

Benton Decatur Special Sewer District
Financial Statements
And Supplementary Information
For the Fiscal Year Ended
June 30, 2015



Lori R. Brasher, CPA, CGMA
PO Box 276
Decaturville, TN 38329

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BENTON-DECATUR SPECIAL SEWER DISTRICT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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INTRODUCTORY SECTION

BENTON-DECATUR SPECIAL SEWER DISTRICT

DIRECTORY

JUNE 30, 2015

BOARD MEMBERS

Russell Keeton, Chairman

Eugene Tubbs

William Hatler

Brett Rogers

Sam Long

Jimmy Kelley

MANAGEMENT TEAM

Emily Ferguson, Certified Public Accountant

COUNSEL

Wood Law Offices, P.C.

Parsons, Tennessee

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Brasher Accounting

Decaturville, Tennessee

FINANCIAL SECTION



125 North Pleasant Street
PO Box 276
Decaturville, TN 38329
731.852.3100
Fax 731.852.2970
lori@lrbrasher.com

Lori R. Brasher, CPA, CGMA

Independent Auditor's Report

To the Management Board
Benton-Decatur Special Sewer District
Parsons, Tennessee

I have audited the accompanying financial statements of the Benton-Decatur Special Sewer District (the District), as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the District'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 an opinion 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 opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2015 and the changes in financial position and cash flows thereof 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 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. 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 our inquiries, the basic financial statements, and other knowledge I obtained during our 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 me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The introductory section and other supplementary information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of long-term debt and sewer rates in force 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 other supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the other supplementary information is 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, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated December 21, 2015, on my consideration of the District's internal control over financial reporting and on my 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 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 District's internal control over financial reporting and compliance.

Brasher Accounting

Decaturville, Tennessee

December 21, 2015

**BENTON-DECATUR SPECIAL SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Benton-Decatur Special Sewer District's basic financial statements. The District presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The statements offer both short-term and long-term financial information about the activities of the Benton-Decatur Special Sewer District.

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

Required Financial Statements for Business-Type Activities

Reporting on the operations of its enterprise funds, the Benton-Decatur Special Sewer District's basic financial statements include a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. The financial statements also include notes that are considered essential to a full understanding of the data that is being presented on the face of the statements. The primary purpose of the notes is to provide additional discussion, enhanced disclosures and tabular presentation of data to further explain information in the financial statements and to provide more detailed data.

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

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

BENTON-DECATUR SPECIAL SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2015

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

Financial Analysis of the District's Business-Type Activities

When analyzing the financial statements of the Benton-Decatur Special Sewer District's business-type activities, the primary consideration should be whether the District as a whole is financially better off or worse off as a result of the year's activities. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position are designed to report information about the District's activities that will help the user determine how good or bad a year it was from a financial perspective. These two statements report the net position of the District and changes in that position.

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

Financial Analysis of the Fiscal Year Ended June 30, 2015

Revenues from sewer services were used to pay all operating and maintenance costs and debt service obligations.

BENTON-DECATUR SPECIAL SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2015

Condensed Statements of Net Position

The Statements of Net Position, shown in tabular format below, represents information on all of the District's assets and liabilities with the difference between the two reported as net position. The District's total net position increased from the prior fiscal year by approximately \$46 thousand or about 6.26 percent for the period.

Our following analysis focuses on the District's net position and the changes in net position during the year.

