ 2,655,715</u>	 <u>\$ 2,724,718</u>
 <b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 1,000	\$ -
Taxes payable	172	-
Current portion of long-term debt	95,232	93,840
<b>Total Current Liabilities</b>	<u>96,404</u>	<u>93,840</u>
 <b>Long-term Liabilities</b>		
Bonds and notes payable after one year	1,873,114	1,968,346
<b>Total Long-term Liabilities</b>	<u>1,873,114</u>	<u>1,968,346</u>
 <b>Total Liabilities</b>	 <u>1,969,518</u>	 <u>2,062,186</u>
 <b>Net Assets</b>		
Invested in capital assets, net of related debt	546,359	508,392
Restricted	-	-
Unrestricted	139,838	154,140
<b>Total Net Assets</b>	<u>686,197</u>	<u>662,532</u>
 <b>Total Liabilities and Net Assets</b>	 <u>\$ 2,655,715</u>	 <u>\$ 2,724,718</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>2011</u>	<u>2010</u>
<b>Operating Revenues</b>		
Charges for sales and service	\$ 199,923	\$ 197,005
<b>Total Operating Revenues</b>	<u>199,923</u>	<u>197,005</u>
<b>Operating Expenses</b>		
Administrative and general expense	91,005	76,146
Depreciation and amortization expense	55,874	55,875
<b>Total Operating Expenses</b>	<u>146,879</u>	<u>132,022</u>
<b>Operating Income (Loss)</b>	53,044	64,983
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	309	457
Interest expense	(29,688)	(31,021)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(29,379)</u>	<u>(30,564)</u>
<b>Net Income (Loss) before Contributions</b>	<u>23,665</u>	<u>34,419</u>
<b>Net Increase (Decrease) in Net Assets</b>	23,665	34,419
<b>Net Assets - beginning of year</b>	<u>662,532</u>	<u>628,113</u>
<b>Net Assets - end of year</b>	<u>\$ 686,197</u>	<u>\$ 662,532</u>

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

**BENTON-DECATUR SPECIAL SEWER DISTRICT**

**Statement of Cash Flows**

**June 30**

	<u>2011</u>	<u>2010</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from consumers	\$ 183,320	\$ 197,005
Cash payments to suppliers	(78,421)	(67,146)
Cash paid to Board members for management fees	(3,100)	(9,000)
Cash payments to employees	(7,614)	-
Other operating cash payments	(698)	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>93,486</u>	<u>120,859</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition and construction of fixed assets	-	(4,105)
Interest paid on long-term debt	(29,688)	(31,021)
Payment of debt	(93,840)	(77,160)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(123,528)</u>	<u>(112,286)</u>
<b>Cash Flows from Investing Activities</b>		
Interest earned	309	457
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>309</u>	<u>457</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(29,733)	9,030
<b>Cash and Cash Equivalents at beginning of year</b>	<u>154,140</u>	<u>145,110</u>
<b>Cash and Cash Equivalents at end of year</b>	<u>\$ 124,407</u>	<u>\$ 154,140</u>
<hr/>		
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>		
Net operating income (loss)	\$ 53,044	\$ 64,983
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	55,874	55,875
<b>Changes in Assets and Liabilities:</b>		
(Increase) Decrease in accounts receivable	(16,603)	-
Increase (Decrease) in accounts payable	1,000	-
Increase (Decrease) in taxes payable	172	-
Total Adjustments	40,442	55,875
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 93,486</u>	<u>\$ 120,859</u>
<b>Noncash investing, capital, and financing activities:</b>		
Capital asset purchases included in accounts payable	<u>\$ -</u>	<u>\$ 4,105</u>

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

**BENTON – DECATUR SPECIAL SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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 basic financial statements provide information about the Benton-Decatur Special Sewer District's business activities. The financial statements for the business-type activities are also often referred to as enterprise fund financial statements.

"Measurement Focus" is an accounting term used to describe which transactions and types of balances are recorded within the various financial statements. The expression, "Basis of Accounting", refers to when transactions or events are recorded regardless of the measurement focus applied.

Because of the "businesslike" characteristics of the District's operations, the accompanying financial statements report using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives of the "economic resources" measurement focus are the determination of operating income, changes in net assets (or cost recover), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District utilizes enterprise funds to record its financial operating activities. In governmental accounting, the enterprise fund is used to account for operations that are financed and operated in a manner similar to private business or where the Management Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

To provide the resources necessary to pay for services and related support functions, the District charges its customers monthly user fees which are based on the specific level of services they are receiving. Because the operations of the Benton-Decatur Special Sewer District closely mirror those of a typical, commercial company, its accounting records reflect a similar approach for measuring its business activity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the preparation of the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governmental entities also have the option of following subsequent private-sector guidance in accounting for and reporting on its operations, subject to the same limitation. The District has elected not to follow subsequent private-sector guidance.

The enterprise fund used by the District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues are charges to customers for services that are provided to them. The District also recognizes as operating revenue the connection fees for connecting new customers to the sewer system. Operating expenses 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.

