

LAUDERDALE COUNTY WATER SYSTEM

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2013

LAUDERDALE COUNTY WATER SYSTEM  
FINANCIAL STATEMENTS  
Year Ended June 30, 2013

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## Introductory Section

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LAUDERDALE COUNTY WATER SYSTEM  
Roster of Board Members and Management  
For the Year Ended June 30, 2013

**BOARD MEMBERS:**

William H. Jarrett

Rick Jenkins

Johnny Land

Martha Webb

Joe Larry Ferguson

**MANAGEMENT:**

Randy Newman, Superintendent  
Stacy Crowder, Office Manager

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## Financial Section

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**William M. Harmon**

Certified Public Accountant

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**INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners  
Lauderdale County Water System  
Ripley, Tennessee 38063

**Report on the Financial Statements**

I 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, 2013, and the related notes to the financial statements, which collectively comprise the Lauderdale County Water System'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**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

**Opinions**

In my 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, 2013, 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.

## **Other Matters**

### *Required Supplementary Information*

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. I 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 my inquiries, the financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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*

My 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 I 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 my 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, I do not express an opinion or provide any assurance on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, I have also issued my report dated December 31, 2013, on my consideration of the Lauderdale County Water System's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lauderdale County Water System's internal control over financial reporting and compliance.



William Harmon  
Certified Public Accountant  
Ripley, Tennessee  
December 31, 2013

## 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, 2013. 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 \$6,103,307 (*net assets*). Of this amount, \$2,005,925 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors. The remaining amount, \$4,087,382 (*invested in capital assets, net of related debt*) reflects the net assets invested in capital assets.
- The total net assets decreased by \$84,792 for the fiscal year ended June 30, 2013.
- The Water System ended the year June 30, 2013 with cash and investments of \$2,067,552, representing a decrease of \$537,172 over the prior year. None of this cash is restricted for specific purposes. As identified by the Statement of Cash Flows, this decrease was because the System used these funds to pay off debt. This reduction in debt will increase cash flows in the coming years.

### 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 \$6,103,307 at the close of the fiscal year.

The largest portion of the Water System's assets, (64.7%), are investments in property, plant and equipment, followed by investments, (18.1%), and cash and cash equivalents, (14.5%). 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	
	2013	2012	(Decrease)	%Change
Current Assets	\$ 2,232,171.00	\$ 2,788,830.00	(556,659.00)	-19.96%
Net Property Plant & Equipment at Cost	4,097,382.00	4,315,153.00	(217,771.00)	-5.05%
Total Assets	\$ 6,329,553.00	\$ 7,103,983.00	(774,430.00)	-10.90%
Current Liabilities	\$ 226,246.00	\$ 241,540.00	(15,294.00)	-6.33%
Long-Term Liabilities	0.00	674,344.00	(674,344.00)	-100.00%
Total Liabilities	\$ 226,246.00	\$ 915,884.00	(689,638.00)	-75.30%
Net Assets Invested In Capital Assets Net of Related Debt	4,097,382.00	3,618,124.00	479,258.00	13.25%
Net Assets - Unrestricted	2,005,925.00	2,569,975.00	(564,050.00)	-21.95%
Total Net Assets	6,103,307.00	6,188,099.00	(84,792.00)	-1.37%
Total Liabilities and Net Assets	\$ 6,329,553.00	\$ 7,103,983.00	(774,430.00)	-10.90%

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

	June 30, 2013	June 30, 2012	Increase (Decrease)	
			\$	%
Operating Revenues	\$ 1,182,018.00	\$ 1,188,781.00	\$ (6,763.00)	-0.57%
Total Revenues	\$ 1,182,018.00	\$ 1,188,781.00	\$ (6,763.00)	-0.57%
Operating Expenses				
Salaries	\$ 351,146.00	\$ 339,680.00	\$ 11,466.00	3.38%
City Water Purchased	180,159.00	140,649.00	39,510.00	28.09%
Depreciation	273,234.00	273,041.00	193.00	0.07%
Insurance expense	79,104.00	98,621.00	(19,517.00)	-19.79%
All Other Operating Expenses	364,503.00	396,105.00	(31,602.00)	-7.98%
Total Operating Expenses	\$ 1,248,146.00	\$ 1,248,096.00	\$ 50.00	0.00%
Total Non-Operating Revenues (Expenses)	\$ (18,665.00)	\$ (4,376.00)	\$ 14,289.00	326.53%
Capital Contributions	\$ -	\$ -	\$ -	100.00%
Change in Net Assets	\$ (84,793.00)	\$ (63,691.00)	\$ (21,102.00)	33.13%
Net Assets - Beginning	6,188,100.00	6,251,791.00	(63,691.00)	-1.02%
Net Assets - Ending	\$ 6,103,307.00	\$ 6,188,100.00	\$ (84,793.00)	-1.37%

