

Spring Creek Utility District
Of Hardeman County, Tennessee
Financial Statements
For the Year Ended June 30, 2010

JONES & JONES
CERTIFIED PUBLIC ACCOUNTANTS
OF BOONEVILLE, P.A.
BOONEVILLE, MISSISSIPPI 38829-0250

Spring Creek Utility District of Hardeman County, Tennessee

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**Spring Creek Utility District of Hardeman County, Tennessee
Roster of Commissioners
June 30, 2010**

Name of Commissioner

Title

Robert T. Vickers
Gary Rodgers
John Sain

President
Treasurer
Commissioner

JONES & JONES
*CERTIFIED PUBLIC ACCOUNTANTS
OF BOONEVILLE PA*

Kermit V Jones Jr., C.P.A.

Christopher D. Jones, C.P.A.

Jeremy D. Jones, C.P.A.

David W. Jones, C.P.A.

Independent Auditors' Report

To the Board of Commissioners
Spring Creek Utility District
of Hardeman County, Tennessee
Bolivar, Tennessee

We have audited the accompanying Statement of Net Assets of Spring Creek Utility District of Hardeman County, Tennessee (the District) as of June 30, 2010, and the related Statements of Revenues, Expenses, and Changes in Net Assets, and Cash Flows for the year then ended, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spring Creek Utility District of Hardeman County, Tennessee as of June 30, 2010, 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.

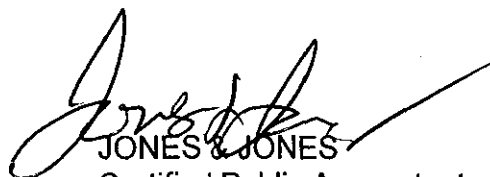
In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational,

economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying supplemental information listed in the table of contents as Schedules 1, 2 and 4 is presented for purposes of additional analysis and is not a required part of the financial statements. The information listed in the table of contents as Schedules 1, 2, and 4 has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The other supplemental information listed in the table of contents as Schedule 3 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Sincerely yours,


JONES & JONES
Certified Public Accountants
of Booneville, P.A.

September 27, 2010

Spring Creek Utility District of Hardeman County, Tennessee

Management's Discussion and Analysis

As management of Spring Creek Utility District of Hardeman County, Tennessee, we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2010. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The District's total net assets increased by \$3,099 or .2% over the course of the year's operations.

The District's operating expenses in 2010 were \$13,645 or 4.32% more than 2009, primarily due to increased maintenance, secretarial and janitorial wages of \$6,343, water usage of \$5,914, and office supplies of \$5,983.

User fee revenues from water sales and related charges decreased by \$29,625 or 7.83% in 2010 due to an approximate 2% decrease in average users and a 7.625% decrease in water consumption compared to the prior year.

The District bills and collects sewer fees for the City of Bolivar, Tennessee. The District collected \$37,113 and remitted sewer fees totaling \$35,897 to the City of Bolivar, Tennessee during 2010. These collections and remittances are not revenues or expenses of the District and any differences are included in restricted cash and cash equivalents - sewer and restricted accounts receivable - sewer and offsetting due to City of Bolivar, TN - sewer on the Statement of Net Assets; therefore, they are not included in the District's revenue or expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report includes the management's discussion and analysis report, the independent auditor's report, the basic financial statements and other supplemental information of the District. The financial statements also include notes that explain in more detail some of the information in the financial statements and are followed by a section of other supplemental information which includes 1) Schedule 1—Schedule of Expenditures of Federal Awards and State Financial Assistance, 2) Schedule 2—Utility Rates in Force, Number of Customers, and Unaccounted for Water, 3) Schedule 3—Schedule of Unaccounted for Water and 4) Schedule 4—Schedule of Long Term Debt, Principal and Interest Requirements by Fiscal Year.

Management's Discussion and Analysis

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short and long term financial information about its activities. The Statement of Net Assets includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for 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 Assets. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the District's activities in a way that will help answer this question. These two statements report the net assets of the District and the changes in them. One can think of the District's net assets—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 assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

Spring Creek Utility District of Hardeman County, Tennessee

Management's Discussion and Analysis

NET ASSETS

To begin our analysis, a summary of the District's Statement of Net Assets is presented in Table A-1.

**Table A-1
Condensed Statements of Net Assets**

	FY 2010	FY 2009	Dollar Change	Total Percent Change
Current and Other Assets	\$ 587,898	\$ 555,615	\$ 32,283	5.8
Capital Assets	<u>1,507,568</u>	<u>1,546,805</u>	<u>(39,237)</u>	<u>(2.5)</u>
Total Assets	2,095,466	2,102,420	(6,954)	(0.3)
Long-Term Debt Outstanding	422,014	435,731	(13,717)	(3.1)
Other Liabilities	<u>85,100</u>	<u>81,436</u>	<u>3,664</u>	<u>4.5</u>
Total Liabilities	507,114	517,167	(10,053)	(1.9)
Invested in Capital Assets				
Net of Related Debt	1,085,554	1,111,074	(25,520)	(2.3)
Restricted Net Assets	69,260	68,267	993	1.5
Unrestricted Net Assets	<u>433,538</u>	<u>405,912</u>	<u>27,626</u>	<u>6.8</u>
Total Net Assets	<u>\$ 1,588,352</u>	<u>\$ 1,585,253</u>	<u>\$ 3,099</u>	<u>0.2</u>

As can be seen from the table above, net assets increased \$3,099 to \$1,588,352 in 2010 from \$1,585,253 in 2009. The increase in net assets was primarily due to operating profit as further explained on page 6.

Changes in current and other assets were due to an increase in cash in bank from normal operations.

Changes in other liabilities were due to an increase in accounts payable from normal operations.

**Table A-2
Condensed Statements of Revenues, Expenses and Changes in Assets**

	FY 2010	FY 2009	Dollar Change	Total Percent Change
Operating Revenues	\$ 348,931	\$ 378,556	\$ (29,625)	(7.8)
Non-Operating Revenues	<u>5,540</u>	<u>6,654</u>	<u>(1,114)</u>	<u>(16.7)</u>
Total Revenues	<u>\$ 354,471</u>	<u>\$ 385,210</u>	<u>\$ (30,739)</u>	<u>(8.0)</u>

Spring Creek Utility District of Hardeman County, Tennessee

Management's Discussion and Analysis

NET ASSETS - continued

**Table A-2 - continued
Condensed Statements of Revenues, Expenses and Changes in Assets**

	FY 2010	FY 2009	Dollar Change	Total Percent Change
Depreciation Expense	\$ 44,943	\$ 45,066	\$ (123)	(0.3)
Other Operating Expense	284,540	270,772	13,768	5.1
Non-Operating Expense	<u>22,539</u>	<u>23,169</u>	<u>(630)</u>	<u>(2.7)</u>
 Total Expenses	 <u>352,022</u>	 <u>339,007</u>	 <u>13,015</u>	 <u>3.8</u>
 Income (Loss) Before Capital Contributions	 2,449	 46,203	 (43,754)	 (94.7)
Capital Contributions	<u>650</u>	<u>3,900</u>	<u>(3,250)</u>	<u>(83.3)</u>
 Changes in Net Assets	 3,099	 50,103	 (47,004)	 (93.8)
Beginning Net Assets	<u>1,585,253</u>	<u>1,535,150</u>	<u>50,103</u>	<u>3.3</u>
 Ending Net Assets	 <u>\$ 1,588,352</u>	 <u>\$ 1,585,253</u>	 <u>\$ 3,099</u>	 <u>0.2</u>

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Net Assets provides answers as to the nature and sources of these changes. As can be seen in Table A-2 above, income (loss) before contributions of \$2,449 and capital contributions of \$650 were the two sources of the increase in net assets of \$3,099 in 2010.

