

CARROLL COUNTY WATERSHED AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2012

**CARROLL COUNTY WATERSHED AUTHORITY
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INTRODUCTORY SECTION

CARROLL COUNTY WATERSHED AUTHORITY

June 30, 2012

BOARD MEMBERS

Tommy Surber
Dale Kelley
Natalie Porter
Kenny McBride
Bob Clark
Joe Smothers

MANAGEMENT TEAM

Dixie Atkinson, Accountant
Kim Carter, Accountant

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION

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Independent Auditor's Report

Board of Directors
Carroll County Watershed Authority
Huntingdon, Tennessee

We have audited the accompanying financial statements of the governmental activities and the major fund of the Carroll County Watershed Authority (the Authority), as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority, as of June 30, 2012, and the respective 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*, we have also issued our report dated January 17, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Board of Directors
Carroll County Watershed Authority
Huntingdon, Tennessee

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. 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 financial statements that collectively comprise the Authority's financial statements as a whole. The introductory section and the other supplementary information section are presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 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 it.

Alexander Henry Arnold P.C.

Certified Public Accountants
Jackson, Tennessee
January 17, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Carroll County Watershed Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2012. All amounts, unless otherwise indicated, are expressed in actual dollars. Comparative analyses of key elements of total governmental funds have been provided

FINANCIAL HIGHLIGHTS

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

- Total assets at year-end were \$14.63 million and exceeded liabilities in the amount of \$6.95 million (i.e. net assets).
- Net assets decreased \$153 thousand during the current year, due to the Authority issuing debt to pay off debt with the Town of Huntingdon.
- Operating revenues were \$579 thousand, a decrease from year 2011 in the amount of \$371 thousand or 39.05%.
- Operating expenses were \$732 thousand, a decrease from year 2011 in the amount of \$6.39 million or 89.73%.
- The operating loss for the year was \$153 thousand as compared to a \$6.17 million loss during the 2011 fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

Due to the Authority being a single governmental fund entity, a consolidated format has been used to present the fund statements and the government-wide statements with the reconciliation included as an additional column. The following statements are included in the financial statements of the Authority:

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

The *Statements of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance* presents the results of the business activities over the course of the fiscal year and

MANAGEMENT'S DISCUSSION AND ANALYSIS

information as to how the net assets and fund balances changed during the year. All changes in net assets and fund balances are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the Authority's operations and can be used to determine whether the Authority has successfully recovered all of its costs. This statement also measures the Authority's profitability and credit worthiness.

The *Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual* presents the results of activities over the course of the fiscal year in comparison with the original and final budget. An additional column is presented showing the differences between the final budget and the actual expenditures for the year.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets - As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$6.95 million at the close of the most recent fiscal year. A portion of the Authority's net assets (100.36) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1A
CONDENSED STATEMENT OF NET ASSETS

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	Increase (Decrease)	
			<u>\$</u>	<u>%</u>
Current and other assets	\$ 144,612	\$ 137,189	\$ 7,423	5.41%
Capital assets (net of accumulated depreciation)	<u>14,489,361</u>	<u>14,329,507</u>	<u>159,854</u>	1.12%
Total assets	<u>14,633,973</u>	<u>14,466,696</u>	<u>167,277</u>	1.16%
Long-term liabilities	7,586,162	7,324,588	261,574	3.57%
Other liabilities	<u>95,814</u>	<u>37,536</u>	<u>58,278</u>	155.26%
Total liabilities	<u>7,681,976</u>	<u>7,362,124</u>	<u>319,852</u>	4.34%
Invested in capital assets, net of related debt	6,976,996	7,069,664	(92,668)	-1.31%
Unrestricted	<u>(24,999)</u>	<u>34,908</u>	<u>(59,907)</u>	-171.61%
Total net assets	<u>\$ 6,951,997</u>	<u>\$ 7,104,572</u>	<u>\$ (152,575)</u>	-2.15%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 1B
CONDENSED STATEMENT OF NET ASSETS

