

LAUDERDALE COUNTY WATER SYSTEM

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2012

LAUDERDALE COUNTY WATER SYSTEM  
FINANCIAL STATEMENTS  
Year Ended June 30, 2012

TABLE OF CONTENTS

| <u>Introductory Section</u>  | <u>Page #</u> |
|--|---------------|
| Roster of Board Members and Management   | 1             |
| <br><u>Financial Section</u>   |               |
| Independent Auditor's Report   | 2             |
| Management's Discussion and Analysis   | 4             |
| Statement of Net Assets  | 7             |
| Statement of Revenues, Expenses and<br>Changes in Retained Earnings (Budget<br>And Actual)   | 8             |
| Statement of Cash Flows  | 9             |
| Notes to the Financial Statements  | 10            |
| <br><u>Supplementary Information</u>   |               |
| Schedule of Unaccounted For Water  | 16            |
| Schedule of Current Utility Rates in Force   | 17            |
| Comparison of Actual Revenues and Expenditures to<br>Budgeted Revenues and Expenditures  | 18            |
| <br><u>Internal Control and Compliance Section</u>   |               |
| Independent Auditor's Report on Compliance<br>And on Internal Control over Financial<br>Reporting Based on an Audit of financial<br>Statements Performed in accordance with<br>Government Auditing Standards | 19            |
| Schedule of Findings and Recommendations   | 21            |

---

## Introductory Section

---

LAUDERDALE COUNTY WATER SYSTEM  
Roster of Board Members and Management  
For the Year Ended June 30, 2012

**BOARD MEMBERS:**

William H. Jarrett

Rick Jenkins

Johnny Land

Martha Webb

Joe Larry Ferguson

Talmadge Crihfield – Ex-Officio Member

**MANAGEMENT:**

Randy Newman, Superintendent

Stacy Crowder, Bookkeeper

---

## Financial Section

---

**William M. Harmon**

Certified Public Accountant

P.O. Box 491, 117 N. Main St.  
Ripley, TN 38063-491  
Tel. (731) 635-3791  
Fax (731) 635-5626  
williamharmoncpa.com

**INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners  
Lauderdale County Water System  
Ripley, Tennessee 38063

We have audited the accompanying financial statements of The Lauderdale County Water System, a discretely presented component unit of Lauderdale County, Tennessee as of and for the year ended June 30, 2012 as listed in the table of contents. These financial statements are the responsibility of the System'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 also 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 The Lauderdale County Water System as of June 30, 2012, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the financial statements present only the Lauderdale County Water System and do not purport to, and do not, present the financial position of Lauderdale County, Tennessee as of June 30, 2012, and the changes in its financial position and cash flows, where applicable, for the years 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 30, 2012, on our consideration of the Lauderdale County Water System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 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 read in conjunction with this report in considering 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 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 about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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 Lauderdale County Water System's financial statements as a whole. The introductory section and accompanying financial information listed as other supplementary information in the table of contents includes supplementary information that is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information 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, except that marked "unaudited" on which we express no opinion, 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 as a whole. The introductory and supplementary information marked "unaudited" have 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.



William Harmon  
Certified Public Accountant  
November 30, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Lauderdale County Water System's financial performance provides an overview of the System's financial activities for the fiscal year ended June 30, 2012. Management encourages readers to consider the information presented here in conjunction with the System's financial statements.

### Financial Highlights

- The assets of the Lauderdale County Water System exceeded its liabilities at the close of the most recent fiscal year by \$6,188,099 (*net assets*). Of this amount, \$2,569,975 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors. The remaining amount, \$3,618,124 (*invested in capital assets, net of related debt*) reflects the net assets invested in capital assets.
- The total net assets decreased by \$63,692 for the fiscal year ended June 30, 2012.
- The Water System ended the year June 30, 2012 with cash and investments of \$2,604,724, representing an increase of \$148,253 over the prior year. None of this cash is restricted for specific purposes. As identified by the Statement of Cash Flows, this increase arose principally from operating activities.

### Overview of the Financial Statements and Supplementary Information

This discussion and analysis is intended to serve as an introduction to the Lauderdale County Water System's financial statements which consist of two components: fund financial statements and notes to the financial statements.

As an enterprise fund, the financial statements of Lauderdale County Water System are presented on the full accrual basis, presenting assets and liabilities of the Water System in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Lauderdale County water System's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Water System is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected water revenue and earned but unused employee compensated absences).

The *statement of cash flows* reports cash and cash equivalent activities for the fiscal year resulting from operating activities, capital and related financing activities, non-capital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash balance total to the cash and cash equivalent balance at the end of the current fiscal year.

The *notes to financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

### Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Lauderdale County Water System, assets exceeded liabilities by \$6,188,099 at the close of the fiscal year.

The largest portion of the Water System's assets, (60.7%), are investments in property, plant and equipment, followed by investments, (26%), and cash and cash equivalents, (10.6%). The investment in property, plant and equipment are used to provide services to citizens. Consequently, these assets are not available for future spending.