The District's operating revenue decreased by \$29,625 in 2010 to \$348,931 from \$378,556 in 2009 due to an approximate 2% decrease in average users and a 7.625% decrease in water consumption compared to the prior year.

Non-operating revenues decreased \$1,114 in 2010 to \$5,540 from \$6,654 in 2009 due to reduced interest rates on the District's certificates of deposit.

Other operating expenses increased \$13,768 in 2010 to \$284,540 from \$270,772 in 2009 due to increased maintenance, secretarial and janitorial wages of \$6,343, water usage of \$5,914, and office supplies of \$5,983.

Non-operating expenses decreased \$630 in 2010 to \$22,539 from \$23,169 in 2009 due to a reduction in interest expense associated with reduced long term debt balances.

Spring Creek Utility District of Hardeman County, Tennessee

Management's Discussion and Analysis

BUDGETARY HIGHLIGHTS

The District adopts an annual Operating Budget following the Board of Commissioners budget workshop. The operating budget includes proposed expenses and the means of financing them. The District's Operating Budget remains in effect the entire year and was not revised during the year. A fiscal 2010 budget comparison and analysis is presented to management as interim financial statements; however, they are not reported on nor shown in the financial statement section of this report.

A 2010 budget comparison and analysis is presented in Table A-3.

**Table A-3
Budget vs. Actual
Fiscal Year 2010**

	Original Budget	Revised Budget	Actual	Variance
Revenues				
Operations				
Water sales	\$ 388,000	\$ 388,000	\$ 341,372	\$ (46,628)
Less bad debts	(7,500)	(7,500)	(3,432)	4,068
Service charges	13,000	13,000	5,400	(7,600)
Reconnection fees	-	-	4,940	4,940
Miscellaneous	10,000	10,000	651	(9,349)
Non-operating - investment income	-	-	5,540	5,540
Total Revenues	403,500	403,500	354,471	(49,029)
Expenses				
Operating Expenses				
Purchased water	125,000	125,000	128,914	3,914
Maintenance and supplies	12,000	12,000	5,651	(6,349)
Maintenance and meter reader salary	47,000	47,000	50,224	3,224
Manager's and clerk's salary	26,000	26,000	23,519	(2,481)
Supplies and expense - billing	21,000	21,000	13,084	(7,916)
Grounds maintenance	-	-	2,815	2,815
Professional fees	6,000	6,000	4,900	(1,100)
Commissioner fees	10,800	10,800	10,800	-
Insurance	9,800	9,800	9,210	(590)
Telephone	15,000	15,000	13,203	(1,797)
Building and equipment repair	-	-	174	174
Rent expense	-	-	75	75
Utilities	5,000	5,000	5,153	153
Software maintenance	-	-	1,840	1,840
Payroll taxes	-	-	6,296	6,296
Property taxes	-	-	31	31
Janitorial	-	-	1,659	1,659
Security	-	-	2,191	2,191
Miscellaneous	12,000	12,000	4,801	(7,199)
Depreciation	47,500	47,500	44,943	(2,557)
Non-operating expense - interest	34,000	34,000	22,539	(11,461)
Total Expenses	\$ 371,100	\$ 371,100	\$ 352,022	\$ (19,078)

Spring Creek Utility District of Hardeman County, Tennessee

Management's Discussion and Analysis

BUDGETARY HIGHLIGHTS - continued

Table A-3 - continued

**Budget vs. Actual
Fiscal Year 2010**

	Original Budget	Revised Budget	Actual	Variance
Income (Loss) Before Capital Contributions	\$ 32,400	\$ 32,400	\$ 2,449	\$ (29,951)
Capital Contributions				
Tap fees	<u>4,000</u>	<u>4,000</u>	<u>650</u>	<u>(3,350)</u>
Net Income	<u>\$ 36,400</u>	<u>\$ 36,400</u>	<u>\$ 3,099</u>	<u>\$ (33,301)</u>

The following is a discussion on select differences noted above. Water sales fell short of budgeted amounts due to an approximate 2% decrease in average users and a 7.625% decrease in water consumption compared to the prior year. Investment income is included in budgeted miscellaneous income. Budgeted interest expense includes the principal payment on long-term debt of \$13,717, which is not included on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

CAPITAL ASSETS

At the end of 2010, the District had invested \$1,507,568 in capital assets including the water utility plant in service as shown in Table A-4.

**Table A-4
Capital Assets
Fiscal Year 2010**

	FY 2010	FY 2009	Dollar Change	Total Percent Change
Utility plant in service	\$ 1,908,241	\$ 1,904,260	\$ 3,981	0.2
Land	60,487	60,487	-	-
Building	257,144	257,144	-	-
Equipment and automotive	96,162	94,437	1,725	1.8
Office equipment	20,007	20,007	-	-
Computer software	<u>606</u>	<u>606</u>	<u>-</u>	<u>-</u>
Subtotal (carried forward)	\$ 2,342,647	\$ 2,336,941	\$ 5,706	0.2

Spring Creek Utility District of Hardeman County, Tennessee

Management's Discussion and Analysis

CAPITAL ASSETS - continued

Table A-4 - continued

Capital Assets Fiscal Year 2010

	<u>FY 2010</u>	<u>FY 2009</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Subtotal (brought forward)	\$ 2,342,647	\$ 2,336,941	\$ 5,706	0.2
Less: Accumulated Depreciation	<u>835,079</u>	<u>790,136</u>	<u>44,943</u>	<u>5.7</u>
Net Property and Equipment	<u>\$ 1,507,568</u>	<u>\$ 1,546,805</u>	<u>\$ (39,237)</u>	<u>(2.5)</u>

The District purchased a water storage tank for \$3,981 and a water leak detector for \$1,725.

DEBT ADMINISTRATION

Revenue bond indebtedness outstanding at June 30, 2010 amounted to \$422,014. This revenue bond is identified as Rural Utilities Services 91-03. Note number 91-03 bears interest at 5.25% and requires monthly payments of \$2,789. Note number 91-03 will mature on June 30, 2032. Payments on this note are required to be paid from water utility revenues. The District reduced the above long-term debt by \$13,717 in 2010 to \$422,014 from \$435,731 at June 30, 2009. No new debt was issued during 2010.