When both restricted and unrestricted resources are available for use, it the District's policy to use restricted resources first, then unrestricted resources as they are needed.

### **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 sewer 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 and are reported as a component of noncurrent assets in the basic financial statements. 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.

Depreciation is charged as an expense against operations on a monthly basis. Capital assets of the District are depreciated using the straight-line method over the following useful lives:

Sewerage facility	50 years
Organizational costs	15 years

Net Assets

The Benton-Decatur Special Sewer District's financial statements are being presented in conformance with provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" (GASB 34). As required by GASB 34, the District has classified net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications of Net Assets 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 the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction,, or improvement of those assets. If there are significant unspent proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Instead, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted: This component of net assets consists of constraints placed on net assets through external restrictions imposed by creditors (e.g. debt covenants), grantors, contributors, or laws, or regulations of other governments. This component would also include constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted: 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”. Generally, these net assets represent those financial resources that are available to the District to meet any future obligations that might arise.

**D. Use of Estimates**

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. These estimates include assessing the collectability of accounts receivable, the use and recoverability of inventory, and the useful lives and impairment of tangible and intangible assets, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

**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.

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 pooled 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, 2011 and 2010, all bank deposits were fully collateralized or insured.

**B. Capital Assets**

Capital asset activity during the years ending June 30, 2011 and 2010 was as follows:

<b>CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION</b>				
	<u>Balance 7/1/10</u>	<u>Additions / Completions</u>	<u>Retirements / Adjustments</u>	<u>Balance 06/30/11</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	<u>2,602,828</u>	<u>-</u>	<u>-</u>	<u>2,602,828</u>
Total Capital assets being depreciated	<u>2,658,263</u>	<u>-</u>	<u>-</u>	<u>2,658,263</u>
Less accumulated depreciation/amortization for:				
Startup costs	7,699	3,696	-	11,395
Sewer facilities	<u>108,485</u>	<u>52,180</u>	<u>-</u>	<u>160,665</u>
Total accumulated depreciation/amortization	<u>116,185</u>	<u>55,875</u>	<u>-</u>	<u>172,060</u>
Total capital assets, being depreciated, net	<u>2,542,078</u>	<u>(55,875)</u>	<u>-</u>	<u>2,486,203</u>
Governmental activities capital assets, net	<u>\$ 2,570,578</u>	<u>\$ (55,875)</u>	<u>\$ -</u>	<u>\$ 2,514,703</u>

**CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION**

	<u>Balance 7/1/09</u>	<u>Additions / Completions</u>	<u>Retirements / Adjustments</u>	<u>Balance 06/30/10</u>
Capital assets not being depreciated				
Land	\$ 28,500	\$ -	\$ -	\$ 28,500
Construction in process		-	-	-
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	4,105	-	2,602,828
Total Capital assets being depreciated	<u>2,654,158</u>	<u>4,105</u>	<u>-</u>	<u>2,658,263</u>
Less accumulated depreciation/amortization for:				
Startup costs	4,004	3,696	-	7,699
Sewer facilities	56,306	52,180	-	108,485
Total accumulated depreciation/amortization	<u>60,309</u>	<u>55,875</u>	<u>-</u>	<u>116,185</u>
Total capital assets, being depreciated, net	<u>2,593,849</u>	<u>(51,771)</u>	<u>-</u>	<u>2,542,078</u>
Governmental activities capital assets, net	<u>\$ 2,622,349</u>	<u>\$ (51,771)</u>	<u>\$ -</u>	<u>\$ 2,570,578</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%. The project was placed in operation on May 22, 2008. Principle repayment began in September 2009. The loan term is for a period of 20 years.

The scheduled annual requirements for long-term debt at June 30, 2011 are as follows:

	<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	2012	95,232	28,296	123,528
	2013	96,648	26,880	123,528
	2014	98,064	25,464	123,528
	2015	99,528	24,000	123,528
	2016	100,992	22,536	123,528
	2017-2021	527,856	89,784	617,640
	2022-2026	568,080	49,560	617,640
	2027-2031	381,946	9,176	391,122
Total		<u>\$ 1,968,346</u>	<u>\$ 275,696</u>	<u>\$ 2,244,042</u>

Activity for the years ending June 30, 2011 and 2010 was as follows:

June 30, 2010	Additions	Repayments	June 30, 2011	Due Within One Year
\$ 2,062,186	\$ -	\$ 93,840	\$ 1,968,346	\$ 95,232

June 30, 2009	Additions	Repayments	June 30, 2010	Due Within One Year
\$ 2,139,346	\$ -	\$ 77,160	\$ 2,062,186	\$ 93,842

**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, 2011 and 2010, the District purchased commercial insurance for all of the above risks. There have been no settled claims in the past.

**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. Currently, the balance to close the case is \$80,000 plus interest. A claim on the professional liability insurance of the previous legal counsel has been filed to cover the settlement of the case.