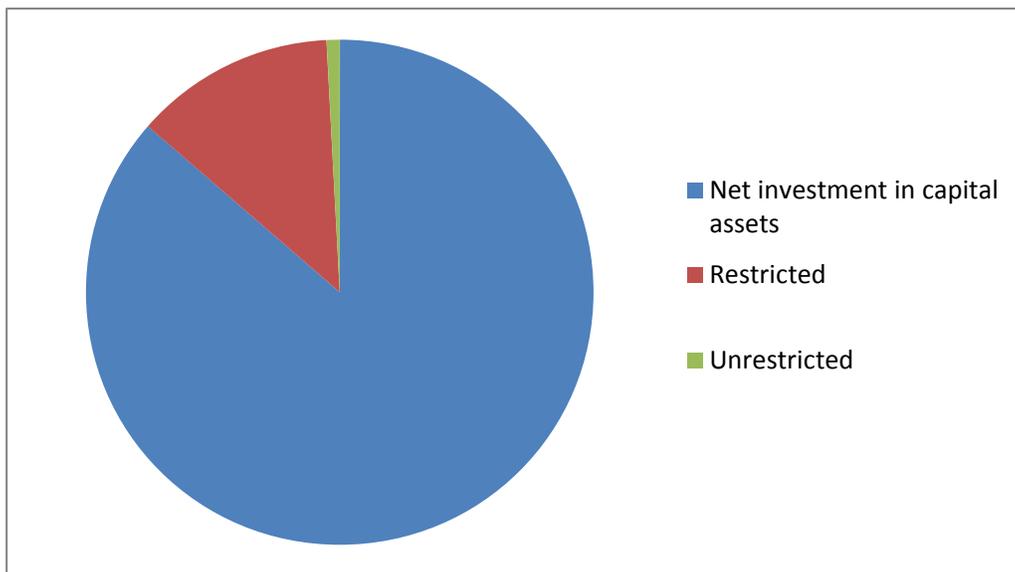
CONDENSED STATEMENTS OF NET POSITION

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
Current and other assets	\$ 111,737.59	\$ 110,479.34	\$ 1,258.25	1.14%
Capital assets	2,261,944.19	2,314,123.90	(52,179.71)	-2.25%
Total Assets	<u>2,373,681.78</u>	<u>2,424,603.24</u>	<u>(50,921.46)</u>	<u>-2.10%</u>
Noncurrent liabilities	1,477,882.06	1,578,879.18	(100,997.12)	-6.40%
Other liabilities	101,179.91	101,697.82	(517.91)	100.00%
Total liabilities	<u>1,579,061.97</u>	<u>1,680,577.00</u>	<u>(101,515.03)</u>	<u>-6.04%</u>
Net Position:				
Net investment in capital assets	683,067.05	635,722.50	47,344.55	7.45%
Restricted	100,995.08	99,522.22	1,472.86	0.00%
Unrestricted	6,561.91	8,781.52	(2,219.61)	-25.28%
Total Net Position	<u>\$ 790,624.04</u>	<u>\$ 744,026.24</u>	<u>\$ 46,597.80</u>	<u>6.26%</u>

BENTON-DECATUR SPECIAL SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2015

Analysis of Net Position

To better understand the District's actual financial position and its ability to deliver services in future periods, the reader will need to review the various components of the net position category and obtain an understanding of how each relate specifically to the business activities that the District's performs. For example, the vast majority of the net position (\$683,067 or approximately 86.4 percent of total net position) represent investment in plant assets, which is the lifeblood to the provision of sewer services.



For the 2015 fiscal year, Net Investment in Capital Assets increased \$47,344 or about 7.45 percent compared to the previous year. The increase in this category is primarily due to the reduction of related debt as a result of debt payments. The amount shown in this category is calculated by taking the depreciated value of our capital assets and subtracting the associated debt.

In comparing the total amount of Restricted Net Position with the previous fiscal year, the change of approximately \$1,473 was totally attributable to the difference in principal payment total for the year as compared to the year before.

BENTON-DECATUR SPECIAL SEWER DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2015

Compared to the prior year’s balance, there was a decrease in the Unrestricted Net Position category of \$2.220 or 25.28 percent. The decrease in this component is largely due to the increase in expenses.

Unrestricted Net Position consists of assets that do not meet the definition of “restricted” or “net investment in capital assets”.

Analysis of Current Assets

The textbook definition of “current assets” is balance sheet items which equals the sum of cash and cash equivalents, accounts receivable, inventory, marketable securities, prepaid expenses, and other assets that could be converted to cash in less than one year. Current assets are important in any financial analysis because it is from current assets that a business funds its ongoing, day-to-day operations. The June 30, 2015 balances of current assets by asset classification are shown in the table below.