The District has not received a rating from Standard & Poor's.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Commissioners and management of the District considered many factors when setting the fiscal year 2011 budget, user fees and charges. One of those factors is the local economy, and the impact our rates have on our customers as well as anticipated needs of the water utility system.

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the management or the Board of Commissioners (Robert Vickers, Gary Rodgers or John Sain) at 731-658-6559 or write to Spring Creek Utility District of Hardeman County, Tennessee, P.O. Box 3, Bolivar, TN 38008.

Spring Creek Utility District of Hardeman County, Tennessee
Statement of Net Assets
June 30, 2010

ASSETS

Current and Other Assets	
Cash and cash equivalents	\$ 180,303
Restricted cash and cash equivalents - sewer	7,331
Temporary cash investments	213,308
Restricted temporary cash investments - debt service	69,260
Interest receivable	316
Restricted interest receivable	80
Accounts receivable (net)	42,617
Restricted accounts receivable (net) - sewer	9,680
Utility deposit	450
Inventory	8,222
Prepaid expenses	<u>10,740</u>
Total Current Assets	<u>542,307</u>
Noncurrent Assets	
Temporary cash investments not maturing within one year	<u>45,591</u>
Total Noncurrent Assets	<u>45,591</u>
Capital Assets	
Nondepreciable land, improvements and construction in progress	60,487
Depreciable capital assets, net of accumulated depreciation	<u>1,447,081</u>
Net Capital Assets	<u>1,507,568</u>
Total Noncurrent Assets	<u>1,553,159</u>
Total Assets	<u>\$ 2,095,466</u>

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

Spring Creek Utility District of Hardeman County, Tennessee
Statement of Net Assets
June 30, 2010

LIABILITIES

Current Liabilities:	
Accounts payable	\$ 17,517
Customer deposits	44,820
Other liabilities	5,752
Current portion of long term debt	11,588
Current liabilities payable from restricted assets:	
Due to City of Bolivar, Tennessee - sewer	<u>17,011</u>
Total Current Liabilities	<u>96,688</u>
Long Term Liabilities:	
Revenue bonds payable	<u>410,426</u>
Total Long Term Liabilities	<u>410,426</u>
Total Liabilities	<u>507,114</u>

NET ASSETS

Invested in capital assets, net of related debt	1,085,554
Restricted for debt service - expendable	69,340
Unrestricted net assets	<u>433,458</u>
Total Net Assets	<u>\$ 1,588,352</u>

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

Spring Creek Utility District of Hardeman County, Tennessee
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2010

Operating Revenues	
Charges for Services:	
Water sales including penalties	\$ 337,940
Service charges	5,400
Reconnection fees	<u>4,940</u>
Total Charges for Service	348,280
Miscellaneous	<u>651</u>
Total Operating Revenues	<u>348,931</u>
Operating Expenses	
Cost of goods sold	
Purchased water	128,914
Maintenance and meter reading	
Maintenance and supplies	5,651
Maintenance and meter reader salary	50,224
General and administrative	
Manager's and clerk's salary	23,519
Supplies and expense - billing	13,084
Grounds maintenance	2,815
Professional fees	4,900
Commissioner fees	10,800
Insurance	9,210
Telephone	13,203
Building and equipment repair	174
Rent expense	75
Utilities	5,153
Software maintenance	1,840
Payroll taxes	6,296
Janitorial	1,659
Security	2,191
Miscellaneous	4,801
Property Taxes	31
Depreciation	<u>44,943</u>
Total Operating Expenses	<u>329,483</u>
Net Operating Income	<u>\$ 19,448</u>

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

Spring Creek Utility District of Hardeman County, Tennessee
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2010

Non-Operating Revenue (Expense)	
Investment income	\$ 5,540
Interest expense	<u>(22,539)</u>
Total Non-Operating Revenue (Expense)	<u>(16,999)</u>
Net Income (Loss) before Contributions	2,449
Capital contributions	<u>650</u>
Changes in Net Assets	3,099
Net Assets - Beginning of Year	<u>1,585,253</u>
Net Assets - End of Year	<u>\$ 1,588,352</u>

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

Spring Creek Utility District of Hardeman County, Tennessee
Statement of Cash Flows
For the Year Ended June 30, 2010

Cash Flows From Operating Activities	
Cash received from customers	\$ 356,340
Other operating cash receipts	651
Cash paid to suppliers of goods or services	(190,839)
Cash paid to employees	<u>(92,498)</u>
Net Cash Provided (Used) by Operating Activities	<u>73,654</u>
Cash Flows From Investing Activities	
Maturity of certificates of deposit	346,965
Interest received from investments	5,924
Investment in certificates of deposit	<u>(352,793)</u>
Net Cash Provided (Used) by Investing Activities	<u>96</u>
Cash Flows from Capital and Related Financing Activities	
Capital contributions received	650
Acquisition or construction of capital assets	(5,706)
Principal payment on revenue bonds	(13,717)
Interest paid on bonds	<u>(22,539)</u>
Net Cash Provided (Used) by Financing Activities	<u>(41,312)</u>
NET INCREASE (DECREASE) IN CASH	32,438
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>155,196</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 187,634</u>

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

Spring Creek Utility District of Hardeman County, Tennessee
Statement of Cash Flows
For the Year Ended June 30, 2010

Reconciliation of Net Income (Loss) to Net Cash
 Provided (Used) by Operating Activities

Net operating income (loss)	\$ 19,448
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities	
Depreciation	44,943
(Increase) decrease in accounts receivable	7,350
(Increase) decrease in prepaid expenses	272
(Increase) decrease in inventories	(2,023)
Increase (decrease) in accounts payable	3,294
Increase (decrease) in other accrued liabilities	(340)
Increase (decrease) in customer deposits	<u>710</u>
Total Adjustments	<u>54,206</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 73,654</u>

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

Spring Creek Utility District of Hardeman County, Tennessee
Notes to Financial Statements
June 30, 2010

1. Summary of Significant Accounting Policies

The financial statements of the Spring Creek Utility District of Hardeman County, Tennessee (the District) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date to its business-type activities, the District has chosen not to do so. The significant accounting principles and policies utilized by the District are described below:

A. Reporting Entity

The Spring Creek Utility District of Hardeman County, Tennessee, was created on October 22, 1964, pursuant to the provisions of the Utility District Law of 1937, as amended (Section 6-2601-6-2636, *Tennessee Code Annotated*) for the purpose of providing a waterworks system for its members within its boundaries. The District provides water to its members in the Spring Creek, Hardeman County, Tennessee and the surrounding communities. The District is a utility district governed by a three member commission, appointed in accordance with the bylaws of the District. Each member utilizing the District's services is billed for the actual water used based on established water rates. The District also collects sewage fees for the City of Bolivar, Tennessee in a fiduciary capacity. There are no component units over which the District exercises significant influence. Significant influence or accountability is based on operational or financial relationships with the District (as distinct from legal relationships).