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, 2011**

	<u>Budgeted Amounts</u>			<b>Variance Favorable (Unfavorable)</b>
	<u>Original</u>	<u>Budget</u>	<u>Actual</u>	
<b>Revenues</b>				
Charges for sales and service	\$ 222,961	\$ 222,961	\$ 199,923	\$ (23,038)
<b>Total revenues</b>	<u>222,961</u>	<u>222,961</u>	<u>199,923</u>	<u>(23,038)</u>
<b>Operating expenses</b>				
Administrative and general expenses				
Cost of operations - cost of goods sold	20,396	20,396	21,027	(631)
Accounting fees	4,650	4,650	6,700	(2,050)
Bank charges	-	-	52	(52)
Management Board fees	11,712	11,712	3,100	8,612
NUD Administrative fees	12,000	12,000	13,000	(1,000)
Insurance	-	-	5,309	(5,309)
Permit fees	-	-	350	(350)
Legal fees	959	959	2,913	(1,954)
Legal notices	453	453	476	(22)
Salaries and payroll	3,059	3,059	8,313	(5,254)
Parts	-	-	1,283	(1,283)
Repairs and maintenance	-	-	5,775	(5,775)
Utilities	21,434	21,434	22,708	(1,274)
Total administrative and general expenses	<u>74,664</u>	<u>74,664</u>	<u>91,005</u>	<u>(16,341)</u>
Depreciation and amortization expense	<u>55,670</u>	<u>55,670</u>	<u>55,874</u>	<u>(204)</u>
Total operating expenses	<u>130,334</u>	<u>130,334</u>	<u>146,879</u>	<u>(16,545)</u>
<b>Operating income (loss)</b>	<u>\$ 92,627</u>	<u>\$ 92,627</u>	<u>\$ 53,044</u>	<u>\$ (39,583)</u>

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

**BENTON-DECATUR SPECIAL SEWER DISTRICT**  
**Schedule of Operating Income and Expenses**  
**For the Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>			<b>Variance Favorable (Unfavorable)</b>
	<u>Original</u>	<u>Budget</u>	<u>Actual</u>	
<b>Revenues</b>				
Charges for sales and service	\$ 222,961	\$ 222,961	\$ 197,005	\$ (25,956)
<b>Total revenues</b>	<u>222,961</u>	<u>222,961</u>	<u>197,005</u>	<u>(25,956)</u>
<b>Operating expenses</b>				
Administrative and general expenses				
Cost of operations - cost of goods sold	20,396	20,396	20,571	(174)
Accounting fees	4,650	4,650	5,400	(750)
Management Board fees	11,712	11,712	9,000	2,712
NUD Administrative fees	12,000	12,000	12,000	-
Reporting costs	-	-	350	(350)
Insurance	-	-	5,126	(5,126)
Legal fees	959	959	459	500
Legal notices	453	453	379	74
Maintenance fees	3,059	3,059	2,165	893
Utilities	21,434	21,434	20,696	738
Total administrative and general expenses	<u>74,664</u>	<u>74,664</u>	<u>76,146</u>	<u>(1,483)</u>
Depreciation and amortization expense	<u>55,670</u>	<u>55,670</u>	<u>55,875</u>	<u>(205)</u>
Total operating expenses	<u>130,334</u>	<u>130,334</u>	<u>132,022</u>	<u>(1,688)</u>
<b>Operating income (loss)</b>	<u>\$ 92,627</u>	<u>\$ 92,627</u>	<u>\$ 64,983</u>	<u>\$ (24,267)</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, 2011**

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	95,232	28,296
2013	96,648	26,880
2014	98,064	25,464
2015	99,528	24,000
2016	100,992	22,536
2017	102,480	21,048
2018	104,016	19,512
2019	105,552	17,976
2020	107,112	16,416
2021	108,696	14,832
2022	110,304	13,224
2023	111,936	11,592
2024	113,592	9,936
2025	115,272	8,256
2026	116,976	6,552
2027	118,704	4,824
2028	120,456	3,072
2029	122,256	1,272
2030	20,530	8
	<u>\$ 1,968,346</u>	<u>\$ 275,696</u>

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

**BENTON-DECATUR SPECIAL SEWER DISTRICT**

**SEWER RATES IN FORCE**

**June 30, 2011**

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

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



**INTERNAL CONTROL AND COMPLIANCE SECTION**



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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***

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, 2011, and have issued our report thereon dated November 17, 2011. 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.

*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.*

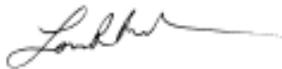
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting (Finding Number 2011-01). 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.

### 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'.

November 17, 2011

**BENTON-DECATUR SPECIAL SEWER DISTRICT**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2011**

**2011-01: 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 and in one instance a check cleared the bank with no signatures whatsoever.

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

Response: This has since been corrected.

**DISPOSITION OF PRIOR YEAR FINDINGS**

**2008-03: Control Activities for Revenues and Receivables**

End of Schedule of Findings

