

CARROLL COUNTY WATERSHED AUTHORITY

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2013

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INTRODUCTORY SECTION

**CARROLL COUNTY WATERSHED AUTHORITY
DIRECTORY
June 30, 2013**

BOARD MEMBERS

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

MANAGEMENT TEAM

Martha Taylor, Recording Secretary
Kim Carter, Accountant

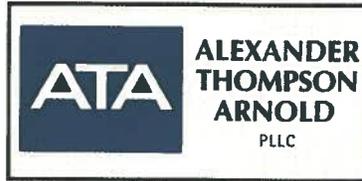
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION

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AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
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Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



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Independent Auditor's Report

Board of Directors
Carroll County Watershed Authority
Huntingdon, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Carroll County Watershed Authority (the Authority), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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 Carroll County Watershed Authority, as of June 30, 2013, and the respective changes in financial position and the

respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 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 about 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section, the schedule of principal and interest requirements, and the schedule of state financial assistance are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of principal and interest requirements and the schedule of state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of principal and interest requirements and the schedule of state financial assistance are fairly stated in all material respects in relation to the basic financial statements 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2014, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
January 27, 2014

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, 2013. 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 \$14.85 million and exceeded liabilities in the amount of \$6.56 million (i.e. net position).
- Net position decreased \$395 thousand during the current year, due to the Authority issuing debt to meet current and future financial needs.
- Operating revenues were \$413 thousand, a decrease from year 2012 in the amount of \$167 thousand or 28.80%.
- Operating expenses were \$682 thousand, an increase from year 2012 in the amount of \$16 thousand or 2.41%.
- The operating loss for the year was \$395 thousand as compared to a \$153 thousand loss during the 2012 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 four sections: 1) the introductory section, 2) the financial section, 3) other supplementary information, and 4) 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 Position 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 information as to how the net position and fund balances changed during the year. All changes in

MANAGEMENT'S DISCUSSION AND ANALYSIS

net position and fund balance 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 Position - As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$6.56 million at the close of the most recent fiscal year. A portion of the Authority's net position (14.58 million) 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 POSITION

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	Increase (Decrease)	
			<u>\$</u>	<u>%</u>
Current and other assets	\$ 270,065	\$ 144,612	\$ 125,453	86.75%
Capital assets (net of accumulated depreciation)	14,582,547	14,489,361	93,186	0.64%
Total assets	<u>14,852,612</u>	<u>14,633,973</u>	<u>218,639</u>	1.49%
Long-term liabilities	7,807,947	7,586,162	221,785	2.92%
Other liabilities	487,670	95,814	391,856	408.98%
Total liabilities	<u>8,295,617</u>	<u>7,681,976</u>	<u>613,641</u>	7.99%
Net investment in capital assets	6,438,762	6,976,996	(538,234)	-7.71%
Unrestricted	118,233	(24,999)	143,232	-572.95%
Total net position	<u>\$ 6,556,995</u>	<u>\$ 6,951,997</u>	<u>\$ (395,002)</u>	-5.68%

During the year, the Authority's net position decreased by \$395 thousand. This was primarily due to the Authority issuing a series 2012 bond for \$300 thousand dollars that was issued during the fiscal year ended June 30, 2013. The proceeds were used to for the purpose of financing the costs of improvements to the Carroll County Watershed Lake Project. The Authority also received \$245 thousand from wheel tax receipts. Capital Assets increased by \$93 thousand. This increase was due primarily to the completion of a parking lot on the Authority's property. Long-term liabilities

MANAGEMENT'S DISCUSSION AND ANALYSIS

increased by \$222 thousand. This increase was due primarily to the issuance of the series 2012 bond.

Statement of Activities – Expenses in the governmental activities column exceeded revenues by \$395 thousand. Revenues decreased during the year due to the Authority not receiving any grant funds from the Recreation Lake Development project. Operating expenses increased due to the Authority beginning operations during the current fiscal year.

Table 2A

CONDENSED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION				
	June 30, 2013	June 30, 2012	Increase (Decrease)	
			\$	%
Operating revenues	\$ 412,528	\$ 579,369	\$ (166,841)	-28.80%
Non-operating revenues	304	67	237	353.73%
Total revenues	<u>412,832</u>	<u>579,436</u>	<u>(166,604)</u>	<u>-28.75%</u>
Operating expenditures	681,791	665,717	16,074	2.41%
Depreciation and amortization	<u>126,043</u>	<u>66,294</u>	<u>59,749</u>	<u>90.13%</u>
Total expenses	<u>807,834</u>	<u>732,011</u>	<u>75,823</u>	<u>10.36%</u>
Change in net position	(395,002)	(152,575)	(242,427)	-158.89%
Beginning net position	<u>6,951,997</u>	<u>7,104,572</u>	<u>(152,575)</u>	<u>-2.15%</u>
Ending net position	<u>\$ 6,556,995</u>	<u>\$ 6,951,997</u>	<u>\$ (395,002)</u>	<u>-5.68%</u>

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 \$167 thousand. The most significant changes in revenues and other financing sources in the general fund were:

- The Authority did not receive any grant funds from the Recreation Lake Development project as of June 30, 2013. Whereas, the Authority received grant funds of \$300,000 from the Recreation Lake Development project as of June 30, 2012.