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

The term measurement focus is used to denote what is being measured and reported in the District's operating statement. The District is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the District is better or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on the District's operating statement. The District uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Spring Creek Utility District of Hardeman County, Tennessee
Notes to Financial Statements
June 30, 2010

1. Summary of Significant Accounting Policies - continued

B. Measurement Focus and Basis of Accounting and Financial Statement Presentation - continued

The District follows the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a management's discussion and analysis section, a statement of net assets, a statement of activities and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components—invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt—This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted—This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. It is the District's policy to expend restricted funds first if both restricted and unrestricted funds are available.

Unrestricted net assets—This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Spring Creek Utility District of Hardeman County, Tennessee
Notes to Financial Statements
June 30, 2010

1. Summary of Significant Accounting Policies - continued

C. Cash and Cash Equivalents and Investments

Cash and Cash Equivalents

The District has implemented Governmental Accounting Standards Board Statement No. 40. This standard establishes and modifies disclosure requirements to deposit risks (custodial credit and foreign risks) and investment risks (credit, interest rate and foreign currency risks).

For purposes of the statement of cash flows, the District's proprietary fund types consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

Investments consist of certificates of deposit and are stated at cost which approximates fair value.

D. Receivables—Water Sales

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides an allowance for doubtful collections that is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Receivables consist of amounts due from water customers for meter readings through June 21, 2010 and an estimate for water usage from June 21, 2010 to June 30, 2010. Receivables become delinquent if not paid by the 21st of the month and meters are pulled on the 5th of the following month. Accounts receivable are written off monthly when customers move from the system.

Management reviews outstanding receivables at year end and establishes a provision for doubtful accounts when collection is deemed doubtful. A provision of \$11,856 was made as of June 30, 2010. The District's receivables are collateralized by customer deposits totaling \$44,820.

E. Inventories

Inventories consist of water department maintenance supplies and are valued at average cost which approximates market. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than when purchased.

Spring Creek Utility District of Hardeman County, Tennessee
Notes to Financial Statements
June 30, 2010

1. Summary of Significant Accounting Policies - continued

F. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid items.

G. Capital Assets

Capital assets are defined by the District as assets with an initial, individual cost of more than \$250 and an estimated useful life in excess of one year. Capital assets of the District are recorded at historical cost. Donated assets are valued at their estimated fair value on the date donated. Depreciation of all exhaustible capital assets is charged as an expense against operations. Depreciation is computed using the straight-line method over 50 years for the water system and 5 to 10 years for the equipment.

Major additions and betterments are capitalized, while expenditures for maintenance and repairs and planned maintenance that do not add value to the asset or materially extend asset lives are charged to operations as incurred. Interest accrued on financing costs during construction is capitalized as construction costs.

H. Payables

The accounts payable consist mainly of \$14,342 for water purchases for resale. The balance of payables is normal operating expenses. All payables are expected to be paid in the subsequent fiscal year.

I. Compensated Absences

The District does not provide vacation or sick pay to its employees.

J. Long Term Obligations

Long term debt and other obligations are reported as utility liabilities. The District does not engage in conduit debt transactions.

K. Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are fees for water sales. Operating expenses include the costs associated with purchase and delivery of water, administration expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Spring Creek Utility District of Hardeman County, Tennessee
Notes to Financial Statements
June 30, 2010

1. Summary of Significant Accounting Policies - continued

L. Operating Revenues

Utility billings are rendered and recorded monthly based on monthly metered flows.

M. Taxes

Local utility districts are exempt from federal and state income taxes.

N. Contributed Capital

The District has received federal and state grants to pay a portion of the construction costs of the water distribution system. As a result of adopting GASB No. 34 contributed capital is now included in Net Assets on the accompanying financial statements.

2. Deposits and Investments

At June 30, 2010 the cash and investments included the following:

<u>Account Balances</u>		<u>Classification of Funds</u>	
Petty cash/cash on hand	\$ 250	Cash and cash equivalents	\$ 180,303
		Restricted cash and cash equivalents - sewer	7,331
Demand deposits	187,384	Temporary cash investments	213,308
		Restricted temporary cash investments - debt service	69,260
Certificates of deposit	<u>328,159</u>	Noncurrent temporary cash investments	<u>45,591</u>
	<u>\$ 515,793</u>		<u>\$ 515,793</u>

Spring Creek Utility District of Hardeman County, Tennessee
Notes to Financial Statements
June 30, 2010

2. Deposits and Investments - continued

Deposits

The deposits of the District are governed by State of Tennessee Statutes which allow depositories to collateralize excess deposits above federal depository insurance coverage by one of two methods: 1) 105% of all deposits exceeding the federal depository insurance coverage are collateralized with securities held by the District's agency in the District's name, or 2) the financial institution must be a member of the State of Tennessee Bank Collateral Pool. Under this method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the District, these deposits are considered held by the District's agent in the District's name. The amount of the pledged collateral is based upon a method approved by the State of Tennessee. Depositories using the pooling method report to the State Treasurer the adequacy of the pledged collateral covering uninsured deposits.

The State Treasurer does not confirm this information with the District or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the District under the pooling method, the potential exists for undercollateralization, and the risk may increase in periods of high cash flows. However, the State Treasurer for Tennessee enforces strict standards of financial stability for each depository that collateralizes under the State of Tennessee Bank Collateral Pool.

At June 30, 2010, the demand deposit and certificates of deposit held with various local financial institutions had carrying amounts totaling \$515,543 and bank balances totaling \$530,768, of which \$508,899 was covered by Federal depository insurance, and \$21,869 was covered by securities held by the State Treasurer's agent in the name of the State Treasurer acting in a fiduciary capacity for the District through the Tennessee Bank Collateral Pool.

The District has designated First South Bank as its official depository. However, the District also uses Merchants & Planters Bank, Farmers & Merchants Bank, and Citizen's Bank.

Investments

State of Tennessee Statutes authorize the District to invest in 1) short-term investments secured by FDIC in certificates of deposit, 2) short-term investments in treasury bills and treasury certificates, including security repurchase agreements at mutually agreeable interest rates for large sums available for very short-term investments, 3) short-term or long-term investments, which mature in two years or less, in TVA obligations, 4) long-term investments, which mature in two years or less, in housing authority bonds and in state, county, and city bonds, and 4) deposits in the Tennessee Local Government Investment Pool.

Spring Creek Utility District of Hardeman County, Tennessee
Notes to Financial Statements
June 30, 2010

2. Deposits and Investments - continued

Investments - continued

Investments are stated at cost. At June 30, 2010, the District's investments consisted of certificates of deposit totaling \$328,159 with an average maturity date of 12 months. There is no material difference in cost and market value of the certificates of deposit.

Interest Rate Risk

State law limits investments to maturities of two years or less. The District has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District limited its investments during the year to federal depository insured certificates of deposit with Merchants & Planters Bank, Farmers & Merchants Bank, First South Bank, and Citizen's Bank. These banks allow the District to cash out the certificates of deposit prior to maturity with a 90-180 day loss of interest.