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	Increase (Decrease)	
			<u>\$</u>	<u>%</u>
Current and other assets	\$ 137,189	\$ 869,411	\$ (732,222)	-84.22%
Capital assets (net of accumulated depreciation)	14,329,507	13,751,184	578,323	4.21%
Total assets	<u>14,466,696</u>	<u>14,620,595</u>	<u>(153,899)</u>	<u>-1.05%</u>
Long-term liabilities	7,324,588	954,358	6,370,230	667.49%
Other liabilities	37,536	389,634	(352,098)	-90.37%
Total liabilities	<u>7,362,124</u>	<u>1,343,992</u>	<u>6,018,132</u>	<u>447.78%</u>
Invested in capital assets, net of related debt	7,069,664	12,796,826	(5,727,162)	-44.75%
Unrestricted	34,908	479,777	(444,869)	-92.72%
Total net assets	<u>\$ 7,104,572</u>	<u>\$ 13,276,603</u>	<u>\$ (6,172,031)</u>	<u>-46.49%</u>

During the year, the Authority's net assets decreased by \$153 thousand. This was primarily due to the Authority issuing a series 2011 bond for \$6.54 million that was issued in the prior year. The proceeds were used to pay off bonds the Town of Huntingdon issued for the benefit of the Authority. The Authority also received \$246 thousand from wheel tax receipts. Capital Assets increased by \$160 thousand. This increase was due primarily to the new acquisition of land and a new building. Long-term liabilities increased by \$262 thousand. This increase was due to the addition to the series 2011 bond.

Statement of Activities – Expenses in the governmental activities column exceeded revenues by \$153 thousand. Revenues decreased during the year due to completion of construction on the majority of projects early in the year resulting in less draws from the city. Operating expenses decreased due to there being no new debt issued like in the prior year.

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

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	Increase (Decrease)	
			<u>\$</u>	<u>%</u>
Operating revenues	\$ 579,369	\$ 950,438	\$ (371,069)	-39.04%
Non-operating revenues	67	2,313	(2,246)	-97.10%
Total revenues	<u>579,436</u>	<u>952,751</u>	<u>(373,315)</u>	<u>-39.18%</u>
Operating expenditures	665,717	7,048,544	(6,382,827)	-90.56%
Depreciation	66,294	76,238	(9,944)	-13.04%
Total expenses	<u>732,011</u>	<u>7,124,782</u>	<u>(6,392,771)</u>	<u>-89.73%</u>
Change in net assets	(152,575)	(6,172,031)	6,019,456	97.53%
Beginning net assets	7,104,572	13,276,603	(6,172,031)	-46.49%
Ending net assets	<u>\$ 6,951,997</u>	<u>\$ 7,104,572</u>	<u>\$ (152,575)</u>	<u>-2.15%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 2B

CONDENSED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS

	June 30, 2011	June 30, 2010	Increase (Decrease)	
			\$	%
Operating revenues	\$ 950,438	\$ 6,221,856	\$ (5,271,418)	-84.72%
Non-operating revenues	2,313	1,114	1,199	107.63%
Total revenues	<u>952,751</u>	<u>6,222,970</u>	<u>(5,270,219)</u>	-84.69%
Operating expenditures	7,048,544	618,173	6,430,371	1040.22%
Depreciation	76,238	11,910	64,328	540.12%
Total expenses	<u>7,124,782</u>	<u>630,083</u>	<u>6,494,699</u>	1030.77%
Change in net assets	(6,172,031)	5,592,887	(11,764,918)	-210.36%
Beginning net assets	13,276,603	7,683,716	5,592,887	72.79%
Ending net assets	<u>\$ 7,104,572</u>	<u>\$ 13,276,603</u>	<u>\$ (6,172,031)</u>	-46.49%

COMMENTS ON FUND FINANCIAL STATEMENTS

The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

Revenues in the general fund decreased from last year by approximately \$373 thousand. The most significant changes in revenues and other financing sources in the general fund were:

- Completion of Construction on the dam, recreation center and a flag pole project at the lake in the prior year eliminating funding draws from the town.