Expenditures in the general fund increased from last year by approximately \$76 thousand. The most significant changes in expenditures and other financing uses in the general fund were:

- The Authority begun operations during the 2013 fiscal year.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL FUND BUDGETARY HIGHLIGHTS

Final Budgeted and Actual Amounts

Actual revenues were less than the final budgeted amounts by \$25 thousand. Significant variances were:

- LPRF grant revenues were budgeted for \$135 thousand and the actual revenue was \$111 thousand.

Expenditures were greater than the final budgeted amounts by \$6 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 \$14.58 million net of accumulated depreciation in a variety of capital assets. Accumulated depreciation at the end of the period was \$311 thousand. Depreciation expense during the period was \$122 thousand.

Long-term debt – At the end of the current fiscal year, the Authority had long-term debt in the amount of \$7.81 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 POSITION AND GOVERNMENTAL FUND BALANCE SHEET
June 30, 2013

Assets	General Fund	Adjustments (Note 3A)	Statement of Net Position
Cash	\$ 104,055	\$ -	\$ 104,055
Cash on hand	300	-	300
Accounts receivable	64,265	-	64,265
Due from State of Tennessee	42,965	-	42,965
Prepaid expense	928	-	928
Bond issue cost	-	57,552	57,552
Capital assets (net of accumulated depreciation):			
Land	-	4,971,245	4,971,245
Building and Improvements	-	9,522,447	9,522,447
Infrastructure	-	65,625	65,625
Other Fixed Assets	-	23,230	23,230
Total assets	<u>212,512</u>	<u>14,640,100</u>	<u>14,852,612</u>
Liabilities			
Accounts payable	113,596	-	113,596
Deferred revenue	17,420	(12,648)	4,772
Payroll liabilities	6,150	-	6,150
Due to state-sales tax	50	-	50
Due to state-real machine	29	-	29
Debt payable			
Due within one year	-	363,074	363,074
Due in more than one year	-	7,807,947	7,807,947
Total liabilities	<u>137,244</u>	<u>8,158,373</u>	<u>8,295,617</u>
Fund Balance			
Unassigned	<u>75,268</u>	(75,268)	-
Total liabilities and fund balance	<u>\$ 212,513</u>		
Net Position			
Net investment in capital assets		6,438,762	6,438,762
Unrestricted		<u>118,233</u>	<u>118,233</u>
Total net position		<u>\$ 6,481,727</u>	<u>\$ 6,556,995</u>

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

CARROLL COUNTY WATERSHED AUTHORITY
STATEMENTS OF ACTIVITES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2013

	<u>General Fund</u>	<u>Adjustments (Note 3B)</u>	<u>Statement of Activities</u>
Revenues:			
Wheel tax receipts	\$ 245,264	\$ -	\$ 245,264
LPRF grant	110,604	-	110,604
Licenses and permits	54,469	-	54,469
Bait/supplies	2,191	-	2,191
Interest income	304	-	304
Total revenue	<u>412,832</u>	<u>-</u>	<u>412,832</u>
Expenditures:			
Surety bonds for officials	100	-	100
Bait/supplies	1,961	-	1,961
Construction expense	197,782	(166,071)	31,711
Outdoor furnishings	484	-	484
Office machinery and equipment	1,906	-	1,906
Environmental review	9,000	-	9,000
Dues and membership fees	8,250	-	8,250
Accounting and auditing services	5,300	-	5,300
Tennessee state planning	2,156	-	2,156
Other operating supplies	5,998	(168)	5,830
Salaries/wages part-time	23,264	-	23,264
OASI (employer's share)	1,780	-	1,780
Hospital and health insurance	2,114	-	2,114
Worker's compensation	759	-	759
Unemployment insurance	26	-	26
Printing/reference books/publications	2,678	-	2,678
General liability	180	-	180
Insurance on vehicles and equipment	763	-	763
Engineering services	5,054	(5,054)	-
Asphalt Paving	33,508	(33,508)	-
Repair and maintenance - machine and equipment	2,551	-	2,551
Repair and maintenance - buildings and grounds	1,596	-	1,596
Repair and maintenance - beach	486	-	486
Electric	6,615	-	6,615
Sewer	35,000	-	35,000
Water	396	-	396
Telephone	1,310	-	1,310
Professional services	15,675	(11,000)	4,675
Insurance - buildings	1,385	-	1,385
Payments for debt to Town of Huntingdon	229,008	-	229,008
Depreciation	-	122,446	122,446
Amortization	-	3,597	3,597
Minor medical and physicals	121	-	121
Waste disposal	163	-	163