Credit Risk

State law limits investments to 1) financial institutions insured by FDIC that are members of the State of Tennessee Bank Collateral Pool or that provide pledged collateral held by the District's agent in the District's name, 2) TVA obligations with a maturity of two years or less, 3) housing authority bonds and state, county and city bonds which mature in two years or less and 4) deposits in the Tennessee Local Government Investment Pool. The District has no investment policy that would limit its investment choices.

The District purchases certificates of deposit with the following financial institutions with the following ratings by Standard & Poor's: Farmers & Merchants Bank (not rated), Merchants & Planters Bank (not rated), First South Bank (not rated), and Citizen's Bank (not rated).

Custodial Credit Risk

Custodial credit risk is the risk that the District will not be able to recover the value of its investments that are in the possession of its safekeeping custodian. To minimize this risk, the District's investment policy requires that all negotiable instruments shall be held in safekeeping in the trust department of a bank. The District's pledged collateral is held in the District's name by a safekeeping agent that is independent of all counterparties.

Concentration of Credit Risks

The District had investments in certificates of deposit at June 30, 2010 with more than 5% of the total in Merchants & Planters Bank, Farmers & Merchants Bank, First South Bank, and Citizen's Bank. These investments represented 25.6%, 26.2%, 21.1%, and 27.1% respectively of total investments in certificates of deposit.

Spring Creek Utility District of Hardeman County, Tennessee
Notes to Financial Statements
June 30, 2010

3. Accounts Receivable

Accounts receivable consist of the following:

Unbilled utility charges	\$ 10,108
Current utility charges	30,511
Arrears - utility charges	<u>13,854</u>
	54,473
Less allowance for bad debts	<u>(11,856)</u>
	<u>\$ 42,617</u>

The District uses the allowance method for recognizing bad debts. Bad debts of \$3,432 were charged off during the year ended June 30, 2010.

Accounts receivable are presented on the statement of net assets as follows:

Accounts receivable - current assets	\$ 42,617
Accounts receivable - reserved assets	<u>9,680</u>
	<u>\$ 52,297</u>

4. Changes in Capital Assets

Summaries of changes in utility plant in service are as follows:

	Balance 7/1/2009	Additions	Deletions	Balance 6/30/2010
Capital assets not being depreciated				
Land	<u>\$ 60,487</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,487</u>
Total capital assets, not being depreciated	<u>60,487</u>	<u>-</u>	<u>-</u>	<u>60,487</u>
Capital assets being depreciated				
Office building	257,144	-	-	257,144
Utility plant in service	1,904,260	3,981	-	1,908,241
Equipment and automotive	94,437	1,725	-	96,162
Office equipment	20,007	-	-	20,007
Computer software	606	-	-	606
Total capital assets being depreciated	<u>\$ 2,276,454</u>	<u>\$ 5,706</u>	<u>\$ -</u>	<u>\$ 2,282,160</u>

Spring Creek Utility District of Hardeman County, Tennessee
Notes to Financial Statements
June 30, 2010

4. Changes in Capital Assets - continued

Total capital assets being depreciated	\$ 2,276,454	\$ 5,706	\$ -	\$ 2,282,160
Less accumulated depreciation	<u>790,136</u>	<u>44,943</u>	<u>-</u>	<u>835,079</u>
Total net capital assets being depreciated	<u>1,486,318</u>	<u>(39,237)</u>	<u>-</u>	<u>1,447,081</u>
Total capital assets	<u>\$ 1,546,805</u>	<u>\$ (39,237)</u>	<u>\$ -</u>	<u>\$ 1,507,568</u>

5. Restricted Assets

The bond resolution requires a deposit into a debt service fund an amount required to retire the bond as discussed in note 6. This resolution also requires a reserve account of \$33,480. The District has established a reserve account and debt service account which had a balance of \$69,260 and accrued interest receivable of \$80. These balances exceeded the requirements of the bond resolution. The reserve account portion of \$33,480 can only be used when approved by Rural Utilities Services. The remaining \$35,860 has been restricted for debt retirement.

The District bills and collects sewer fees for the City of Bolivar, Tennessee. These collections are remitted to the City of Bolivar, Tennessee monthly. At June 30, 2010, the District had restricted sewer cash and cash equivalents totaling \$7,331 and uncollected sewer billings totaling \$9,680. During the year ended June 30, 2010, the District collected \$37,113 and remitted \$35,897 to the City of Bolivar, Tennessee.

6. Long Term Obligations

Bonds Payable

Current portion, \$11,588, and non-current portion, \$410,426 represents the unpaid portion of Waterworks Revenue Bonds as follows:

A \$550,000 bond issued August 3, 1993. This bond, which bears interest at 5 1/4% per annum, requires monthly installments of \$2,789 including interest. This bond matures June 30, 2032. A pledge of the District's income in an amount to provide such monthly payments has been made to secure payment of the bond. This bond had an outstanding balance of \$422,014 at June 30, 2010.

Interest expense charged to operations totaled \$22,539 for the year ended June 30, 2010.

Spring Creek Utility District of Hardeman County, Tennessee
Notes to Financial Statements
June 30, 2010

6. Long Term Obligations - continued

Bonds Payable - continued

Principal and interest maturities of the outstanding long term debt is detailed below:

Year	Principal	Interest	Total
2011	\$ 11,588	\$ 21,880	\$ 33,468
2012	12,212	21,256	33,468
2013	12,869	20,599	33,468
2014	13,561	19,907	33,468
2015	14,290	19,178	33,468
2016-2020	83,838	83,502	167,340
2021-2025	108,943	58,397	167,340
2026-2030	141,563	25,777	167,340
2031-2035	23,150	484	23,634
Totals	\$ 422,014	\$ 270,980	\$ 692,994

Long term debt activity for the year ended June 30, 2010 follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue Bonds	\$ 435,731	\$ -	\$ 13,717	\$ 422,014	\$ 11,588

7. Employee Retirement Plan

The District does not provide a retirement plan for its employees.

8. Risk Management - Claims and Judgments

The District has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the District. Insurance settlements have not exceeded insurance coverage in any of the past three years. There was no significant reduction in coverage compared to the prior year.

In addition to the above, the District operates a self-insurance program and retains risk of loss for unemployment. The District is on a cost reimbursement plan for unemployment with the State of Tennessee. The District has not established a liability for unemployment because no employees were laid off during the current year and none are expected to be laid off. There has been no material liability for unemployment during the prior three years.

Spring Creek Utility District of Hardeman County, Tennessee
Notes to Financial Statements
June 30, 2010

8. Risk Management - Claims and Judgments - continued

The District does not maintain sufficient fire and extended coverage insurance to replace the system in the event of a major disaster.

9. Basis of Existing Rates

Rates are reviewed by the Board of Commissioners periodically and revised when deemed necessary to meet operation, maintenance, and debt payments. Rates were increased 34% for all levels of water usage effective October 1, 2007.

10. Litigation

The District is not involved in any significant pending or imminent litigation in which it may be a party.

11. Economic Dependency

The District purchases its water for resale from the City of Bolivar, Tennessee. If the City was to terminate this agreement, the District could not operate without drilling its own well and obtaining distribution and treatment facilities.