## **Capital Assets**

The Lauderdale County Water System's investment in capital assets was \$4,097,382 (net of accumulated depreciation) as of June 30, 2013. This was a net decrease of \$217,771 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 was previously indebted to FHA for one bond issuance, totaling \$11,905, and to Rural Economic and Community Development for another bond issuance, totaling \$681,564. These bonds were paid off during the current fiscal year ended. The previous debt requirement per annum was \$49,449 but there will be no debt requirement related to these debts in the future. Debt retirement in the fiscal year ended June 30, 2013 was \$693,469. No new debt was incurred in the fiscal year 2013.

## **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, 2013

**ASSETS**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$	917,552
Investments		1,150,000
Accounts Receivable		113,997
Prepaid Expenses		5,540
Inventory		45,081

**TOTAL CURRENT ASSETS** \$ 2,232,171

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

Utility plant in service	\$	8,274,879
Equipment		436,143
Less: Accumulated Depreciation		<u>(4,613,640)</u>

**NET PROPERTY, PLANT, AND EQUIPMENT** 4,097,382

**TOTAL ASSETS** \$ 6,329,553

**LIABILITIES AND FUND EQUITY**

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts Payable	\$	8,759
Accrued Interest		-
Bonds Payable - Current		-
Accrued Wages		28,816
Customer Meter Deposits		188,670

**TOTAL CURRENT LIABILITIES** \$ 226,246

**LONG-TERM LIABILITIES**

Bonds Payable (net of current portion)	\$	-
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**TOTAL LONG-TERM LIABILITIES** -

**TOTAL LIABILITIES** \$ 226,246

**NET ASSETS**

Invested in Capital Assets, net of related debt	\$	4,097,382
Restricted		-
Unrestricted		<u>2,005,925</u>

**TOTAL NET ASSETS** \$ 6,103,307

**TOTAL LIABILITIES AND NET ASSETS** \$ 6,329,553

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, 2013

Operating Revenues		
Water Revenues	\$ 1,173,686	
Other Revenue	7,889	
Sale of Material	<u>443</u>	
Total Operating Revenues		\$ 1,182,018
Operating Expenses		
City Water Purchased	\$ 180,159	
Salaries	351,146	
Contract Meter Reading	43,227	
Payroll Tax Expense	27,028	
Retirement Expense	27,019	
Uniform & Clothing	2,796	
Commissioners' Compensation	8,700	
Postage	13,789	
Freight Charges	29	
State Fees	5,740	
Membership Fees	1,679	
Public Relations	577	
Electrical	100,966	
Gas - Heating	1,964	
Phone	2,622	
Lab Tests & Lab Expense	2,742	
Professional Fees	3,850	
Engineering Expense	931	
Truck Repairs Expense	5,515	
Backhoe Repairs	610	
Ditcher Repairs	2,050	
Radio Repairs Expense	2,069	
Tires & Tire Repairs	735	
Fuel Expense	21,110	
Line Repairs & Maintenance	2,410	
Plant Repairs & Maintenance	11,988	
Travel - Staff & Board	697	
Office Expense	18,589	
Chemical Expense	19,688	
Supplies - Lab	795	
Supplies - Miscellaneous	1,850	
Supplies - Repair	32,467	
Insurance expense	79,104	
Depreciation	273,234	
Bank Service Charges	<u>272</u>	
Total Operating Expenses		<u>\$ 1,248,146</u>
Operating Income		\$ (66,128)
Nonoperating Revenues (Expenses)		
Interest Income	\$ 9,746	
Interest Expense	(28,411)	
Sale of Assets	<u>-</u>	
Total Nonoperating Revenues (Expenses)		<u>\$ (18,665)</u>
Change in Net Assets		\$ (84,792)
Net Assets - June 30, 2013		<u><u>\$ 6,103,307</u></u>