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

CARROLL COUNTY WATERSHED AUTHORITY
STATEMENTS OF ACTIVITES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2013

	<u>General Fund</u>	<u>Adjustments (Note 3B)</u>	<u>Statement of Activities</u>
Expenditures (Cont.)			
Janitorial supplies	1,147	-	1,147
Office supplies and material	80	-	80
Small items of equipment	800	-	800
Petroleum products	44	-	44
Debt service:			
Principal	1,073,456	(800,387)	273,069
Interest expense	25,084	-	25,084
Total expenditures	<u>1,697,978</u>	<u>(890,145)</u>	<u>807,834</u>
Other Financing Sources (Uses)			
Proceeds from bond issue	<u>1,385,414</u>	<u>(1,385,414)</u>	<u>-</u>
Net changes in fund balance/net position	100,267	(495,269)	(395,002)
Fund balance/net position - beginning	<u>(24,999)</u>	<u>6,976,996</u>	<u>6,951,997</u>
Fund balance/net position - ending	<u>\$ 75,268</u>	<u>\$ 6,481,727</u>	<u>\$ 6,556,995</u>

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

CARROLL COUNTY WATERSHED AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues:				<u>Over (Under)</u>
Wheel tax receipts	246,000	245,250	245,264	14
Note proceeds	-	1,386,381	1,385,414	(967)
State Capital grant	300,000	-	-	-
LPRF grant	50,000	135,150	110,604	(24,546)
Licenses and permits	500	54,300	54,469	169
Bait/supplies	-	2,100	2,191	91
Future contributions/donations	150,000	-	-	-
Insurance recoveries	-	-	-	-
Interest income	500	250	304	54
Total revenues	<u>747,000</u>	<u>1,823,431</u>	<u>1,798,245</u>	<u>(25,186)</u>
Expenditures:				
Surety bonds for officials	-	100	100	-
Bait/supplies	-	2,050	1,961	(89)
Construction expense	130,000	198,850	197,782	(1,068)
Beach construction	5,000	-	-	-
Outdoor furnishings	-	500	484	(16)
Office machinery and equipment	-	1,950	1,906	(44)
Environmental review	-	-	9,000	9,000
Management fee	1,800	-	-	-
Dues and membership fees	8,250	8,250	8,250	-
Accounting and auditing services	5,000	5,300	5,300	-
Tennessee state planning	10,000	2,900	2,156	(744)
Other operating supplies	500	5,900	5,998	98
Salaries/wages part-time	-	23,350	23,264	(86)
OASI (employer's share)	-	1,800	1,780	(20)
Hospital and health insurance	-	2,300	2,114	(186)
Worker's compensation	-	600	759	159
Unemployment insurance	-	50	26	(24)
Printing/reference books/publications	-	2,600	2,678	78
Legal services	1,500	-	-	-
General liability	200	200	180	(20)
Insurance on vehicles and equipment	-	800	763	(37)
Engineering services	30,000	5,100	5,054	(46)
Asphalt Paving	-	33,550	33,508	(42)
Repair and maintenance - machine and equipment	6,500	2,600	2,551	(49)
Repair and maintenance - buildings and grounds	-	2,750	1,596	(1,154)
Repair and maintenance - beach	-	500	486	(14)
Flag pole construction	2,000	-	-	-
Electric	101,600	5,200	6,615	1,415
Sewer	35,000	35,000	35,000	-
Water	-	1,000	396	(604)
Telephone	-	1,350	1,310	(40)
Professional services	8,500	15,000	15,675	675
Insurance - buildings	1,000	1,400	1,385	(15)
Land	50,000	-	-	-
Payments to Town of Huntingdon	230,900	229,050	229,008	(43)
Minor medical and physicals	-	150	121	(29)
Waste disposal	-	200	163	(37)

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

CARROLL COUNTY WATERSHED AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2013

Expenditures (Cont.)	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Janitorial supplies	-	1,150	1,147	(3)
Office supplies and material	-	100	80	(20)
Small items of equipment	-	800	800	-
Petroleum products	-	50	44	(6)
Administrative expense	5,000	-	-	-
Debt service:				
Principal payments	-	1,074,500	1,073,456	(1,044)
Interest expense	30,000	25,100	25,084	(16)
Total expenditures	662,750	1,692,050	1,697,978	5,928
Net change in fund balance	\$ 84,250	\$ 131,381	\$ 100,267	\$ (31,114)
Fund balance - beginning			(24,999)	
Fund balance - ending			\$ 75,268	

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

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

June 30, 2013

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. 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 position and the statement of activities) and the governmental funds financial statements (i.e., the balance sheet and the statement of revenues, expenditures, and changes in fund balance) have been consolidated into 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.