Table 1  
Lauderdale County Water System's Net Assets

|   | For the Years Ending June 30, |                        | Increase     |         |
|---|-------------------------------|------------------------|--------------|---------|
|   | 2012                          | 2011                   | (Decrease)   | %Change |
| Current Assets  | \$ 2,788,830.00               | \$ 2,625,541.00        | 163,289.00   | 6.22%   |
| Net Property Plant & Equipment at Cost                    | 4,315,153.00                  | 4,546,312.00           | (231,159.00) | -5.08%  |
| Total Assets  | <u>\$ 7,103,983.00</u>        | <u>\$ 7,171,853.00</u> | (67,870.00)  | -0.95%  |
| Current Liabilities                                       | \$ 241,540.00                 | \$ 227,132.00          | 14,408.00    | 6.34%   |
| Long-Term Liabilities                                     | 674,344.00                    | 692,930.00             | (18,586.00)  | -2.68%  |
| Total Liabilities   | <u>\$ 915,884.00</u>          | <u>\$ 920,062.00</u>   | (4,178.00)   | -0.45%  |
| Net Assets Invested In Capital Assets Net of Related Debt | 3,618,124.00                  | 3,835,741.00           | (217,617.00) | -5.67%  |
| Net Assets - Unrestricted                                 | 2,569,975.00                  | 2,416,050.00           | 153,925.00   | 6.37%   |
| Total Net Assets  | <u>6,188,099.00</u>           | <u>6,251,791.00</u>    | (63,692.00)  | -1.02%  |
| Total Liabilities and Net Assets                          | <u>\$ 7,103,983.00</u>        | <u>\$ 7,171,853.00</u> | (67,870.00)  | -0.95%  |

Table 2  
Lauderdale County Water System's  
Statement of Revenues, Expenses and Changes in Net Assets

|   | June 30, 2012          | June 30, 2011          | Increase (Decrease)   |          |
|---|------------------------|------------------------|-----------------------|----------|
|   |                        |                        | \$                    | %        |
| Operating Revenues                      | \$ 1,188,781.00        | \$ 1,211,413.00        | \$ (22,632.00)        | -1.87%   |
| Total Revenues                          | <u>\$ 1,188,781.00</u> | <u>\$ 1,211,413.00</u> | <u>\$ (22,632.00)</u> | -1.87%   |
| Operating Expenses                      |                        |                        |                       |          |
| Salaries                                | \$ 339,680.00          | \$ 337,389.00          | \$ 2,291.00           | 0.68%    |
| City Water Purchased                    | 140,649.00             | 148,689.00             | (8,040.00)            | -5.41%   |
| Depreciation                            | 273,041.00             | 260,269.00             | 12,772.00             | 4.91%    |
| Insurance expense                       | 98,621.00              | 66,075.00              | 32,546.00             | 49.26%   |
| All Other Operating Expenses            | 396,105.00             | 380,097.00             | 16,008.00             | 4.21%    |
| Total Operating Expenses                | <u>\$ 1,248,096.00</u> | <u>\$ 1,192,519.00</u> | <u>\$ 55,577.00</u>   | 4.66%    |
| Total Non-Operating Revenues (Expenses) | <u>\$ (4,376.00)</u>   | <u>\$ 650.00</u>       | <u>\$ 5,026.00</u>    | -773.23% |
| Capital Contributions                   | <u>\$ -</u>            | <u>\$ -</u>            | <u>\$ -</u>           | 100.00%  |
| Change in Net Assets                    | \$ (63,691.00)         | \$ 19,544.00           | \$ (83,235.00)        | -425.89% |
| Net Assets - Beginning                  | <u>6,251,791.00</u>    | <u>6,232,247.00</u>    | <u>19,544.00</u>      | 0.31%    |
| Net Assets - Ending                     | <u>\$ 6,188,100.00</u> | <u>\$ 6,251,791.00</u> | <u>\$ (63,691.00)</u> | -1.02%   |

### **Capital Assets**

The Lauderdale County Water System's investment in capital assets was \$4,315,153 (net of accumulated depreciation) as of June 30, 2012. This was a net decrease of \$231,159 from the prior year. This decrease is primarily due to depreciation of the assets. Capital assets include water processing plants, water towers, pumping stations, water lines and operating structures necessary to provide water service to customers.

### **Debt**

The Water System is indebted to FHA for one bond issuance, totaling \$11,905, and to Rural Economic and Community Development for another bond issuance, totaling \$681,564. Our current debt requirement per annum is \$49,449 which reflects both principal and interest requirements. Debt retirement in the fiscal year ended June 30, 2012 was \$17,102. No new debt was incurred in the fiscal year 2012.

### **Future Projections**

The primary goals of the Lauderdale County Water System are to continue providing quality services to the water customers of Lauderdale County. The System continues to work to improve the services offered.

### **Requests for Information**

This financial report is intended to provide an overview of the Water System's finances for those with an interest in this organization. Questions concerning any information within this report may be directed to the Superintendent of Lauderdale County Water System, P.O. Box 527, Ripley, TN 38063.