Cash and cash equivalents	\$ 92,419.67
Accounts receivable	<u>15,322.15</u>
Total Current Assets	<u>107,741.82</u>

Analysis of Noncurrent Assets

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

BENTON-DECATUR SPECIAL SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2015

In the following table, the Noncurrent Assets of the District at June 30, 2015 are provided by major classification.

Noncurrent Assets	
Land	28,500.00
Sewer facilities	<u>2,602,828.13</u>
Total Noncurrent Assets	2,631,328.13
Less: Accumulated Depreciation	<u>(369,383.94)</u>
Net Noncurrent Assets	<u>2,261,944.19</u>

The presentation effectively demonstrates the relatively large investment that the District has made in capital assets. At the end of the 2015 fiscal year, capital assets represented 100 percent of the noncurrent assets.

Analysis of Liabilities

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

In terms of gauging the relative short-term financial strength of the District, it should be noted that there is roughly \$6,562 in Unrestricted Current Net Position available at June 30, 2015 to extinguish the \$185 in Current Liabilities Payable from Unrestricted Net Position. With a resulting asset to liability ratio of 150.07, the District has placed itself in a strong financial position to meet its immediate obligations.

**BENTON-DECATUR SPECIAL SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2015**

Condensed Statements of Revenues, Expenses and Changes in Net Position

			Increase (Decrease)	
	June 30, 2015	June 30, 2014	Amount	Percent
Revenues:				
Operating revenues	\$ 196,568.84	\$ 209,270.51	\$ (12,701.67)	-6.07%
Non-operating revenue	35.56	35.32	0.24	0.68%
Total Revenues	196,604.40	209,305.83	(12,701.43)	-6.07%
Expenses				
Administrative and general	126,002.86	147,432.15	(21,429.29)	-14.54%
Non-operating expenses	24,003.74	25,457.18	(1,453.44)	-5.71%
Total Expenses	150,006.60	172,889.33	(22,882.73)	-13.24%
Income (loss) before capital contributions	46,597.80	36,416.50	10,181.30	27.96%
Change in net position	46,597.80	36,416.50	10,181.30	27.96%
Net position-beginning	744,026.24	707,609.74	36,416.50	5.15%
Net position - ending	\$ 790,624.04	\$ 744,026.24	\$ 46,597.80	6.26%

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2015, the Benton-Decatur Special Sewer District had a net investment in capital assets of about \$683,067. Additional detailed information concerning the District's capital assets can be found in the notes to the financial statements in section 3.B.

**BENTON-DECATUR SPECIAL SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2015**

Debt

As of June 30, 2015, the Benton-Decatur Special Sewer District had roughly \$1,578,877 in outstanding debt, a net decrease of \$99,524, or approximately 5.93 percent less than the previous fiscal year. See Note 3.C for more details.

Economic Factors, Rates and Next Year's Financial Activity

Economic Factors

The provision of sewer services represents a necessary purchase for the residents and industries covered by the Benton-Decatur Special Sewer District.

Next Year's Budget

The operating budget was balanced with no appropriation of cash reserves.

Sewer Rates

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

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the Chairman of the Benton-Decatur Special Sewer District, PO Box 594, Parsons, TN 38363.