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

LAUDERDALE COUNTY WATER SYSTEM  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2013

<b>CASH FLOWS FROM OPERATING ACTIVITY:</b>		
Cash received from customers	\$ 1,191,012	
Cash paid to suppliers of goods & services	(549,553)	
Cash paid to employees for services	(409,367)	
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 232,091	
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Bond Payments	\$ (693,469)	
Construction and Acquisition of plant and equipment	(55,463)	
Interest Paid	(30,077)	
Sale of Assets	-	
Lease Payments	-	
Notes Payable	-	
NET CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(779,009)	
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Income on Investments	\$ 9,746	
Redemption of Investments	700,000	
NET CASH FLOWS FROM INVESTING ACTIVITIES	\$ 709,746	
NET INCREASE (DECREASE) IN CASH		\$ 162,828
CASH AND CASH EQUIVALENTS - July 1, 2012		\$ 754,725
CASH AND CASH EQUIVALENTS - June 30, 2013		\$ 917,553
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
<b>OPERATING INCOME</b>		\$ (66,127)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	\$ 273,234	
(Increase) Decrease in Current Assets:		
Accounts Receivable	2,641	
Prepaid Expenses	11,223	
Inventory	5,623	
Increase (Decrease) in Current Liabilities		
Accounts Payable	(3,191)	
Accrued Wages	4,526	
Customer Meter Deposits	4,162	
Total Adjustments	298,218	
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>\$ 232,091</b>

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## Supplementary Information

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**LAUDERDALE COUNTY WATER SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**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, 2013**

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

c. Receivables

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, 2013**

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 using the first in-first out method.

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, 2013, 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, 2013 consist of the following:

Deposits:

Cash On Hand	\$ 245
Cash In Bank	485,659
Cash On Deposit Through County Trustee	<u>431,648</u>
 Total Cash and Cash Equivalents	 <u><u>\$ 917,552</u></u>

Investments:

Certificates of Deposits Managed by County Trustee	<u>\$ 1,150,000</u>
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The Water System's deposits and investments at June 30, 2013 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, 2013**

*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: CAPITAL ASSETS**

Capital asset activity was as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2013</u>
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
<b>Capital Assets Being Depreciated:</b>				
Water Plant	8,212,486	52,393	-	8,264,879
Plant Equipment	87,320	3,070	-	90,390
Office Equipment	51,154	-	-	51,154
Equipment	<u>294,599</u>	<u>-</u>	<u>-</u>	<u>294,599</u>
<b>Total Capital Assets Being Depreciated</b>	8,645,559	55,463	-	8,701,022
<b>Less - Accumulated Depreciation For:</b>				
Water Plant	4,083,466	229,325	-	4,312,791
Plant Equipment	39,953	6,452	-	46,405
Office Equipment	33,447	5,233	-	38,680
Equipment	<u>183,540</u>	<u>32,224</u>	<u>-</u>	<u>215,764</u>
<b>Total Accumulated Depreciation</b>	<u>4,340,406</u>	<u>273,234</u>	<u>-</u>	<u>4,613,640</u>
<b>Total Capital Assets Being Depreciated Net</b>	<u>4,305,153</u>	<u>(217,771)</u>	<u>-</u>	<u>4,087,382</u>
<b>Business-Type Activities Capital Assets - Net</b>	<u>\$ 4,315,153</u>	<u>\$ (217,771)</u>	<u>\$ -</u>	<u>\$ 4,097,382</u>

**NOTE 4: BONDS PAYABLE**

The Water System's bond payable loans were retired as of June 30, 2013.