12. Concentration of Credit Risk

The District provides water to its members in the Spring Creek, Hardeman County, Tennessee and the surrounding communities. At June 30, 2010 the District had extended credit to members totaling \$42,617. These receivables are secured by customer deposits totaling \$44,820.

13. Working Capital

The District had working capital of \$445,619 at June 30, 2010.

14. Leases

The rental expense of \$75 is an operating lease for renting a post office box. Total rent expense for the year was \$75.

15. Contingencies

The District has entered into a contract with the State of Tennessee to incur water line relocation expense of \$118,856 to be reimbursed 100% by the Tennessee Department of Transportation.

Spring Creek Utility District of Hardeman County, Tennessee
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended June 30, 2010

<u>Federal - State Grantor/Pass- Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Beginning (Accrued) Deferred</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending (Accrued) Deferred</u>
No Federal or State expenditures	N/A	N/A	\$ -	\$ -	\$ -	\$ -
Total Expenditures			<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance

Note A - Basis of Presentation

The above schedule of expenditures of federal awards and state financial assistance includes the federal and state grant activity of Spring Creek Utility District of Hardeman County, Tennessee and is presented on the accrual basis of accounting. This schedule is presented in accordance with the requirements of State of Tennessee Department of Audit "Audit Manual".

Spring Creek Utility District of Hardeman County, Tennessee
Schedule of Utility Rates in Force and Number of Customers
June 30, 2010

Water Rates

Customers inside the corporate limits

First 2,000 gallons	\$ 14.74 (minimum bill)
Next 18,000 gallons	\$ 5.56 per 1,000 gallons
Over 20,000 gallons	\$ 4.36 per 1,000 gallons

Number of Customers at Year End

Water customers 918

Spring Creek Utility District of Hardeman County, Tennessee
Schedule of Unaccounted for Water
June 30, 2010
(Unaudited)

(All amounts in gallons)

A. Water Treated and Purchased:		
B. Water Pumped (potable)	0	
C. Water Purchased	6,233,940	
D. Total Water Treated and Purchased		6,233,940
	(Sum Lines B and C)	
E. Accounted for Water:		
F. Water Sold	5,126,080	
G. Metered for Consumption (in house usage)	0	
H. Fire Department(s) Usage	18,000	
I. Flushing	0	
J. Tank Cleaning/Filling	0	
K. Street Cleaning	0	
L. Bulk Sales	0	
M. Water Bill Adjustments / plus or (minus)	0	
N. Total Accounted for Water		5,144,080
	(Sum Lines F thru M)	
O. Unaccounted for Water		1,089,860
	(Line D Minus Line N)	
P. Percent Unaccounted for Water		17.483%
	(Line O divided by Line D times 100)	

Q. Other (explain) See below

Explain other:

None

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

Spring Creek Utility District of Hardeman County, Tennessee
Schedule of Long Term Debt, Principal and Interest Requirements by Fiscal Year
June 30, 2010

Farmers Home Administration 5 1/4% bonds dated August 3, 1993:

Year ended June 30	Payment	Principal	Interest	Balance
2011	\$ 33,468	\$ 11,588	\$ 21,880	\$ 410,426
2012	33,468	12,212	21,256	398,214
2013	33,468	12,869	20,599	385,345
2014	33,468	13,561	19,907	371,784
2015	33,468	14,290	19,178	357,494
2016	33,468	15,058	18,410	342,436
2017	33,468	15,868	17,600	326,568
2018	33,468	16,722	16,746	309,846
2019	33,468	17,621	15,847	292,225
2020	33,468	18,569	14,899	273,656
2021	33,468	19,567	13,901	254,089
2022	33,468	20,620	12,848	233,469
2023	33,468	21,729	11,739	211,740
2024	33,468	22,897	10,571	188,843
2025	33,468	24,130	9,338	164,713
2026	33,468	25,427	8,041	139,286
2027	33,468	26,794	6,674	112,492
2028	33,468	28,235	5,233	84,257
2029	33,468	29,754	3,714	54,503
2030	33,468	31,353	2,115	23,150
2031	23,634	23,150	484	-
Total	\$ 692,994	\$ 422,014	\$ 270,980	\$ -

Changes in Long Term Debt:

	Balance July 1, 2009	Loan Proceeds	Loan Repaid	Balance June 30, 2010
FmHA Note 91-03	\$ 435,731	\$ -	\$ 13,717	\$ 422,014
Total	\$ 435,731	\$ -	\$ 13,717	\$ 422,014

JONES & JONES
CERTIFIED PUBLIC ACCOUNTANTS
OF BOONEVILLE PA

Kermit V Jones Jr., C.P.A.

Christopher D. Jones, C.P.A.

Jeremy D Jones, C.P.A.

David W. Jones, C.P.A.

**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
Spring Creek Utility District of Hardeman County, Tennessee
Bolivar, Tennessee

We have audited the Statement of Net Assets of Spring Creek Utility District of Hardeman County, Tennessee (the District) as of June 30, 2010, and the related Statements of Revenues, Expenses and Changes in Net Assets, and Cash Flows for the year then ended, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spring Creek Utility District of Hardeman County, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Spring Creek Utility District of Hardeman County, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Spring Creek Utility District of Hardeman County, Tennessee's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 deficiency described in the

accompanying schedule of findings and responses to be a material weakness. This finding and response is labeled as item 1.

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 accompany schedule of findings and responses to be significant deficiencies. These findings and responses are labeled as items 2, 3, 4, 5, 6, and 7.

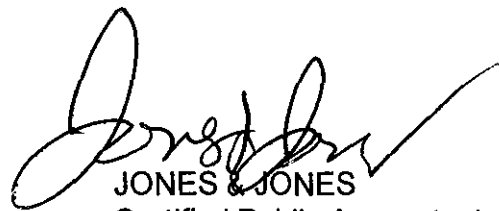
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 responses as item 8.

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

This report is intended solely for the information and use of management, Board of Commissioners, the State of Tennessee Department of Audit, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely yours,



JONES & JONES
Certified Public Accountants
of Booneville, PA

September 27, 2010

Spring Creek Utility District of Hardeman County, Tennessee
Schedule of Findings and Responses
For the Year Ended June 30, 2010

Internal Control over Financial Reporting

Material Weakness: Finding Number 1

Condition – Lack of segregation of duties among accounting functions.

Criteria – Internal controls should be in place to provide an adequate segregation of duties among accounting functions.

Effect of Condition – The District has one full time employee and one part time employee who handle cash collections, deposits, check writing, and purchasing.

Cause of Condition – The District does not have enough employees to have an adequate segregation of duties.

Recommendation – Due to the size of the District and the cost of hiring additional staff, and the District does not have the need to hire additional employees, no change is recommended; however, the Board of Commissioners should continue take an active part in reviewing all accounting functions.

Client Response – The Board of Commissioners signs all checks and reviews daily collections. We feel this compensates for the lack of segregation of duties.