Expenditures in the general fund decreased from last year by approximately \$6.39 million. The most significant changes in expenditures and other financing uses in the general fund were:

- Last year new debt issued by authority which paid off old debt held by the town.

A budget comparison statement has been provided to demonstrate compliance with the budget.

GENERAL FUND BUDGETARY HIGHLIGHTS

Final Budgeted and Actual Amounts

Actual revenues were less than the final budgeted amounts by \$18 thousand. Significant variances were:

- Wheel tax receipts were budgeted for \$251 thousand and the actual revenue was \$246 thousand.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- LPRF grant revenues were budgeted for \$31 thousand and the actual revenue was \$18 thousand

Expenditures were greater than the final budgeted amounts by \$4 thousand in the current year. There were no significant variances noted in the current fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - At the end of the fiscal year, the Authority had invested \$14.49 million net of accumulated depreciation in a variety of capital assets. Accumulated depreciation at the end of the period was \$189 thousand. Depreciation expense during the period was \$63 thousand.

Long-term debt – At the end of the current fiscal year, the Authority had long-term debt in the amount of \$7.59 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Major portions of the construction have been completed and further development and construction of the lake will continue as planned. There are no foreseen developments at this time that would hold up progress of the lake.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Carroll County Watershed Authority, P.O. Box 668, Huntingdon, TN 38344.

CARROLL COUNTY WATERSHED AUTHORITY
STATEMENTS OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
June 30, 2012

	<u>General Fund</u>	<u>Adjustments (Note 3A)</u>	<u>Statement of Net Assets</u>
Assets			
Cash	\$ 11,377	\$ -	\$ 11,377
Accounts receivable	59,438	-	59,438
Due from State of Tennessee	12,648	-	12,648
Bond issue cost	-	61,149	61,149
Capital assets (net of accumulated depreciation):			
Land	-	4,971,245	4,971,245
Building and Improvements	-	9,456,441	9,456,441
Infrastructure	-	33,554	33,554
Other Fixed Assets	-	28,121	28,121
Total assets	<u>83,463</u>	<u>14,550,510</u>	<u>14,633,973</u>
Liabilities			
Accounts payable	95,814	-	95,814
Deferred revenue	12,648	(12,648)	-
Debt payable			
Due within one year	-	50,000	50,000
Due in more than one year	-	7,536,162	7,536,162
Total liabilities	<u>108,462</u>	<u>7,573,514</u>	<u>7,681,976</u>
Fund Balance			
Unassigned	<u>(24,999)</u>	24,999	-
Total liabilities and fund balance	<u>\$ 83,463</u>		
Net Assets			
Invested in capital assets, net of related debt		6,976,996	6,976,996
Unrestricted		<u>(24,999)</u>	<u>(24,999)</u>
Total net assets		<u>\$ 6,976,996</u>	<u>\$ 6,951,997</u>

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

CARROLL COUNTY WATERSHED AUTHORITY
STATEMENTS OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2012

	<u>General Fund</u>	<u>Adjustments (Note 3B)</u>	<u>Statement of Activities</u>
Revenues:			
Wheel tax receipts	\$ 245,756	\$ -	\$ 245,756
State Capital grant	300,000	-	300,000
LPRF grant	18,000	12,648	30,648
Licenses and permits	35	-	35
Future contributions/donations	1,865	-	1,865
Insurance recoveries	1,065	-	1,065
Interest income	67	-	67
Total revenue	<u>566,788</u>	<u>12,648</u>	<u>579,436</u>
Expenditures:			
Management fee	25	-	25
Dues and membership fees	4,125	-	4,125
Accounting and auditing services	5,095	-	5,095
Tennessee state planning	720	-	720
Other operating supplies	924	-	924
Legal services	1,179	-	1,179
General liability	180	-	180
Engineering services	35,446	(35,446)	-
Asphalt paving	4,109	-	4,109
Construction	42,392	(42,392)	0
Repair and maintenance - machine and equipment	12,628	-	12,628
Repair and maintenance - buildings and grounds	3,100	-	3,100
Electric	90,167	(44,683)	45,484
Sewer	35,000	-	35,000
Water	248	-	248
Professional services	13,463	-	13,463
Insurance - buildings	1,449	-	1,449
Buildings	861	-	861
Land	100,031	(100,031)	-
Payments to Town of Huntingdon	230,863	-	230,863
Depreciation	-	62,699	62,699
Amortization	-	3,595	3,595
Administrative expense	10,255	-	10,255
Debt service:			
Interest expense	296,009	-	296,009
Total expenditures	<u>888,269</u>	<u>(156,258)</u>	<u>732,011</u>
Other Financing Sources (Uses)			
Proceeds from bond issue	261,574	(261,574)	-
Net changes in fund balance/net assets	(59,907)	(92,668)	(152,575)
Fund balance/net assets - beginning	34,908	7,069,664	7,104,572
Fund balance (deficit)/net assets - ending	<u>\$ (24,999)</u>	<u>\$ 6,976,996</u>	<u>\$ 6,951,997</u>