*Randy Newman*  
Superintendent  
Lauderdale County Water System

LAUDERDALE COUNTY WATER SYSTEM  
Statement of Net Assets  
As of June 30, 2012

**ASSETS**

**CURRENT ASSETS**

|                           |            |
|---------------------------|------------|
| Cash and Cash Equivalents | \$ 754,724 |
| Investments               | 1,850,000  |
| Accounts Receivable       | 116,639    |
| Prepaid Expenses          | 16,763     |
| Inventory                 | 50,704     |

**TOTAL CURRENT ASSETS** \$ 2,788,830

**PROPERTY, PLANT, AND EQUIPMENT (at cost)**

|                                |                    |
|--------------------------------|--------------------|
| Utility plant in service       | \$ 8,222,486       |
| Equipment                      | 433,073            |
| Less: Accumulated Depreciation | <u>(4,340,406)</u> |

**NET PROPERTY, PLANT, AND EQUIPMENT** 4,315,153

**TOTAL ASSETS** \$ 7,103,983

**LIABILITIES AND FUND EQUITY**

**LIABILITIES**

**CURRENT LIABILITIES**

|                         |           |
|-------------------------|-----------|
| Accounts Payable        | \$ 11,950 |
| Accrued Interest        | 1,666     |
| Bonds Payable - Current | 19,126    |
| Accrued Wages           | 24,290    |
| Customer Meter Deposits | 184,508   |

**TOTAL CURRENT LIABILITIES** \$ 241,540

**LONG-TERM LIABILITIES**

|  |            |
|--|------------|
| Bonds Payable (net of current portion) | \$ 674,344 |
|--|------------|

**TOTAL LONG-TERM LIABILITIES** 674,344

**TOTAL LIABILITIES** \$ 915,884

**NET ASSETS**

|  |                  |
|--|------------------|
| Invested in Capital Assets,<br>net of related debt | \$ 3,618,124     |
| Restricted   | -                |
| Unrestricted                                       | <u>2,569,975</u> |

**TOTAL NET ASSETS** \$ 6,188,099

**TOTAL LIABILITIES AND NET ASSETS** \$ 7,103,983

The Notes to the Financial Statements are an Integral Part of This Statement.

LAUDERDALE COUNTY WATER SYSTEM  
Statement of Revenues, Expenses, and Changes in Net Assets  
For the Fiscal Years Ended June 30, 2012

|  |              |                            |
|--|--------------|----------------------------|
| Operating Revenues                     |              |                            |
| Water Revenues                         | \$ 1,181,247 |                            |
| Other Revenue                          | 5,263        |                            |
| Sale of Material                       | <u>2,271</u> |                            |
| Total Operating Revenues               |              | \$ 1,188,781               |
| Operating Expenses                     |              |                            |
| City Water Purchased                   | \$ 140,649   |                            |
| Salaries                               | 339,680      |                            |
| Contract Meter Reading                 | 43,434       |                            |
| Bad Debt Expense                       | 7,410        |                            |
| Payroll Tax Expense                    | 25,844       |                            |
| Retirement Expense                     | 26,177       |                            |
| Uniform & Clothing                     | 2,789        |                            |
| Commissioners' Compensation            | 6,721        |                            |
| Postage                                | 12,190       |                            |
| State Fees                             | 7,240        |                            |
| Membership Fees                        | 4,244        |                            |
| Public Relations                       | 638          |                            |
| Electrical                             | 102,390      |                            |
| Gas - Heating                          | 1,733        |                            |
| Phone                                  | 3,275        |                            |
| Lab Tests & Lab Expense                | 4,031        |                            |
| Professional Fees                      | 4,745        |                            |
| Engineering Expense                    | 2,652        |                            |
| Truck Repairs Expense                  | 3,684        |                            |
| Backhoe Repairs                        | 342          |                            |
| Radio Repairs Expense                  | 2,243        |                            |
| Tires & Tire Repairs                   | 2,286        |                            |
| Fuel Expense                           | 27,173       |                            |
| Line Repairs & Maintenance             | 2,947        |                            |
| Plant Repairs & Maintenance            | 19,259       |                            |
| Office Expense                         | 18,355       |                            |
| Chemical Expense                       | 20,746       |                            |
| Supplies - Lab                         | 1,726        |                            |
| Supplies - Miscellaneous               | 3,209        |                            |
| Supplies - Repair                      | 38,181       |                            |
| Insurance expense                      | 98,621       |                            |
| Depreciation                           | 273,041      |                            |
| Bank Service Charges                   | <u>441</u>   |                            |
| Total Operating Expenses               |              | \$ <u>1,248,097</u>        |
| Operating Income                       |              | \$ (59,316)                |
| Nonoperating Revenues (Expenses)       |              |                            |
| Interest Income                        | \$ 24,239    |                            |
| Interest Expense                       | (31,655)     |                            |
| Sale of Assets                         | <u>3,040</u> |                            |
| Total Nonoperating Revenues (Expenses) |              | \$ <u>(4,376)</u>          |
| Change in Net Assets                   |              | \$ (63,692)                |
| Net Assets - July 1, 2011              |              | \$ <u>6,251,791</u>        |
| Net Assets - June 30, 2012             |              | \$ <u><u>6,188,099</u></u> |