Significant Deficiency: Finding Number 2

Condition – In our review of the general ledger, we noted 38 checks were coded to the wrong account, all meter deposit refunds were posted to an uncategorized expense, and all payroll checks were posted as a net check rather than at gross amounts.

Criteria – Controls should be in place and functioning to ensure proper coding and amounts of expenses.

Effect of Condition – The District's controls over proper coding of various disbursements, including, but not limited to repairs, meter deposit refunds, and grounds, and controls over proper valuation of payroll expenses is not functioning properly.

Cause of Condition – The District coded 38 checks to the wrong account, coded all meter refunds to "uncategorized expense" rather than meter deposits, and posted payroll checks as a net check rather than at the gross amounts.

Recommendation – The Board of Commissioners should review the general ledger each month to ensure all expenses and revenues are coded to the correct account with the correct amount.

Client Response – We concur with the recommendation.

Spring Creek Utility District of Hardeman County, Tennessee
Schedule of Findings and Responses
For the Year Ended June 30, 2010

Significant Deficiency: Finding Number 3

Condition – Bad debts charged off are not being removed or segregated from the accounts receivable billing register.

Criteria – Internal controls should be in place to require office personnel to remove or segregate any bad debt accounts from the billing register.

Effect of Condition – The District's computerized accounts receivable are overstated without the removal or segregation of the bad debts charged off in the minutes.

Cause of Condition – The office personnel did not remove the bad debts once the minutes were approved or move the accounts to an alternate route for bad debt accounts.

Recommendation – We recommend the District remove or segregate any bad debt accounts from the billing system once the minutes have approved the write off.

Client Response – We concur with the recommendation.

Significant Deficiency: Finding Number 4

Condition – As fully discussed in finding number 8 below, there were violations of the State of Tennessee laws regarding the District not maintaining complete copies of its cancelled checks and deposit tickets.

Criteria – Controls should be in place and functioning to require compliance with State of Tennessee laws and regulations.

Effect of Condition – The District's control of following new laws are not functioning adequately.

Cause of Condition – The District was unaware of the new law passed by the Tennessee State Legislature.

Recommendation – The Board of Commissioners should review new compliance laws and take action to comply with those laws.

Client Response – We concur with the recommendation.

Spring Creek Utility District of Hardeman County, Tennessee
Schedule of Findings and Responses
For the Year Ended June 30, 2010

Significant Deficiency: Finding Number 5

Condition – Management has not adopted a formal risk assessment and monitoring program.

Criteria – Effective internal controls include adopting a formal risk assessment and monitoring program that includes the following steps to help prevent the occurrence of fraud:

Control the mail – In small businesses, management should either personally pick up the mail, or have the mail picked up by an employee who has no responsibilities related to the handling or recording of deposits, accounts receivable records or revenues. All remittances from customers should be directed to a post office box. Limiting access to the District's mail is essential in preventing the unauthorized negotiation of cash receipts.

Control the bank statements – Similarly, management should personally pick up the District's bank statements directly from the bank, or have them picked up by an employee who has no related responsibilities and delivered to the manager unopened. Management should review the contents of the statements before they are reconciled. Specific items that management should be alert to include:

1. Missing checks
2. Checks issued out of sequence
3. Unknown payees
4. Checks that appear to have been altered
5. Checks not signed by authorized signatories
6. Other unusual items

Control the accounts receivable – Management should limit access to accounts receivable records, and in particular, the ability to issue credit memoranda, discounts and refunds. Accounts receivable detail ledgers should be balanced with the control account at regular intervals and any differences should be investigated promptly. Only management should be authorized to charge off accounts deemed uncollectible. Any discrepancies reported by customers should be investigated promptly. Aged accounts should be reviewed monthly and past due accounts investigated.

Control the inventory – Management should carefully monitor gross profit, and investigate any unexpected variances. Access to inventories should be limited as much as possible, and the use of surveillance equipment may deter inventory theft. If a perpetual inventory is used, periodic counts should be performed at regular intervals for comparison with the perpetual records.

Control the accounts payable – Establish and monitor approved vendor lists. Management should periodically review the list of approved vendors, being alert to:

1. Unknown vendors
2. Vendors with names similar to other known vendors
3. Vendors with no physical address or telephone number
4. Vendors whose addresses match employee addresses

Spring Creek Utility District of Hardeman County, Tennessee
Schedule of Findings and Responses
For the Year Ended June 30, 2010

Significant Deficiency: Finding Number 5 - continued

Criteria – continued

Limit the number of authorized check signers – If possible, only the manager should be authorized to sign checks. If not possible, consider requiring two signatures on checks, at least those over a specified amount. The use of facsimile signatures should be avoided if at all possible. Never sign checks in the blank. Review supporting documentation when checks are signed and investigate any discrepancies.

Account for sequences – Whether it is checks, invoices, credit memoranda, receiving reports, shipping documents, or other prenumbered items, all sequences should be accounted for. Voided documents should be defaced to prevent unauthorized use and retained to complete sequences.

Control general journal entries – Management should either make or personally review and approve all general journal entries. Supporting documentation should be reviewed before approving general journal entries. In particular, the following items should be investigated:

1. Entries made to unrelated accounts
2. Entries made to receivables or revenues at or near the close of a period
3. Entries made by persons whose responsibilities are not consistent with the accounts being adjusted

Monitor exception reports – Unprocessed transactions should be carefully examined for propriety. This includes revenues, expenses, purchasing and payroll transactions.

Establish a budget – Management should establish an operating budget and monitor actual results monthly. Any significant variances should be investigated.

Establish reasonable performance targets – Setting incentive compensation arrangements at unrealistic performance levels may encourage misstatement of financial results.

Perform thorough background checks on all new employees – Call former employers and educational institutions for verification of previous employment and education. Beware of “gaps” in employment or educational history. Consider obtaining a credit report (if authorized by the candidate) before employment.

Require uninterrupted vacations for all employees and establish a schedule of rotation of employee responsibilities – More than just good management, rotation of duties provides a strong disincentive to commit fraud. In addition, it provides an opportunity to discover fraud that has already occurred.

Spring Creek Utility District of Hardeman County, Tennessee
Schedule of Findings and Responses
For the Year Ended June 30, 2010

Significant Deficiency: Finding Number 5 - continued

Criteria – continued

Be alert to changes in employee attitudes, behavior and lifestyle – Because of day-to-day contact, management is in the best position to observe the unusual – attitudes that are hostile or defensive toward management or the District in general, changes in behavior that are inconsistent with employees' normal disposition or lifestyles that are not reasonable based on the employees' level of compensation. Matters that may be of particular concern include:

1. Indications of dissatisfaction with compensation, lack of promotion
2. Indications of gambling
3. Indications of drug use or excessive use of alcohol
4. Indications of financial distress
5. Indications of infidelity
6. Indications of serious illness
7. Indications of excessive nervousness
8. Indications of severe stress

Provide employees an opportunity to report the occurrence of fraud or other abuse anonymously – In a recent survey, one in five employees said they were personally aware of the occurrence of fraud in the workplace. Eighty percent said they would be willing to report fraud if they did not have to identify themselves. Management can establish hotlines, "suggestion boxes" or other means to enable employees to bring the occurrence of fraud to its attention without requiring employees to give their names.