Net changes for the year ended June 30, 2013 in bond balances are:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2013</u>
Loan # 91-01	\$ 11,905.11	\$ -	\$ 11,905.11	\$ -
Loan # 91-04	681,564.10	-	681,564.10	-
<b>Totals</b>	<u>\$ 693,469.21</u>	<u>\$ -</u>	<u>\$ 693,469.21</u>	<u>\$ -</u>

**LAUDERDALE COUNTY WATER SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 5: 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 6: CONCENTRATION OF CREDIT RISK**

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

**NOTE 7: 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 8.87% to fund the employees retirement. Retirement is based on thirty years of service or reaching the age of sixty. For details relative to the funding status and progress, actuarial determined contribution requirements and contributions made, and trend information refer to the Comprehensive Annual Financial Report for Lauderdale County.

**NOTE 8: SUBSEQUENT EVENTS**

The subsequent events have been evaluated through December 31, 2013, which is the date the financial statements were available to be issued. There were no significant events noted.

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## Supplementary Information

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**AWWA WLCC Free Water Audit Software: Reporting Worksheet**

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WASv4.2

[Back to Instructions](#)

[Click to access definition](#)

Water Audit Report for: **Lauderdale County Water System**  
 Reporting Year: **2013** / 7/2012 - 6/2013

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

**WATER SUPPLIED**

<< Enter grading in column 'E'

Volume from own sources:	<input type="text" value="8"/>	<input type="text" value="248.751"/>	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	<input type="text" value="n/a"/>		MG/Yr
Water imported:	<input type="text" value="5"/>	<input type="text" value="58.255"/>	MG/Yr
Water exported:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
<b>WATER SUPPLIED:</b>		<b><input type="text" value="307.006"/></b>	<b>MG/Yr</b>

**AUTHORIZED CONSUMPTION**

Billed metered:	<input type="text" value="7"/>	<input type="text" value="191.634"/>	MG/Yr
Billed unmetered:	<input type="text" value="7"/>	<input type="text" value="0.895"/>	MG/Yr
Unbilled metered:	<input type="text" value="6"/>	<input type="text" value="0.204"/>	MG/Yr
Unbilled unmetered:	<input type="text" value="7"/>	<input type="text" value="3.838"/>	MG/Yr
<b>AUTHORIZED CONSUMPTION:</b>		<b><input type="text" value="196.571"/></b>	<b>MG/Yr</b>

Click here:   
for help using option buttons below

Pcnt:  Value:

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

Use buttons to select percentage of water supplied OR value

**WATER LOSSES (Water Supplied - Authorized Consumption)**

MG/Yr

**Apparent Losses**

Unauthorized consumption:	<input type="text" value="8"/>	<input type="text" value="0.768"/>	MG/Yr
Customer metering inaccuracies:	<input type="text" value="5"/>	<input type="text" value="10.097"/>	MG/Yr
Systematic data handling errors:	<input type="text" value="8"/>	<input type="text" value="0.155"/>	MG/Yr
<b>Apparent Losses:</b>		<b><input type="text" value="11.020"/></b>	

Pcnt:  Value:

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Pcnt:  Value:

Choose this option to enter a percentage of billed metered consumption. This is NOT a default value

**Real Losses (Current Annual Real Losses or CARL)**

Real Losses = Water Losses - Apparent Losses:  MG/Yr

**WATER LOSSES:**  MG/Yr

**NON-REVENUE WATER**

NON-REVENUE WATER:  MG/Yr

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

**SYSTEM DATA**

Length of mains:	<input type="text" value="7"/>	<input type="text" value="650.0"/>	miles
Number of active AND inactive service connections:	<input type="text" value="8"/>	<input type="text" value="4,730"/>	
Connection density:		<input type="text" value="7"/>	conn./mile main
Average length of customer service line:	<input type="text" value="7"/>	<input type="text" value="20.0"/>	ft (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	<input type="text" value="3"/>	<input type="text" value="55.0"/>	psi

**COST DATA**

Total annual cost of operating water system:	<input type="text" value="10"/>	<input type="text" value="\$1,110,365"/>	\$/Year
Customer retail unit cost (applied to Apparent Losses):	<input type="text" value="7"/>	<input type="text" value="\$5.25"/>	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	<input type="text" value="5"/>	<input type="text" value="\$477.60"/>	\$/Million gallons