LAUDERDALE COUNTY WATER SYSTEM  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2012

|  |              |                   |
|--|--------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITY:</b>   |              |                   |
| Cash received from customers   | \$ 1,199,594 |                   |
| Cash paid to suppliers of goods & services   | (595,966)    |                   |
| Cash paid to employees for services  | (391,324)    |                   |
| NET CASH PROVIDED BY OPERATING ACTIVITIES  |              | \$ 212,304        |
| <br><b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                       |              |                   |
| Bond Payments  | \$ (17,101)  |                   |
| Construction and Acquisition of plant and equipment  | (41,882)     |                   |
| Interest Paid  | (32,348)     |                   |
| Sale of Assets   | 3,040        |                   |
| Lease Payments   | -            |                   |
| Notes Payable  | -            |                   |
| NET CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES                            |              | (88,290)          |
| <br><b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |              |                   |
| Interest Income on Investments   | \$ 24,239    |                   |
| Purchase of Investments  | -            |                   |
| NET CASH FLOWS FROM INVESTING ACTIVITIES   |              | \$ 24,239         |
| NET INCREASE (DECREASE) IN CASH  |              | \$ 148,253        |
| CASH AND CASH EQUIVALENTS - July 1, 2011   |              | \$ 606,472        |
| CASH AND CASH EQUIVALENTS - June 30, 2012  |              | \$ 754,725        |
| <br><b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:</b> |              |                   |
| <b>OPERATING INCOME</b>  |              | \$ (59,316)       |
| Adjustments to reconcile operating income to net cash provided by operating activities:    |              |                   |
| Depreciation   | \$ 273,041   |                   |
| (Increase) Decrease in Current Assets:   |              |                   |
| Decrease in Accounts Receivable  | 10,371       |                   |
| Increase in Prepaid Expenses   | (15,508)     |                   |
| Increase in Inventory  | (10,410)     |                   |
| Decrease in Accounts Receivable - City of Ripley   | 511          |                   |
| Increase (Decrease) in Current Liabilities   |              |                   |
| Increase in Accounts Payable   | 6,586        |                   |
| Decrease in Deferred Revenue   | (511)        |                   |
| Increase in Accrued Wages  | 7,098        |                   |
| Increase in Customer Meter Deposits  | 442          |                   |
| Total Adjustments  |              | 271,620           |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>  |              | <b>\$ 212,304</b> |

The Notes to the Financial Statements are an Integral Part of This Statement.

**LAUDERDALE COUNTY WATER SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Lauderdale County Water System (the Water System) have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Lauderdale County Water System (the Water System), a component unit of Lauderdale County, Tennessee, was created in 1974. These financial statements are limited to the assets, liabilities, fund balance, and results of operations of the Lauderdale County Water System. They are not intended to present the assets, liabilities, fund balances and results of operations of Lauderdale County taken as a whole. The County Commission of Lauderdale County appoints the five member Commissioners of the Lauderdale County Water System, approves the operating budget of the Water System and is liable for any unpaid debt of the Water System. The Water System provides water service to unincorporated areas of Lauderdale County, Tennessee.

In accordance with the requirements of Statement No. 14, *The Financial Reporting Entity, of the Governmental Accounting Standards Board* (GASB) as amended by the GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the financial statements must present the Water System (a component unit of Lauderdale County, Tennessee) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

The Water System is a proprietary fund; its operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives essentially equal values. Non-operating revenues, such as interest income, result from non-exchange transactions or ancillary activities.

Only one fund is presented within these financial statements.

b. Measurement Focus, Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Water System, the reporting entity. Revenues are reported when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

**LAUDERDALE COUNTY WATER SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2012**

3. Financial Statement Amounts

a. Deposits and Investments

The Water System's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Under the laws of Tennessee the Water System is authorized to invest with obligations of the United states or its agencies, direct obligations of the State of Tennessee or its agencies, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, certificates of deposit if insured by a Federal Deposit Insurance Corporation or the Tennessee Collateral Pool. During the year ended June 30, the Water System did not own any types of securities other than those permitted by statute.

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

b. Capital Assets

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

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

|                          | <u>Estimated<br/>Useful Life</u> |
|--------------------------|----------------------------------|
| Utility plant in service | 10-50 years                      |
| Equipment                | 2-10 years                       |

c. Receivable

Accounts receivable arise from water services rendered to the customers of the Water System. The board of directors authorizes write-downs of customer billings due to leaks and write-offs of accounts considered uncollectible. Amounts subsequently collected from a bad-debt write-off are recorded as income.

d. FASB Statements

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, the Water System has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989 that do not conflict with or contradict GASB pronouncements. Only GASB pronouncements issued after this date will be followed.

**LAUDERDALE COUNTY WATER SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012**

e. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

f. Compensated Absences

The Water System accrues vacation and compensated time for its employees to use in future periods.

g. Inventory

Inventory of supplies are recorded at historical cost.

h. Risk Management

The Water System is exposed to various risks of loss related to tort; theft of, or damage to assets; errors and omissions; injuries to employees and natural disasters. During the year ended June 30, 2012, the Water Service was covered by insurance for these various risks at a cost it considered to be economically justifiable. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

i. Restricted Resources

The Water System elects to use restricted assets before unrestricted assets when the situation arises where either can be used.

**NOTE 2: DEPOSITS AND INVESTMENTS**

The System's deposits and investments at June 30, 2012 consist of the following:

|  |                              |
|--|------------------------------|
| Deposits:  |                              |
| Cash On Hand                                       | \$ 245                       |
| Cash In Bank                                       | 17,651                       |
| Cash On Deposit Through County Trustee             | <u>736,828</u>               |
| <br>Total Cash and Cash Equivalents                | <br><u><u>\$ 754,724</u></u> |
| Investments:                                       |                              |
| Certificates of Deposits Managed by County Trustee | <u>\$ 1,850,000</u>          |

The Water System's deposits and investments at June 30, 2012 were covered by federal depository insurance or by the Tennessee Collateral Pool or by securities held by the custodial bank in the County Trustee's name.