BENTON-DECATUR SPECIAL SEWER DISTRICT

Statement of Net Position

June 30, 2015

Assets

Current Assets

Cash and cash equivalents	\$ 92,419.67
Accounts receivable	15,322.15
Total Current Assets	<u>107,741.82</u>

Noncurrent Assets

Land	28,500.00
Sewer facilities	2,602,828.13
Total Noncurrent Assets	<u>2,631,328.13</u>
Less: Accumulated Depreciation	<u>(369,383.94)</u>
Net Noncurrent Assets	<u>2,261,944.19</u>

Total Assets	<u><u>\$ 2,369,686.01</u></u>
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Liabilities and Net Position

Current Liabilities

Accounts payable	\$ -
Taxes payable	184.83
Current portion of long-term debt	100,995.08
Total Current Liabilities	<u>101,179.91</u>

Noncurrent Liabilities

Bonds and notes payable after one year	1,477,882.06
Total Noncurrent Liabilities	<u>1,477,882.06</u>

Total Liabilities	<u>1,579,061.97</u>
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Net Position

Net investment in capital assets	683,067.05
Restricted	100,995.08
Unrestricted	6,561.91
	<u>790,624.04</u>

Total Net Position	<u>790,624.04</u>
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Total Liabilities and Net Position	<u><u>\$ 2,369,686.01</u></u>
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The accompanying notes are an integral part of these financial statements.

BENTON-DECATUR SPECIAL SEWER DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Position

June 30, 2015

Operating Revenues

Charges for sales and service	\$ 196,568.84
Total Operating Revenues	<u>196,568.84</u>

Operating Expenses

Administrative and general expense	73,823.15
Depreciation and amortization expense	<u>52,179.71</u>
Total Operating Expenses	<u>126,002.86</u>

Operating Income (Loss) 70,565.98

Nonoperating Revenues (Expenses)

Interest income	35.56
Interest expense	<u>(24,003.74)</u>
Total Nonoperating Revenues (Expenses)	<u>(23,968.18)</u>

Net Increase (Decrease) in Net Position 46,597.80

Net Position - beginning of year 744,026.24

Net Position - end of year \$ 790,624.04

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

BENTON-DECATUR SPECIAL SEWER DISTRICT

Statement of Cash Flows

June 30, 2015

Cash Flows from Operating Activities	
Cash received from consumers	\$ 212,098.65
Cash payments to suppliers	(63,677.52)
Cash payments to employees	(12,136.40)
Net Cash Provided (Used) by Operating Activities	<u>136,284.73</u>
Cash Flows from Capital and Related Financing Activities	
Interest paid on long-term debt	(24,003.74)
Payment of debt	(99,524.22)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(123,527.96)</u>
Cash Flows from Investing Activities	
Interest earned	35.56
Net Cash Provided (Used) by Investing Activities	<u>35.56</u>
Net Increase (Decrease) in Cash and Cash Equivalents	12,792.33
Cash and Cash Equivalents at beginning of year	<u>79,627.34</u>
Cash and Cash Equivalents at end of year	<u>\$ 92,419.67</u>
<hr/>	
Reconciliation of Operating Income (Loss) to	
Net Cash Provided (Used) by Operating Activities	
Net operating income (loss)	\$ 70,565.98
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	52,179.71
Changes in Assets and Liabilities:	
(Increase) Decrease in accounts receivable	15,529.81
Increase (Decrease) in accounts payable	(2,100.00)
Increase (Decrease) in taxes payable	109.23
Total Adjustments	<u>65,718.75</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 136,284.73</u>

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

BENTON – DECATUR SPECIAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

These are proprietary fund financial statements and include only the financial activities of Benton-Decatur Special Sewer District. The District is jointly owned between Benton and Decatur counties and is jointly operated between the two counties. The District is operated by a board appointed by the County Executives of each respective government entity. The ownership of the property and facilities of the District are held by the respective counties as tenants in common in equal shares of 50 percent. The District's Management Board must file a quarterly financial report with each respective county. The District began operations as of May 22, 2008.

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

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

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

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

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

BENTON – DECATUR SPECIAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2015

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

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

As permitted by generally accepted accounting principles, the District has chosen to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

The enterprise fund used by the District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues are charges to customers for services that are provided to them. The District also recognizes as operating revenue the connection fees for connecting new customers to the sewer system. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

C. Assets, Liabilities, and Net Position

Deposits and Investments

The District considers all highly liquid investments with original maturities of three months or less to be cash or cash equivalents. These include cash on hand, amounts held in bank accounts and certificates of deposit. State statutes authorize the District to invest in certificates of deposit, obligations of the United States Treasury, obligations guaranteed by the United States government or its agencies, repurchase agreements and the state's investment pool.