**PERFORMANCE INDICATORS**

**Financial Indicators**

Non-revenue water as percent by volume of Water Supplied:	<input type="text" value="37.3%"/>
Non-revenue water as percent by cost of operating system:	<input type="text" value="9.7%"/>
Annual cost of Apparent Losses:	<input type="text" value="\$57,853"/>
Annual cost of Real Losses:	<input type="text" value="\$47,481"/>

**Operational Efficiency Indicators**

Apparent Losses per service connection per day:	<input type="text" value="6.32"/>	gallons/connection/day
Real Losses per service connection per day*:	<input type="text" value="N/A"/>	gallons/connection/day
Real Losses per length of main per day*:	<input type="text" value="419.03"/>	gallons/mile/day
Real Losses per service connection per day per psi pressure:	<input type="text"/>	gallons/connection/day/psi
<input type="text" value="7"/> Unavoidable Annual Real Losses (UARL):	<input type="text" value="87.71"/>	million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	<input type="text" value="99.42"/>	million gallons/year
<input type="text" value="7"/> Infrastructure Leakage Index (ILI) (CARL/UARL):	<input type="text" value="1.13"/>	

\* only the most applicable of these two indicators will be calculated

**WATER AUDIT DATA VALIDITY SCORE:**

**\*\*\* YOUR SCORE IS: 69 out of 100 \*\*\***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

**PRIORITY AREAS FOR ATTENTION:**

Based on the information provided, audit accuracy can be improved by addressing the following components:

- Volume from own sources
- Water Imported
- Customer metering inaccuracies

[For more information, click here to see the Grading Matrix worksheet](#)

LAUDERDALE COUNTY WATER SYSTEM  
 Schedule of Current Utility Rates in Force  
 For the Year Ended June 30, 2013

WATER RATES:

Prior to March 2013			
Minimum bill up to 2,000 gal.		\$	10.00
Over 2,000 gallon minimum			5.25 per 1,000 gallons
After March 2013			
Minimum bill up to 2,000 gal.		\$	11.00
Over 2,000 gallon minimum			5.75 per 1,000 gallons

# of customers as of      June 30, 2013      3,809

LAUDERDALE COUNTY WATER SYSTEM  
Comparison of Actual Revenues and Expenditures to Budgeted Revenues and Expenditures  
For the Fiscal Year Ended June 30, 2013