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

CARROLL COUNTY WATERSHED AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 Position/Fund Balance

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:**
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 Recording Secretary, 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.

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

June 30, 2013

Impact of Recently Issued Accounting Pronouncements

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in non-governmental pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 had no impact on the Authority's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows and inflows of resources, which are distinct from assets and liabilities, and also renames as net position, rather than net assets, the residual of all the other elements presented in the statement of net position. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. As of June 30, 2013, the Authority had no items that met the definition of deferred outflows or deferred inflows of resources based on the adoption of GASB 63.

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the Authority's financial statements, but has not implemented its effects on items currently reported as deferred assets or liabilities in the financial statements presented herein.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The Authority 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 Position

Adjustments to the balance sheet of governmental funds to the statement of net position 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 position includes those capital assets among the assets of the Carroll County Watershed Authority as a whole.

CARROLL COUNTY WATERSHED AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Cost of capital assets	\$ 14,893,695
Accumulated depreciation	<u>(311,148)</u>
	<u>\$ 14,582,547</u>

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 position 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 position decrease by the amount of depreciation expense charged for the year.

Capital outlay	\$ (215,633)
Depreciation expense	<u>122,446</u>
Difference	<u>\$ (93,187)</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 \$8,171,021 difference are as follows:

Bond payable	\$ 7,423,990
Note payable	<u>747,031</u>
Total	<u>\$ 8,171,021</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. 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, 2013 all bank deposits were fully collateralized or insured.

CARROLL COUNTY WATERSHED AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

B. Capital Assets

Capital asset activity during the year was as follows:

<u>Description</u>	<u>Balance at June 30, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Reclassification</u>	<u>Balance at June 30, 2013</u>
Capital assets, not being depreciated					
Land	\$ 4,971,245	\$ -	\$ -	\$ -	\$ 4,971,245
Total capital assets, not being depreciated	<u>4,971,245</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,971,245</u>
Capital assets, being depreciated					
Building and Improvements	9,607,804	182,125	-	-	9,789,929
Infrastructure	42,337	60,468	26,960	-	75,845
Other Fixed Assets	56,676	-	-	-	56,676
Total capital assets being depreciated	<u>9,706,817</u>	<u>242,593</u>	<u>26,960</u>	<u>-</u>	<u>9,922,450</u>
Less accumulated depreciation for:					
Building and Improvements	151,363	116,120	-	-	267,483
Infrastructure	8,784	1,435	-	-	10,219
Other Fixed Assets	28,555	4,891	-	-	33,446
Total accumulated depreciation	<u>188,702</u>	<u>122,446</u>	<u>-</u>	<u>-</u>	<u>311,148</u>
Total capital assets, being depreciated, net	<u>9,518,115</u>	<u>120,147</u>	<u>26,960</u>	<u>-</u>	<u>9,611,302</u>
Total capital assets, net	<u>\$ 14,489,360</u>	<u>\$ 120,147</u>	<u>\$ 26,960</u>	<u>\$ -</u>	<u>\$ 14,582,547</u>

Depreciation expense amounted to \$122,446 for the fiscal year ended June 30, 2013.

C. Long-term Debt

In July 2007, the Authority took out a bond with TVA for power line relocations in the amount of \$1,610,518 at an interest rate of 3.75%. As of January 15, 2013, the Authority refinanced the TVA bond with Carroll Bank and Trust. The refinanced bond has a maturity date of January 15, 2023 and a per annum interest rate of 4.250%. 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 2013, the bondholder agreed to capitalize the interest of \$273,070 for 2013 and add it to the end of the bond payment schedule. The Authority also issued as Series 2012 Bond during the 2013 fiscal year for the purpose of financing the costs of improvement to the Carroll County Watershed Lake Project.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities:					
Notes payable	\$ 785,242	\$ -	\$ 38,211	\$ 747,031	\$ 63,074
Series 2012	-	300,000	-	300,000	300,000
Series 2011	6,800,920	323,070	-	7,123,990	-
	<u>\$ 7,586,162</u>	<u>\$ 623,070</u>	<u>\$ 38,211</u>	<u>\$ 8,171,021</u>	<u>\$ 363,074</u>