BENTON – DECATUR SPECIAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2015

Accounts Receivable

Trade receivables result from unpaid billings for sewer service to customers. The billing and collections for the District are prepared and collected by the North Utility District. The North Utility District remits to the District the entire amount of the billings on a monthly basis. Due to the short duration of prior operations, an allowance for uncollectible accounts receivable is considered unnecessary at this time but will be considered in future years.

Capital Assets

Capital assets, which include property, plant equipment, organizational costs, and construction in progress, are defined by the District as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed and are reported as a component of noncurrent assets in the basic financial statements. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add value to the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Sewerage facility	50 years
Organizational costs	15 years

Net Position

The Benton-Decatur Special Sewer District's financial statements are being presented in conformance with provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" (GASB 34) as amended by GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*" (GASB 63). As required by GASB 34 and GASB 63, the District has classified net position into three components: net investment in capital assets; restricted; and unrestricted. These classifications of Net Position are defined as follows:

BENTON – DECATUR SPECIAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2015

Net investment in capital assets: This component of net position consists of capital assets, including restricted capital assets, reduced by accumulated depreciation and by any outstanding debt incurred to acquire, construct, or improve those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent proceeds of capital-related debt or deferred inflows of resources at year-end, this component does not include the portion of the debt or deferred inflows of resources attributable to the unspent amount. Instead, that debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent proceeds.

Restricted Net Position: This component of net position consists of those net restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets and deferred outflows of resources. Restricted assets are those assets with restrictions on their use that are externally imposed or that are imposed by the government's own constitutional provisions or enabling legislation. When permanent endowments or permanent fund principal amounts are included in this component, restricted net position is displayed in two subcomponents: expendable and nonexpendable.

Unrestricted Net Position: This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Generally, this net position represents those financial resources that are available to the District to meet any future obligations that might arise.

D. Use of Estimates

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

BENTON – DECATUR SPECIAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2015

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

A budget is required as part of the agreement with Benton County and Decatur County for the District. The annual operating budget is submitted to each county on or before April 1 of each year. The total expenditures of the District in any fiscal year are determined by the approved budget. The respective counties must approve any purchases or expenditures in excess of the sum allotted in the annual budget.

NOTE 3: DETAILED NOTES

A. Deposits and Investments

Custodial Credit Risk

The District's policies limit deposits and investments to those instruments allowed by applicable state laws and are described in Note 1. State statute requires that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the District's agent in the District's name, or by the treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations, and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2015 all bank deposits were fully collateralized or insured.

BENTON – DECATUR SPECIAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2015

B. Capital Assets

Capital asset activity during the year ending June 30, 2015 was as follows:

	<u>Balance 7/1/14</u>	<u>Additions / Completions</u>	<u>Retirements / Adjustments</u>	<u>Balance 06/30/15</u>
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION				
Capital assets not being depreciated				
Land	\$ 28,500.00	\$ -	\$ -	\$ 28,500.00
Total Capital assets not being depreciated	<u>28,500.00</u>	<u>-</u>	<u>-</u>	<u>28,500.00</u>
Capital assets being depreciated				
Startup costs	-	-	-	-
Sewer facilities	2,602,828.13	-	-	2,602,828.13
Total Capital assets being depreciated	<u>2,602,828.13</u>	<u>-</u>	<u>-</u>	<u>2,602,828.13</u>
Less accumulated depreciation/amortization for:				
Startup costs	-	-	-	-
Sewer facilities	317,204.23	52,179.71	-	369,383.94
Total accumulated depreciation/amortization	<u>317,204.23</u>	<u>52,179.71</u>	<u>-</u>	<u>369,383.94</u>
Total capital assets, being depreciated, net	<u>2,285,623.90</u>	<u>(52,179.71)</u>	<u>-</u>	<u>2,233,444.19</u>
Governmental activities capital assets, net	<u>\$ 2,314,123.90</u>	<u>\$ (52,179.71)</u>	<u>\$ -</u>	<u>\$ 2,261,944.19</u>