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

CARROLL COUNTY WATERSHED AUTHORITY
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Carroll County Watershed Authority (the Authority) is a Watershed Authority with responsibility for the Watersheds of Carroll County. The six member board of directors, which serve six year staggered terms, are appointed by the governor. The Authority approves its own budgets and controls surpluses and deficits. The Authority can issue debt and is responsible for fiscal management and determining fees. The Authority was created by the State on May 11, 1984. The Authority has control over the hiring and firing of employees, although at present there are no employees. These financial statements present the Authority as the primary government and there are no component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statements of net assets and the statement of changes in net assets) and the governmental funds financial statements (i.e., the balance sheet and the statement of revenues, expenditures, and changes in fund balances) have been consolidated onto one report. The adjustments from the fund financial statements to the government-wide statements have been consolidated into the middle column of the reports for simplicity.

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within thirty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The above referenced financial statements have been combined into one statement due to the fact that the Authority is a single fund governmental unit.

Wheel taxes associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

CARROLL COUNTY WATERSHED AUTHORITY
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles. The Authority's reporting entity applies all relevant *Governmental Accounting Standards Board (GASB)* pronouncements and applicable *Financial Accounting Standards Board (FASB)* pronouncements and *Accounting Principle Board (APB)* opinions issued on or before November 30, 1989 unless they conflict with GASB pronouncements. The Authority's reporting entity does not apply FASB pronouncements issued after November 30, 1989.

D. Assets and Liabilities

Deposits and Investments

Cash consists of currency on hand and demand deposits with financial institutions. Cash equivalents are short-term, highly liquid investments both readily convertible to known amounts of cash and so near maturity that there is insignificant risk of changes in value because of changes in interest rates. Only investments with maturities of less than three months at the time of purchase are considered cash equivalents.

Capital Assets

Property, plant and equipment are stated at original cost. Maintenance, repairs and minor renewals are expensed as incurred. When units are retired the original cost and related accumulated depreciation are removed from the books.

Depreciation of the fixed assets is computed by the straight-line method over the estimated useful lives (5 to 50 years) of the various assets.

Net Assets

Effective July 1, 2010, the Authority adopted the provisions of GASB Statement No.54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying governmental fund type definitions.

As prescribed by GASB Statement No.54, governmental funds report fund balance in classifications based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

- **Nonspendable fund balance:**
This classification includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes terms that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.
- **Restricted fund balance:**
This classification includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted with the consent of resource providers.
- **Committed fund balance:**

CARROLL COUNTY WATERSHED AUTHORITY
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

This classification includes amounts can only be used for the specific purposes determined by a formal action of the Authority's highest level of decision-making authority, the Board of Directors of the Carroll County Watershed Authority. Commitments may be changed or lifted only by the Authority taking the same formal action that imposed the constraint originally (for example: ordinance).