CARROLL COUNTY WATERSHED AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

The annual requirements to amortize the Authority's outstanding debt is as follows:

Year Ending June 30,	Note Payable		Bond Payable		Total		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2014	63,074	31,184	300,000	296,760	363,074	327,943	691,016.90
2015	65,836	28,422	326,346	284,960	392,182	313,381	705,562.90
2016	68,652	25,606	340,000	271,906	408,652	297,511	706,163.06
2017	71,725	22,532	353,000	258,306	424,725	280,838	705,563.06
2018	74,866	19,391	367,000	244,186	441,866	263,577	705,443.06
2019-2023	402,879	44,847	2,069,000	988,529	2,471,879	1,033,376	3,505,254.72
2024-2028	-	-	2,518,000	540,209	2,518,000	540,209	3,058,208.70
2029	-	-	1,150,643	46,026	1,150,643	46,026	1,196,669.16
	<u>\$ 747,031</u>	<u>\$ 171,982</u>	<u>\$ 7,423,989</u>	<u>\$ 2,930,880</u>	<u>\$ 8,171,021</u>	<u>\$ 3,102,861</u>	<u>\$ 11,273,882</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 2013, \$229,008 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. Passed in 2000 and implemented in 2002, 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 2013 were \$245 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. The Authority also has coverage for the Wells and Pumps. This current year insurance coverage was added for the Administration and Concession Buildings, Vehicles, and Workers Compensation.

CARROLL COUNTY WATERSHED AUTHORITY
SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS
GENERAL OBLIGATION DEBT - AUTHORITY
For the Fiscal Year Ended June 30, 2013

Year	2013 CB&T Loan		Series 2011		Series 2012		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2014	63,074	31,184	-	284,960	300,000	11,800	363,074	327,943	691,017
2015	65,836	28,422	326,346	284,960	-	-	392,182	313,381	705,563
2016	68,652	25,606	340,000	271,906	-	-	408,652	297,511	706,163
2017	71,725	22,532	353,000	258,306	-	-	424,725	280,838	705,563
2018	74,866	19,391	367,000	244,186	-	-	441,866	263,577	705,443
2019	78,145	16,113	382,000	229,506	-	-	460,145	245,619	705,763
2020	81,535	12,722	397,000	214,226	-	-	478,535	226,948	705,483
2021	85,137	9,120	413,000	198,346	-	-	498,137	207,466	705,603
2022	88,865	5,392	430,000	181,826	-	-	518,865	187,218	706,083
2023	69,196	1,500	447,000	164,626	-	-	516,196	166,126	682,322
2024	-	-	465,000	146,746	-	-	465,000	146,746	611,746
2025	-	-	483,000	128,146	-	-	483,000	128,146	611,146
2026	-	-	503,000	108,826	-	-	503,000	108,826	611,826
2027	-	-	523,000	88,706	-	-	523,000	88,706	611,706
2028	-	-	544,000	67,786	-	-	544,000	67,786	611,786
2029	-	-	1,150,643	46,026	-	-	1,150,643	46,026	1,196,669
	747,031	171,982	7,123,989	2,919,080	300,000	11,800	8,171,021	3,102,861	11,273,882

See independent auditor's report.

**CARROLL COUNTY WATERSHED AUTHORITY
SCHEDULE OF STATE FINANCIAL ASSISTANCE**

For the Fiscal Year Ended June 30, 2013

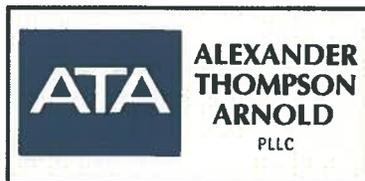
<u>Grantor</u>	<u>CFDA #</u>	<u>Grant Number</u>	<u>Beginning Balance</u>	<u>Adjustments</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Ending Balance</u>
State Assistance:							
Tennessee Department of Environment and Conservation:							
LPRF Grant	N/A	GG-1235850	\$ (12,648)	\$ -	\$ 85,059	\$ 115,376	(42,965)
Total State Assistance			\$ (12,648)	\$ -	\$ 85,059	\$ 115,376	\$ (42,965)

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
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Independent Auditor's 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, in accordance with the 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, the financial statements of the governmental activities and the major fund of Carroll County Watershed Authority (the Authority), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated January 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
January 27, 2014

**CARROLL COUNTY WATERSHED AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES**

June 30, 2013

**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.