**LAUDERDALE COUNTY WATER SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2012**

*Interest rate risk.* To minimize exposure to declines in fair value, the certificates of deposit have staggering maturity rate with maturity dates of one year.

*Custodial credit risk.* The certificates of deposit are held in the County Trustee's Office name for the benefit of the Water System, and are not subject to custodial credit risk.

*Concentrations of credit risk.* The certificates of deposit are not subject to concentrations of credit risk as the custodial banks are either a member of the Tennessee Collateral Pool or provide securities held by the custodial bank as security for the funds invested.

**NOTE 3: ACCOUNTS RECEIVABLE – ANNEXATION**

The City of Ripley, Tennessee annexed an area and agreed to pay the Water System for estimated revenue lost by the Water System from this annexation. The estimated revenue is payable over a ten year period. This receivable was satisfied in full during the fiscal year.

**NOTE 4: CAPITAL ASSETS**

Capital asset activity was as follows:

|  | <u>Balance</u><br><u>July 1, 2011</u> | <u>Additions</u>    | <u>Retirements</u> | <u>Balance</u><br><u>June 30, 2012</u> |
|--|---------------------------------------|---------------------|--------------------|--|
| <b>Capital Assets Not Being Depreciated:</b>         |                                       |                     |                    |  |
| Land   | \$ 10,000                             | \$ -                | \$ -               | \$ 10,000                              |
| <b>Capital Assets Being Depreciated:</b>             |                                       |                     |                    |  |
| Water Plant  | 8,194,763                             | 17,723              | -                  | 8,212,486                              |
| Plant Equipment                                      | 87,320                                | -                   | -                  | 87,320                                 |
| Office Equipment                                     | 48,490                                | 2,664               | -                  | 51,154                                 |
| Equipment  | <u>288,131</u>                        | <u>21,495</u>       | <u>15,027</u>      | <u>294,599</u>                         |
| <b>Total Capital Assets Being Depreciated</b>        | 8,618,704                             | 41,882              | 15,027             | 8,645,559                              |
| <b>Less - Accumulated Depreciation For:</b>          |                                       |                     |                    |  |
| Water Plant  | 3,856,181                             | 227,285             | -                  | 4,083,466                              |
| Plant Equipment                                      | 33,414                                | 6,539               | -                  | 39,953                                 |
| Office Equipment                                     | 28,480                                | 4,967               | -                  | 33,447                                 |
| Equipment  | <u>164,317</u>                        | <u>34,250</u>       | <u>15,027</u>      | <u>183,540</u>                         |
| <b>Total Accumulated Depreciation</b>                | <u>4,082,392</u>                      | <u>273,041</u>      | <u>15,027</u>      | <u>4,340,406</u>                       |
| <b>Total Capital Assets Being Depreciated Net</b>    | <u>4,536,312</u>                      | <u>(231,159)</u>    | <u>-</u>           | <u>4,305,153</u>                       |
| <b>Business-Type Activities Capital Assets - Net</b> | <u>\$ 4,546,312</u>                   | <u>\$ (231,159)</u> | <u>\$ -</u>        | <u>\$ 4,315,153</u>                    |

**NOTE 5: BONDS PAYABLE**

Bonds payable at June 30, 2012 consist of the following:

|  | <u>Current</u>      | <u>Long-Term</u>     | <u>Total</u>         |
|--|---------------------|----------------------|----------------------|
| FHA Loan # 91-01, Interest Rate of 5.0%, Payable in Annual Installments of \$6,345 Including Interest.                   | \$ 5,735.98         | \$ 6,169.13          | \$ 11,905.11         |
| Rural Economic and Community Development Loan #91-04<br>Interest Rate of 4.5% Payable In Monthly Installments of \$3,592 | \$ 13,389.70        | \$ 668,174.40        | \$ 681,564.10        |
|  | <u>\$ 19,125.68</u> | <u>\$ 674,343.53</u> | <u>\$ 693,469.21</u> |

**LAUDERDALE COUNTY WATER SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012**

The annual maturities of long-term bonds as of June 30, 2012 are:

| Year Ended<br><u>June 30,</u> | Interest<br><u>Amount</u> | Principal<br><u>Amount</u> |
|-------------------------------|---------------------------|----------------------------|
| 2013                          | \$ 30,323.32              | \$ 19,125.68               |
| 2014                          | 30,063.12                 | 19,524.28                  |
| 2015                          | 29,133.98                 | 13,970.20                  |
| 2016                          | 28,492.21                 | 14,611.79                  |
| 2017                          | 27,820.94                 | 15,283.06                  |
| 2018-2022                     | 127,905.37                | 87,676.01                  |
| 2023-2027                     | 105,844.38                | 109,675.62                 |
| 2028-2032                     | 78,228.50                 | 137,291.50                 |
| 2033-2037                     | 43,659.08                 | 171,860.92                 |
| 2038-2042                     | 6,195.08                  | 104,450.15                 |
|                               | <u>\$ 507,665.98</u>      | <u>\$ 693,469.21</u>       |

Net changes for the year ended June 30, 2012 in bond balances are:

|              | <u>Balance</u><br><u>July 1, 2011</u> | <u>Additions</u> | <u>Retirements</u>  | <u>Balance</u><br><u>June 30, 2012</u> |
|--------------|---------------------------------------|------------------|---------------------|--|
| Loan # 91-01 | \$ 17,288.58                          | \$ -             | \$ 5,383.47         | \$ 11,905.11                           |
| Loan # 91-04 | 693,282.50                            | -                | 11,718.40           | 681,564.10                             |
| Totals       | <u>\$ 710,571.08</u>                  | <u>\$ -</u>      | <u>\$ 17,101.87</u> | <u>\$ 693,469.21</u>                   |

**NOTE 6: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

An annual budget is adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end. Some expenditures exceeded appropriations.