C. Long Term Debt

The District has a note payable for a joint sewer project between Benton and Decatur counties financed through the Clean Water State Revolving Fund. The project was originally approved June 29, 2004 with each County being approved for \$600,000. This amount was increased by \$500,000 on December 18, 2006 for a total loan of \$1,100,000 to each county and a total loan of \$2,200,000 for the entire District for which the District is responsible for repaying. The interest rate on the loans is 1.47%. The project was placed in operation on May 22, 2008. Principle repayment began in September 2009. The loan term is for a period of 20 years.

BENTON – DECATUR SPECIAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2015

The scheduled annual requirements for long-term debt at June 30, 2015 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 100,995.08	\$ 22,530.88	123,525.96
2017	102,489.77	21,036.19	123,525.96
2018	104,006.55	19,519.41	123,525.96
2019	105,545.79	17,980.17	123,525.96
2020	107,107.81	16,418.15	123,525.96
2021-2025	559,790.51	57,839.29	617,629.80
2026-2030	498,941.67	15,741.41	514,683.08
Total	<u>\$1,578,877.18</u>	<u>\$ 171,065.50</u>	<u>\$1,749,942.68</u>

Activity for the year ending June 30, 2015 was as follows:

<u>June 30, 2014</u>	<u>Additions</u>	<u>Repayments</u>	<u>June 30, 2015</u>	<u>Due Within One Year</u>
\$ 1,678,401.40	\$ -	\$ 99,524.22	\$1,578,877.18	\$ 100,995.08

NOTE 4: OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During the year ended June 30, 2015 the District purchased commercial insurance for all of the above risks. There have been no settled claims in the past.

BENTON – DECATUR SPECIAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2015

B. Litigation and Contingencies

The District was sued by an individual regarding a dispute over the portion of the individual's condemned property used by the District and the assigned value of the condemned property. A judgment was rendered in the matter against the District for \$97,357.36 as of August 30, 2008. The District appealed the case with an oral argument heard on July 21, 2009. The appeal was dismissed and the matter was remanded to the Circuit Court for the trial judge to rule on the legal counsel's motion to amend and insert the correct property description for the property taken. As the legal counsel has been unable to convince the Judge to amend the pleadings, the former legal counsel advised to seek another attorney to handle the case going forward. Subsequently, for this case the District is represented by James G. Stranch, III from Nashville, Tennessee. Currently, the balance to close the case is \$80,000 plus interest. A claim on the professional liability insurance of the previous legal counsel has been filed to cover the settlement of the case.

End of Notes to Financial Statements

OTHER SUPPLEMENTARY INFORMATION SECTION

BENTON-DECATUR SPECIAL SEWER DISTRICT
Schedule of Operating Income and Expenses
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Budget</u>	<u>Actual</u>	
Revenues				
Charges for sales and service	\$ 211,236.77	\$ 211,236.77	\$ 196,572.84	\$ (14,663.93)
Total revenues	<u>211,236.77</u>	<u>211,236.77</u>	<u>196,572.84</u>	<u>(14,663.93)</u>
Operating expenses				
Administrative and general expenses				
Cost of operations - cost of goods sold	20,571.40	20,571.40	20,642.58	(71.18)
Accounting fees	4,550.00	4,550.00	4,450.00	100.00
Management Board fees				-
Office supplies				-
NUD Administrative fees	12,000.00	12,000.00	12,000.00	-
Insurance	6,754.00	6,754.00	6,399.00	355.00
Permit fees	350.00	350.00	350.00	-
Labor	900.00	900.00	300.00	600.00
Legal notices	648.11	648.11	392.63	255.48
Salaries and payroll	12,136.40	12,136.40	12,136.40	-
Parts				-
Repairs and maintenance	8,590.25	8,590.25	3,590.05	5,000.20
Utilities	14,098.05	14,098.05	13,562.49	535.56
Total administrative and general expenses	<u>80,598.21</u>	<u>80,598.21</u>	<u>73,823.15</u>	<u>6,775.06</u>
Depreciation and amortization expense	52,179.71	52,179.71	52,179.71	-
Total operating expenses	<u>132,777.92</u>	<u>132,777.92</u>	<u>126,002.86</u>	<u>6,775.06</u>
Operating income (loss)	<u>\$ 78,458.85</u>	<u>\$ 78,458.85</u>	<u>\$ 70,569.98</u>	<u>\$ (7,888.87)</u>