	Original	Budget Final	Actual June 30, 2013	Variances To Final Budget
<b>Operating Revenues</b>				
Water Sales	\$ 1,200,000	\$ 1,200,000	\$ 1,110,365	(89,635.08)
Water Sales - Bad Debts Collected	4,000	4,000	1,868	(2,131.71)
Other Revenue	15,000	15,000	7,889	(7,110.70)
Penalties Income	50,000	50,000	43,710	(6,290.12)
Service Installation	12,000	12,000	5,420	(6,580.00)
Reconnections	18,000	18,000	14,520	(3,480.00)
Sale of Material	5,000	5,000	443	(4,557.00)
Over/(Short)	-	-	(7)	(7.00)
<b>Total Operating Revenues</b>	<b>\$ 1,304,000</b>	<b>\$ 1,304,000</b>	<b>\$ 1,184,208</b>	<b>(119,791.61)</b>
<b>Operating Expenses</b>				
City Water Purchased	\$ 180,000	\$ 180,000	\$ 180,159	(159.23)
Salaries	370,000	372,700	351,146	21,553.80
Contract Meter Reading	46,000	46,000	43,227	2,773.16
Bad Debt Expense	8,000	8,000	2,189	5,810.64
Payroll Tax Expense	32,000	32,000	27,028	4,971.95
Retirement Expense	28,000	28,000	27,019	980.68
Uniform & Clothing	3,000	3,000	2,796	204.10
Commissioners' Compensation	10,000	10,000	8,700	1,300.00
Postage	17,000	17,000	13,789	3,210.76
Freight	600	600	29	571.50
Licenses	300	300	-	300.00
State Fees	10,000	10,000	5,740	4,260.50
Membership Fees	5,000	5,000	1,679	3,321.25
Public Relations	2,000	2,000	577	1,423.00
Electrical	120,000	120,000	100,966	19,034.27
Gas - Heating	6,000	6,000	1,964	4,035.99
Phone	4,000	4,000	2,622	1,378.04
Lab Tests & Lab Expense	5,000	5,000	2,742	2,257.58
Professional Fees	9,000	9,000	3,850	5,150.00
Engineering Expense	6,000	6,000	931	5,068.75
Truck Repairs Expense	5,000	10,000	5,515	4,484.75
Backhoe Repairs	2,000	2,000	610	1,390.41
Ditcher Repairs	2,000	2,500	2,050	449.80
Radio Repairs Expense	15,000	15,000	2,069	12,930.58
Tires & Tire Repairs	3,000	3,000	735	2,265.25
Fuel Expense	35,000	35,000	21,110	13,889.62
Line Repairs & Maintenance	10,000	10,000	2,410	7,589.91
Plant Repairs & Maintenance	25,000	25,000	11,988	13,012.30
Travel - Staff & Board	1,200	1,800	697	1,102.76
Office Expense	19,000	19,000	18,589	411.31
Chemical Expense	28,000	28,000	19,688	8,311.89
Supplies - Lab	2,500	2,500	795	1,705.22
Supplies - Miscellaneous	5,000	5,000	1,850	3,149.91
Supplies - Repair	55,000	55,000	32,467	22,533.22
Insurance expense	95,000	95,000	79,104	15,896.25
Depreciation	-	-	273,234	(273,234.00)
Bank Service Charges	1,000	1,000	272	728.49
Deposit Expense	100	100	-	100.00
<b>Total Operating Expenses</b>	<b>\$ 1,165,700</b>	<b>\$ 1,174,500</b>	<b>\$ 1,250,336</b>	<b>\$ (75,835.59)</b>
<b>Operating Income</b>	<b>\$ 138,300</b>	<b>\$ 129,500</b>	<b>\$ (66,127)</b>	<b>\$ (195,627.20)</b>
<b>Nonoperating Revenues (Expenses)</b>				
Interest Income	\$ 45,000	\$ 45,000	\$ 9,746	\$ (35,253.94)
Interest Expense	(32,739)	(32,739)	(28,411)	(4,328.43)
Sale of Asset	-	-	-	0.00
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 12,261</b>	<b>\$ 12,261</b>	<b>\$ (18,665)</b>	<b>\$ (30,925.51)</b>
<b>Change in Net Assets</b>	<b>\$ 150,561</b>	<b>\$ 141,761</b>	<b>\$ (84,792)</b>	<b>\$ (226,552.71)</b>
<b>Net Assets - July 1, 2012</b>	<b>\$ 6,188,099</b>	<b>\$ 6,188,099</b>	<b>\$ 6,188,099</b>	<b>\$ 0.00</b>
<b>Net Assets - June 30, 2013</b>	<b>\$ 6,338,660</b>	<b>\$ 6,329,860</b>	<b>\$ 6,103,307</b>	<b>\$ (226,552.71)</b>

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Internal Control and Compliance Section

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**William M. Harmon**

Certified Public Accountant

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

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

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 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, 2013 and have issued our report thereon dated December 31, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lauderdale County Water System'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 Lauderdale County Water System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lauderdale County Water System's internal control.

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 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 a material weaknesses. (2013-01)

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. (2013-2)

#### 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 (2013-3)

#### Lauderdale County Water System's Response to Findings

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.

#### 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.



William Harmon  
Certified Public Accountant  
Ripley, Tennessee  
December 31, 2013

LAUDERDALE COUNTY WATER SYSTEM  
Schedule of Findings and Recommendations  
For the Period Ended June 30, 2013

STATUS OF PRIOR YEAR FINDINGS

- 2012-01     Material Audit Adjustments Required – Material Weakness. Repeated -See Finding 2013-01
- 2012-02     Expenses Exceeded Budget – Significant Weakness. Repeated - See Finding 2013-02
- 2012-03     Net Operating Loss – Compliance. Repeated See Finding 2013-03

CURRENT YEAR FINDINGS

- 2013-01     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.

2013-02 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.

2013-03 Net Loss (Non-Compliance)

Condition: The Water System operated at a deficit during the fiscal year ended June 30, 2013. Operating revenues were \$1,182,018 and operating expenses were \$1,248,146 which resulted in a deficit of \$66,128. Without depreciation expense there was a positive change of \$207,106.

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.