**NOTE 7: CONCENTRATION OF CREDIT RISK**

The Water System receives its operating funds from fees charged to water customers in Lauderdale County, Tennessee. While the Water System as a broad consumer base, the ability of customers to pay their accounts is dependent on the economic conditions of the area.

**NOTE 8: RETIREMENT PLAN**

The pension fund of the Lauderdale County Water System is included in the total retirement program for Lauderdale County, Tennessee under the Tennessee Consolidated Retirement System. Five percent (5%) is deducted from the employee's checks and the county pays a percentage match of 8.68% to fund the employees retirement. Retirement is based on thirty years of service or reaching the age of sixty. For details relative to the funding status and progress, actuarial determined contribution

**LAUDERDALE COUNTY WATER SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2012**

requirements and contributions made, and trend information refer to the Comprehensive Annual Financial Report for Lauderdale County.

**NOTE 9: SUBSEQUENT EVENTS**

The subsequent events have been evaluated through November 30, 2012, which is the date the financial statements were available to be issued. There were no significant events noted.

---

Supplementary Information

---

**Lauderdale County Water System**  
**Schedule of Unaccounted For Water - Unaudited**  
**June 30, 2012**  
(All amounts in gallons)

|   |   |             |
|---|---|-------------|
| <b>A. Water Treated &amp; Purchased</b>     |   |             |
| B. Water Pumped (Potable)                   | 239,447,000   |             |
| C. Water Purchased                          | 44,538,900  |             |
| D.  | <b>Total Water Treated &amp; Purchased</b><br><b>(Sum Lines B &amp; C)</b>      | 283,985,900 |
| <br><b>E. Accounted for Water</b>           |   |             |
| F. Water Sold                               | 200,761,300   |             |
| G. Metered for Consumption (in house usage) | 19,300  |             |
| H. Fire Department(s) Usage                 | 205,250   |             |
| I. Flushing                                 | 359,000   |             |
| J. Tank Cleaning, Filling                   | 745,000   |             |
| K. Street Cleaning                          | 0   |             |
| L. Bulk Sales                               | 1,202,700   |             |
| M. Water Bill Adjustments/ plus or (minus)  | 199,800   |             |
| N.  | <b>Total Accounted for Water</b><br><b>(Sum Lines F through M)</b>              | 203,492,350 |
| O.  | <b>Unaccounted for Water</b><br><b>(Line D minus Line N)</b>                    | 80,493,550  |
| P.  | <b>Percent Unaccounted for Water</b><br><b>(Line O divided by Line D x 100)</b> | 28.344%     |
| Q. Other (explain)                          |   | 0           |

Explain Other:

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or the line item is not applicable, a "0" is shown.

LAUDERDALE COUNTY WATER SYSTEM  
Schedule of Current Utility Rates in Force  
For the Year Ended June 30, 2012

WATER RATES:

|                               |    |                        |
|-------------------------------|----|------------------------|
| Minimum bill up to 2,000 gal. | \$ | 10.00                  |
| Over 2,000 gallon minimum     |    | 5.25 per 1,000 gallons |

# of customers as of      June 30, 2012      3,830

See Independent Auditor's Report

LAUDERDALE COUNTY WATER SYSTEM  
Comparison of Actual Revenues and Expenditures to Budgeted Revenues and Expenditures  
For the Fiscal Year Ended June 30, 2012