- **Assigned fund balance:**
This classification includes amounts intended to be used by the Authority for specific purposes that are neither restricted nor committed. The Board and its designee, the Recorder, have the authority to assign amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.
- **Unassigned fund balance:**
This fund balance is the residual classification for the general fund. It is also used to report negative fund balances in other governmental funds.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The Authority legally adopts flexible annual operating budgets. Budgets are adopted annually and approved by the board. Budgets are adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year.

All unexpended appropriations in the operating budget remaining at the end of the fiscal year lapse.

NOTE 3 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Differences between the Governmental Fund Balance Sheet and the Statement of Net Assets

Adjustments to the balance sheet of governmental funds to the statement of net assets include the following items:

When capital assets (land and equipment) that are to be used in governmental activities are purchased, the costs of those assets are reported as expenditures in the governmental funds. However, the statement of net assets includes those capital assets among the assets of the Carroll County Watershed Authority as a whole.

Cost of capital assets	\$ 14,678,062
Accumulated depreciation	<u>(188,701)</u>
	<u>\$ 14,489,361</u>

**CARROLL COUNTY WATERSHED AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2012

B. Explanation of Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Statement of Activities

The net change in fund balances of governmental funds differs from the change in net assets for governmental activities. The difference arises primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds.

When capital assets that are to be used in governmental activities are purchased, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.

Capital outlay	\$ (222,552)
Depreciation expense	62,699
Difference	<u>\$ (159,853)</u>

“Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$7,586,162 difference are as follows:

Bond payable	\$ 6,800,920
Note payable	785,242
Total	<u>\$ 7,586,162</u>

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial Credit Risk

The Authority’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 uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Authority’s agent in the Authority’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, 2012 all bank deposits were fully collateralized or insured.

B. Capital Assets

Capital asset activity during the year was as follows:

CARROLL COUNTY WATERSHED AUTHORITY
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Description	Balance at June 30, 2011	Additions	Disposals	Reclassification	Balance at June 30, 2012
Capital assets, not being depreciated					
Land	\$ 4,871,214	\$ 100,031	\$ -	\$ -	\$ 4,971,245
Construction in progress	642,321	-	-	(642,321)	-
Total capital assets, not being depreciated	<u>5,513,535</u>	<u>100,031</u>	<u>-</u>	<u>(642,321)</u>	<u>4,971,245</u>
Capital assets, being depreciated					
Building and Improvements	8,869,922	95,561	-	642,321	9,607,804
Infrastructure	15,376	26,961	-	-	42,337
Other Fixed Assets	56,676	-	-	-	56,676
Total capital assets being depreciated	<u>8,941,974</u>	<u>122,522</u>	<u>-</u>	<u>642,321</u>	<u>9,706,817</u>
Less accumulated depreciation for:					
Building and Improvements	96,625	54,738	-	-	151,363
Infrastructure	6,120	2,663	-	-	8,783
Other Fixed Assets	23,257	5,298	-	-	28,555
Total accumulated depreciation	<u>126,002</u>	<u>62,699</u>	<u>-</u>	<u>-</u>	<u>188,701</u>
Total capital assets, being depreciated, net	<u>8,815,972</u>	<u>59,823</u>	<u>-</u>	<u>642,321</u>	<u>9,518,116</u>
Total capital assets, net	<u>\$ 14,329,507</u>	<u>\$ 159,854</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,489,361</u>

Depreciation expense amounted to \$62,699 for the fiscal year ended June 30, 2012.

C. Long-term Debt

In July 2007, the Authority took out a note with TVA for power line relocations in the amount of \$1,610,518 at an interest rate of 3.75%. In 2011 the Authority took out a Series 2011 Bond in the amount of \$6,539,346 at an interest rate of 4.00%. In 2012, the bondholder agreed to capitalize the interest for 2012 and add it to the end of the bond payment schedule. This is the \$261,574 increase noted below.