Clearly communicate to employees the behavior that is expected of them – Believe it or not, ignorance has been cited as a common cause of fraud. Some employees have been trained to commit fraudulent acts without knowing what they were doing, just assuming that "that's the way it's done".

Take strong action against employees who commit fraud – Call the police or other law enforcement agency and press charges. Failing to do so sends a message to other employees that management doesn't take fraud seriously.

Conduct your own activities on a high ethical level – Employees will follow the lead of management, whether that lead is ethical or not. More than what is said or included in a policy manual, the actions of management establish behavioral norms.

Obtain reasonable fidelity bond coverage – If the unthinkable occurs, insurance coverage is the most likely means of recovery of amounts misappropriated. The amount of coverage should be reviewed periodically for adequacy.

Spring Creek Utility District of Hardeman County, Tennessee
Schedule of Findings and Responses
For the Year Ended June 30, 2010

Significant Deficiency: Finding Number 5 - continued

Cause – The District has not adopted a formal risk assessment program.

Effect – Management has an informal risk assessment program instead of a formal risk assessment program.

Recommendation – Your personnel have already implemented many of these suggestions. We recommend you develop a formal risk assessment program.

Client Response – We feel the District's informal risk assessment program is adequate for our needs; however, we will consider the above additional suggestions. We implemented "Red Flag" Program which addresses security procedures over record keeping with a special emphasis on protecting customers from identity theft.

Significant Deficiency: Finding Number 6

Condition – The District remitted only sewer collections for amounts collected on current billings each month. The District collected \$1,217 of arrears in the fiscal year 2010 and should have remitted all sewer collections for both current billings and arrears.

Criteria – The District should have controls in place to determine the amount of collections each month that are for sewer for both current billings and arrears. This entire amount should be remitted.

Effect of Condition – The District has accounts payable to the City of Bolivar in the amount of \$1,217 for 2010 sewer collections, which have been collected and not remitted.

Cause of Condition – The District remitted collections for current billings only; anything paid on a prior bill was not remitted.

Recommendation – The District should remit all collections, including current and arrears, to the City of Bolivar.

Client Response – We concur with the recommendation and we have included the \$1,217 in our restricted cash and cash equivalents and the payable to the City of Bolivar for 2010 collections of arrears and we determined the amounts due for 2009 and 2008 in the amount of \$3,166 are still included in restricted cash and cash equivalents and payable to the City of Bolivar, which we will remit as well.

Spring Creek Utility District of Hardeman County, Tennessee
Schedule of Findings and Responses
For the Year Ended June 30, 2010

Significant Deficiency: Finding Number 7

Condition – The District outsources financial statements, related notes, and supplementary information.

Criteria – Part of effective internal control over financial reporting is the ability to adequately produce financial statements in accordance with generally accepted accounting principles.

Effect of Condition – The District must incur the expense of outsourcing the preparation of the financial statements, related notes, and supplementary information.

Cause of Condition – As is normal for organizations of this type and size, the staff and management do not have the required technical expertise to meet the above criteria.

Recommendation – Due to the size of the District and the cost of hiring additional staff, no change is recommended.

Client Response – We agree with the finding, but feel the District is best served by continuing to outsource the preparation of financial statements, related notes, and supplementary information. This is less costly than hiring additional staff to perform these tasks.

Compliance and Other Matters

Finding Number 8

Condition – The District did not maintain complete copies of its cancelled checks and deposit tickets.

Criteria – Title 5, Chapter 11, Section 9 of the June, 2010 Internal Control and Compliance manual for Tennessee Municipalities states “although by state law cancelled checks must be maintained, because of current national legislation cancelled checks may not be available. If imaged statements are issued, the municipality should require the bank to include both the front and back of each check and deposit slip, and require that the images be of such quality and size that they are clearly legible.”

The law does not specifically include or exclude Special Purpose Governments; however, the State Audit Department deems that Special Purpose Governments would be subject to this requirement.

Effect of Condition – The imaged statement provided to the District by the various banks include only the front side of the checks and deposit slips.

Cause of Condition – The District was not aware of this requirement.

Recommendation – We recommend the District to require its banks to provide both front and backs of all checks and deposit slips.

Client Response – We have requested the banks to furnish this information starting immediately and believe we are now in compliance with this law.

Spring Creek Utility District of Hardeman County, Tennessee
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2010

Prior Year Finding Number 1

Condition – Lack of segregation of duties among accounting functions.

Recommendation – The District does not have the need to hire additional employees. The Board of Commissioners should take an active part in reviewing all accounting functions.

Status – The District does not have the need to hire additional personnel to maintain a segregation of duties. This is still a finding in this report. See finding number 1 on page 33.

Prior Year Finding Number 2

Condition – In our review of the general ledger, we noted 19 checks were coded to the wrong account and all payroll checks were posted as a net check rather than at gross amounts.

Recommendation – The Board of Commissioners should review the general ledger each month to ensure all expenses and revenues are coded to the correct account with the correct amount.

Status – This is still a finding in this report. See finding number 2 on page 33.

Prior Year Finding Number 3

Condition – Bad debts charged off are not being removed from the accounts receivable billing register.

Recommendation – We recommend the District remove any bad debt accounts from the billing system once the minutes have approved the write off.

Status – This is still a finding in this report. See finding number 3 on page 34.

Prior Year Finding Number 4

Condition – As fully discussed in finding number 7, there were violations of the State of Tennessee laws regarding not publishing a statement in the newspaper of general circulation indicating financial condition, earnings, and rates within 90 days of year end.

Recommendation – The Board of Commissioners should review compliance laws and take action to comply with those laws.

Status – The reports were published within 90 days of year end; however, there were other violations of the State of Tennessee's law; therefore, this is still a finding in this report. See finding number 4 on page 34.

Spring Creek Utility District of Hardeman County, Tennessee
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2010

Prior Year Finding Number 5

Condition – Management has not adopted a formal risk assessment and monitoring program.

Recommendation – Your personnel have already implemented many of these suggestions. We recommend you develop a formal risk assessment program.

Status – This is still a finding in this report. See finding number 5 on pages 35 – 38.

Prior Year Finding Number 6

Condition – The District remitted only sewer collections for amounts collected on current billings each month. The District collected \$1,894 of arrears in the fiscal year 2009 and should have remitted all sewer collections for both current billings and arrears.

Recommendation – The District should remit all collections, including current and arrears, to the City of Bolivar.

Status – This is still a finding in this report. See finding number 6 on page 38.

Prior Year Compliance and Other Matters

Prior Year Finding Number 7

Condition – The District published a statement in the newspaper of general circulation indicating financial condition, earnings, and rates on December 17, 2008 or 170 days after year end.

Recommendation – The Board of Commissioners should review compliance laws and take action to comply with those laws. Financial information should be published in a timely manner and all publications should be reviewed for proper information.

Status – The reports were published within 90 days of year end; therefore, this is no longer a finding in this report.