|   | Original            | Budget              | Final               | Actual<br>June 30, 2012 | Variances To<br>Final Budget |
|---|---------------------|---------------------|---------------------|-------------------------|------------------------------|
| <b>Operating Revenues</b>                     |                     |                     |                     |                         |                              |
| Water Sales                                   | \$ 1,200,000        | \$ 1,200,000        | \$ 1,109,760        | \$ 1,109,760            | (90,240.00)                  |
| Water Sales - Bad Debts Collected             | 4,000               | 4,000               | 2,301               | 2,301                   | (1,699.00)                   |
| Other Revenue                                 | 15,000              | 15,000              | 5,274               | 5,274                   | (9,726.00)                   |
| Penalties Income                              | 50,000              | 50,000              | 45,106              | 45,106                  | (4,894.00)                   |
| Service Installation                          | 12,000              | 12,000              | 7,540               | 7,540                   | (4,460.00)                   |
| Reconnections                                 | 18,000              | 18,000              | 16,540              | 16,540                  | (1,460.00)                   |
| Sale of Material                              | 5,000               | 5,000               | 2,271               | 2,271                   | (2,729.00)                   |
| Over/(Short)                                  | -                   | -                   | (11)                | (11)                    | (11.00)                      |
|   | <u>\$ 1,304,000</u> | <u>\$ 1,304,000</u> | <u>\$ 1,188,781</u> | <u>\$ 1,188,781</u>     | <u>(115,219.00)</u>          |
| <b>Total Operating Revenues</b>               |                     |                     |                     |                         |                              |
| <b>Operating Expenses</b>                     |                     |                     |                     |                         |                              |
| City Water Purchased                          | \$ 240,000          | \$ 204,000          | \$ 140,649          | \$ 140,649              | 63,351.00                    |
| Salaries                                      | 370,000             | 370,000             | 339,680             | 339,680                 | 30,320.00                    |
| Contract Meter Rending                        | 46,000              | 46,000              | 43,434              | 43,434                  | 2,566.00                     |
| Bad Debt Expense                              | 8,000               | 8,000               | 7,410               | 7,410                   | 590.00                       |
| Payroll Tax Expense                           | 32,000              | 32,000              | 25,844              | 25,844                  | 6,156.00                     |
| Retirement Expense                            | 28,000              | 28,000              | 26,177              | 26,177                  | 1,823.00                     |
| Uniform & Clothing                            | 5,000               | 3,000               | 2,789               | 2,789                   | 211.00                       |
| Commissioners' Compensation                   | 5,000               | 8,000               | 6,721               | 6,721                   | 1,279.00                     |
| Postage                                       | 17,000              | 17,000              | 12,190              | 12,190                  | 4,810.00                     |
| Freight                                       | 600                 | 600                 | -                   | -                       | 600.00                       |
| State Fees                                    | 8,500               | 9,500               | 7,240               | 7,240                   | 2,260.00                     |
| Membership Fees                               | 5,000               | 5,000               | 4,244               | 4,244                   | 756.00                       |
| Public Relations                              | 2,000               | 2,000               | 638                 | 638                     | 1,362.00                     |
| Electrical                                    | 100,000             | 120,000             | 102,390             | 102,390                 | 17,610.00                    |
| Gas - Heating                                 | 6,000               | 6,000               | 1,733               | 1,733                   | 4,267.00                     |
| Phone   | 4,000               | 4,000               | 3,275               | 3,275                   | 725.00                       |
| Lab Tests & Lab Expense                       | 5,000               | 5,000               | 4,031               | 4,031                   | 969.00                       |
| Professional Fees                             | 9,000               | 9,000               | 4,745               | 4,745                   | 4,255.00                     |
| Engineering Expense                           | 6,000               | 6,000               | 2,652               | 2,652                   | 3,348.00                     |
| Truck Repairs Expense                         | 5,000               | 5,000               | 3,684               | 3,684                   | 1,316.00                     |
| Backhoe Repairs                               | 2,000               | 2,000               | 342                 | 342                     | 1,658.00                     |
| Ditcher Repairs                               | 2,000               | 2,000               | -                   | -                       | 2,000.00                     |
| Radio Repairs Expense                         | 3,000               | 5,000               | 2,243               | 2,243                   | 2,757.00                     |
| Tires & Tire Repairs                          | 3,000               | 3,000               | 2,286               | 2,286                   | 714.00                       |
| Fuel Expense                                  | 35,000              | 35,000              | 27,173              | 27,173                  | 7,827.00                     |
| Line Repairs & Maintenance                    | 20,000              | 20,000              | 2,947               | 2,947                   | 17,053.00                    |
| Plant Repairs & Maintenance                   | 20,000              | 30,000              | 19,259              | 19,259                  | 10,741.00                    |
| Travel - Staff                                | 1,200               | 1,200               | -                   | -                       | 1,200.00                     |
| Office Expense                                | 19,000              | 19,000              | 18,356              | 18,356                  | 644.00                       |
| Chemical Expense                              | 28,000              | 28,000              | 20,746              | 20,746                  | 7,254.00                     |
| Supplies - Lab                                | 2,500               | 2,500               | 1,726               | 1,726                   | 774.00                       |
| Supplies - Miscellaneous                      | 5,000               | 5,000               | 3,209               | 3,209                   | 1,791.00                     |
| Supplies - Repair                             | 55,000              | 55,000              | 38,181              | 38,181                  | 16,819.00                    |
| Insurance expense                             | 70,000              | 100,000             | 98,621              | 98,621                  | 1,379.00                     |
| Depreciation                                  | -                   | 0                   | 273,041             | 273,041                 | (273,041.00)                 |
| Bank Service Charges                          | 1,000               | 1100                | 441                 | 441                     | 659.00                       |
| Deposit Expense                               | 100                 | 100                 | -                   | -                       | 100.00                       |
|   | <u>\$ 1,168,900</u> | <u>\$ 1,197,000</u> | <u>\$ 1,248,097</u> | <u>\$ 1,248,097</u>     | <u>\$ (51,097.00)</u>        |
| <b>Total Operating Expenses</b>               |                     |                     |                     |                         |                              |
| Operating Income                              | \$ 135,100          | \$ 107,000          | \$ (59,316)         | \$ (59,316)             | \$ (166,316.00)              |
| <b>Nonoperating Revenues (Expenses)</b>       |                     |                     |                     |                         |                              |
| Interest Income                               | \$ 45,000           | \$ 45,000.00        | \$ 24,239           | \$ 24,239               | \$ (20,761.00)               |
| Interest Expense                              | (31,655)            | (31,655.00)         | (31,655)            | (31,655)                | 0.00                         |
| Sale of Asset                                 | -                   | -                   | 3,040               | 3,040                   | 3,040.00                     |
|   | <u>\$ 13,345</u>    | <u>\$ 13,345</u>    | <u>\$ (4,376)</u>   | <u>\$ (4,376)</u>       | <u>\$ (17,721.00)</u>        |
| <b>Total Nonoperating Revenues (Expenses)</b> |                     |                     |                     |                         |                              |
| Change in Net Assets                          | \$ 148,445          | \$ 120,345          | \$ (63,692)         | \$ (63,692)             | \$ (184,037.00)              |
| Net Assets - July 1, 2011                     | \$ 6,251,791        | \$ 6,251,791        | \$ 6,251,791        | \$ 6,251,791            | \$ 0.00                      |
| Net Assets - June 30, 2012                    | <u>\$ 6,400,236</u> | <u>\$ 6,372,136</u> | <u>\$ 6,188,099</u> | <u>\$ 6,188,099</u>     | <u>\$ (184,037.00)</u>       |