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

BENTON-DECATUR SPECIAL SEWER DISTRICT

Schedule of Long-term Debt Principal and Interest Requirements by Fiscal Year

June 30, 2015

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	100,995.08	22,530.88
2017	102,489.77	21,036.19
2018	104,006.55	19,519.41
2019	105,545.79	17,980.17
2020	107,107.81	16,418.15
2021	108,692.94	14,833.02
2022	110,301.53	13,224.43
2023	111,933.94	11,592.02
2024	113,590.51	9,935.45
2025	115,271.59	8,254.37
2026	116,977.54	6,548.42
2027	118,708.73	4,817.23
2028	120,465.54	3,060.42
2029	122,248.38	1,277.58
2030	20,541.48	37.76
	<u>\$ 1,578,877.18</u>	<u>\$ 171,065.50</u>

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

BENTON-DECATUR SPECIAL SEWER DISTRICT

SEWER RATES IN FORCE

June 30, 2015

Residential Rate Schedule		
Connection Fee	\$	1,500.00
Sewer charge - per 1,000 gallons of water		19.75
Commercial Rate Schedule		
Connection Fee	\$	2,500.00
Sewer charge - per 1,000 gallons of water		19.75
Number of customers		16

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

BENTON-DECATUR SPECIAL SEWER DISTRICT
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended June 30, 2015

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Beginning (Accrued) / Deferred</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending (Accrued) / Deferred</u>
<u>Federal Awards</u>						
No federal award activity						
<u>State Financial Assistance</u>						
Tennessee Department of Transportation State Revolving Fund Loan Program	N/A	CWSRF 2002-163	\$ 1,678,401.40	\$ -	\$ 99,524.22	\$ 1,578,877.18
TOTAL STATE AWARDS			<u>\$ 1,678,401.40</u>	<u>\$ -</u>	<u>\$ 99,524.22</u>	<u>\$ 1,578,877.18</u>
TOTAL FEDERAL & STATE AWARDS			<u>\$ 1,678,401.40</u>	<u>\$ -</u>	<u>\$ 99,524.22</u>	<u>\$ 1,578,877.18</u>

* Denotes a major program

Note 1: This Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of the Benton-Decatur County Special Sewer District under programs of the federal and state governments for the year ended June 30, 2015. The schedule is presented using the modified accrual basis of accounting.

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

INTERNAL CONTROL AND COMPLIANCE SECTION



125 N. Pleasant Street
PO Box 276
Decaturville, TN 38329
731.852.3100
Fax 731.852.2970
lori@lrbrasher.com

Lori R. Brasher, CPA, CGMA

**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***

To the Management Board
Benton-Decatur Special Sewer District
Parsons, Tennessee

I 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 Benton-Decatur Special Sewer District (the District) as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated December 21, 2015.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District'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.

My 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 my audit I did not identify any deficiencies in internal control that I 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 District's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of the Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result 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.

Brasher Accounting

Decaturville, Tennessee
December 21, 2015

BENTON-DECATUR SPECIAL SEWER DISTRICT
SCHEDULE OF FINDINGS
JUNE 30, 2015

No Current Year Findings Found

DISPOSITION OF PRIOR YEAR FINDINGS

No Prior Year Findings

End of Schedule of Findings