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Business-type activities:					
Notes payable	\$ 785,242	\$ -	\$ -	\$ 785,242	\$ 50,000
Series 2011	6,539,346	261,574	-	6,800,920	-
	<u>\$7,324,588</u>	<u>\$ 261,574</u>	<u>\$ -</u>	<u>\$7,586,162</u>	<u>\$ 50,000</u>

**CARROLL COUNTY WATERSHED AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2012

The annual requirements to amortize the note payable outstanding is as follows:

Year Ending June 30,	Note Payable		Bond Payable		Total		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2013	50,000	28,578	-	274,037	50,000	302,615	352,615.00
2014	100,000	25,844	-	274,037	100,000	299,881	399,881.00
2015	200,000	20,378	326,346	274,037	526,346	294,415	820,761.00
2016	200,000	12,909	340,000	260,983	540,000	273,892	813,892.00
2017-2021	235,242	4,806	1,912,000	1,089,955	2,147,242	1,094,761	3,242,003.00
2022-2026	-	-	2,328,000	675,555	2,328,000	675,555	3,003,555.00
2027-2029	-	-	1,894,574	169,749	1,894,574	169,749	2,064,323.00
	<u>\$785,242</u>	<u>\$92,515</u>	<u>\$6,800,920</u>	<u>\$3,018,353</u>	<u>\$7,586,162</u>	<u>\$3,110,868</u>	<u>\$ 10,697,030</u>

D. Grant Revenue – Town of Huntingdon

On July 24, 2008, the Authority entered into an agreement with the Town of Huntingdon, Tennessee (the Town) pursuant to TCA 64-1-801 for the purpose of obtaining capital financing for various expenditures related to the construction and development of the Carroll County Lake in Carroll County, Tennessee. As part of this agreement the Town agreed to incur indebtedness not to exceed \$10,000,000 in debt issued through the Tennessee public building authority in the Town's name. The debt is secured by the full faith and credit of the Town, and its taxing power pledged to the payment of such indebtedness. However, it is the intention of both parties that all sums due under such indebtedness shall be paid by the Authority and not the Town. All assets built, purchased, etc. by the Authority with the funding will be owned by the Authority and are not used to secure the above references indebtedness. During the fiscal year 2012, \$230,863 was transferred to the Town by the Authority to pay off the debt held by the Town.

NOTE 5 – OTHER INFORMATION

A. Carroll County Lake Development

The dam and recreation area was completed during the current fiscal year along with a flag pole added to the site. In 2008, Carroll County passed a wheel tax referendum to add an additional \$10 wheel tax to the present wheel tax for the purpose of raising the funds required for the 30% local match of the cost of development of the lake. The remaining 70% of the cost is to be provided by Federal, State, and other agencies. Wheel tax revenues for 2012 were \$246 thousand.

B. Risk Management

The Authority is exposed to various risks of loss related to tort, theft of assets and error and omissions. During the year ended June 30, 2008, the Authority received an opinion from the State Attorney General's Office confirming that the Authority is a state agency for liability purposes. The Authority has purchased a blanket bond in the amount of \$25,000 to insure against loss caused to the Authority through the failure of any of the employees, acting alone or in collusion with others, to perform faithfully his duties or to account properly for all monies and property received by virtue of his position or employment during the bond period. The Authority has also purchased commercial coverage for the Monitoring Station that has recently been constructed. The Authority has had no claims in any of the past three years.