---

Internal Control and Compliance Section

---

**William M. Harmon**

Certified Public Accountant

P.O. Box 491, 117 N. Main St.  
Ripley, TN 38063-491  
Tel. (731) 635-3791  
Fax (731) 635-5626  
williamharmoncpa.com

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

To The Board of Commissioners  
Lauderdale County Water System  
Ripley, TN 38063

We have audited the accompanying financial statements of the Lauderdale County Water System, a discretely presented component unit of Lauderdale County, Tennessee, as of and for the year ended June 30, 2012 and have issued our report thereon dated November 30, 2012. 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

Management of the Lauderdale County Water System is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the System'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 System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lauderdale County Water System's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and recommendations to be material weaknesses. (2012-01)

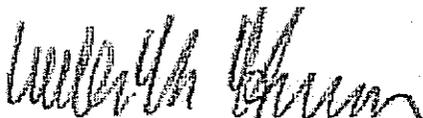
A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and recommendations to be significant deficiencies. (2012-2)

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lauderdale County Water System'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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and recommendations as items (2012-3)

The Lauderdale County Water System's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. We did not audit the System's response and, accordingly, we express no opinion on it.

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



William Harmon  
Certified Public Accountant

November 30, 2012

LAUDERDALE COUNTY WATER SYSTEM  
Schedule of Findings and Recommendations  
For the Period Ended June 30, 2012

STATUS OF PRIOR YEAR FINDINGS

- 2011-01      Material Audit Adjustments Required – Material Weakness. Repeated -See Finding 2012-01
- 2011-02      Lauderdale County Water System Does Not Have The Resources to Produce Its Financial Statements and Footnotes – Material Weakness. Not Repeated
- 2011-03      Expenses Exceeded Budget – Significant Weakness. Repeated - See Finding 2012-02
- 2011-04      941 Forms Not Timely Prepared – Compliance. Not Repeated
- 2011-05      Bank Reconciliations Not Timely Prepared – Material Weakness. Not Repeated.

CURRENT YEAR FINDINGS

- 2012-01      Material Audit Adjustments Necessary (Material Weakness)

Condition: Material audit adjustments were required for proper financial statement presentation.

Criteria: Generally accepted accounting principles require the Water System to have adequate internal controls over the maintenance of the accounting records and financial statements. The independent auditor cannot serve as an internal control over the System's financial statements.

Effect: The lack of needed material adjustments could jeopardize the fair presentation of the System's financial reports.

Response: The Lauderdale County Water System does not have the resources to hire an employee with the educational level sufficient to ensure that no material journal entries would be necessary for the financial statements to be materially correct at year end. We will provide additional training to our bookkeeper when possible.

2012-02 Expenses Exceeded Budget (Significant Deficiency)

Condition: Expenses Exceed Budget.

Criteria: The budget constitutes the System's approved spending guideline from the board.

Effect: The budget provides the framework by which the System operates within its revenues. Exceeding the budgeted expenses can deteriorate the System's financial reserves if not addressed.

Recommendation: We recommend that the System monitor the actual expenses compared to the budget regularly and make revisions or reductions in expenses as deemed necessary. The System should also include estimated depreciation expense in the annual budgeted expenses.

Response: The Water System does monitor expenses on a regular basis and will continue to do so and make revisions to the budget as necessary.

2012-03 Net Loss (Non-Compliance)

Condition: The Water System operated at a deficit during the fiscal year ended June 30, 2012. Operating revenues were \$1,216,060 and operating expenses were \$1,279,752 which resulted in a deficit of \$63,692. Without depreciation expense there was a positive change of \$209,349.

Criteria: This is a violation of Tennessee Code Annotated 7-34-114 which states "the governing body of a municipality issuing bonds pursuant to this chapter shall prescribe and collect reasonable rates, fees or charges for the services, facilities and commodities of such public works, and shall revise such rates, fees or charges, from time to time, whenever necessary so that such public works shall be and always remain self-supporting".

Effect: Losses over a period of time could deteriorate the utilities financial position.

Recommendation: We recommend that the Water System review its operations and income and expenses to determine how best to eliminate this deficit in the future either by increasing revenues or decreasing expenses. Currently the Water System has adequate financial reserves but continuing losses could deplete these reserves.

Response: The Water System employees and its board continuously strive to maintain low rates while maintaining excellent service to our customers. The board and employees will review the operations of the System to bring expenses and revenues in line in the most efficient manner possible.