CARROLL COUNTY WATERSHED AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Over (Under)</u>
Revenues:				
Wheel tax receipts	246,000	251,010	245,756	(5,254)
Note proceeds	-	261,575	261,574	(1)
State Capital grant	300,000	300,000	300,000	-
LPRF grant	50,000	30,600	18,000	(12,600)
Licenses and permits	500	50	35	(15)
Future contributions/donations	150,000	1,900	1,865	(35)
Insurance recoveries	-	1,065	1,065	-
Interest income	500	60	67	7
Total revenues	<u>747,000</u>	<u>846,260</u>	<u>828,362</u>	<u>(17,898)</u>
Expenditures:				
Management fee	1,800	25	25	-
Dues and membership fees	8,250	4,125	4,125	-
Accounting and auditing services	5,000	5,100	5,095	(5)
Tennessee state planning	10,000	720	720	-
Other operating supplies	500	700	924	224
Legal services	1,500	-	1,179	1,179
General liability	200	180	180	-
Engineering services	20,000	35,446	35,446	-
Asphalt Paving	-	4,109	4,109	-
Construction	130,000	42,400	42,392	(8)
Repair and maintenance - machine and equipment	6,500	12,650	12,628	(22)
Repair and maintenance - buildings and grounds	-	3,100	3,100	-
Flag pole construction	2,000	-	-	-
Electric	101,600	90,210	90,167	(43)
Sewer	35,000	35,000	35,000	-
Water	-	350	248	(102)
Professional services	3,500	13,250	13,463	213
Insurance - buildings	1,000	1,440	1,449	9
Buildings	-	875	861	(14)
Land	-	100,031	100,031	-
Payments to Town of Huntingdon	230,900	230,865	230,863	(2)
Administrative expense	5,000	10,270	10,255	(15)
Debt service:				
Principal payments	-	261,575	-	(261,575)
Interest expense	30,000	31,935	296,009	264,074
Total expenditures	<u>592,750</u>	<u>884,356</u>	<u>888,269</u>	<u>3,913</u>
Net change in fund balance	<u>\$ 154,250</u>	<u>\$ (38,096)</u>	<u>(59,907)</u>	<u>\$ (21,811)</u>
Fund balance - beginning			34,908	
Fund balance (deficit) - ending			<u>\$ (24,999)</u>	

See independent auditor's report.

CARROLL COUNTY WATERSHED AUTHORITY
SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS
GENERAL OBLIGATION DEBT - AUTHORITY
For the Fiscal Year Ended June 30, 2012

<u>Year</u>	<u>TVA Loan</u>		<u>Series 2011</u>		<u>Total</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	50,000	28,577	-	274,037	50,000	302,614	352,614
2014	100,000	25,844	-	274,037	100,000	299,881	399,881
2015	200,000	20,378	326,346	274,037	526,346	294,415	820,761
2016	200,000	12,909	340,000	260,983	540,000	273,892	813,892
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2022-2026	-	-	2,328,000	675,555	2,328,000	675,555	3,003,555
2027-2029	-	-	1,894,574	169,749	1,894,574	169,749	2,064,323
	<u>\$ 785,242</u>	<u>\$ 92,514</u>	<u>\$ 6,800,920</u>	<u>\$ 3,018,353</u>	<u>\$ 7,586,162</u>	<u>\$ 3,110,867</u>	<u>\$ 10,697,029</u>

See independent auditor's report.

CARROLL COUNTY WATERSHED AUTHORITY
SCHEDULE OF STATE FINANCIAL ASSISTANCE
For the Fiscal Year Ended June 30, 2012

State Awards	<u>Grant Number</u>	<u>Balance Unearned (Receivable) 7/1/11</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Balance Unearned (Receivable) 6/30/12</u>
Tennessee Department of Finance and Administration Recreation Lake Development	529/000-01-2011	\$ -	\$ 300,000	\$ 300,000	\$ -
Tennessee Department of Environment and Conservation Local Parks and Recreation Fund	GG-1235850	<u>-</u>	<u>18,000</u>	<u>30,648</u>	<u>(12,648)</u>
Total State assistance		<u>\$ -</u>	<u>\$ 318,000</u>	<u>\$ 330,648</u>	<u>\$ (12,648)</u>

See independent auditor's report.

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**

Board of Directors
Carroll County Watershed Authority
Huntingdon, Tennessee

We have audited the financial statements of the governmental activities and the major fund of the Carroll County Watershed Authority (the Authority), as of and for the year ended June 30, 2012, and have issued our report thereon dated January 17, 2013. 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 Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 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 the 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Directors
Carroll County Watershed Authority
Huntingdon, Tennessee

This report is intended solely for the information of the Board of Directors, management, 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.

Alexander Hampton Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
January 17, 2013

CARROLL COUNTY WATERSHED AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012

**FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

Prior Year Findings:

There were no prior year findings reported.

Current Year Findings:

There are no current year findings reported.