

**TANNEHILL WATER SYSTEM, INC.**

**ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2011**

Tannehill Water System, Inc.

Financial Report  
December 31, 2011

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# Johnson, Thomas & Cunningham

## Certified Public Accountants

Eddie G. Johnson, CPA - A Professional Corporation (1927-1996)

Mark D. Thomas, CPA - A Professional Corporation

Roger M. Cunningham, CPA - A Professional Corporation

Jessica H. Broadway, CPA - A Professional Corporation

Ryan E. Todtenbier, CPA - A Professional Corporation

321 Bienville Street  
Natchitoches, Louisiana 71457  
(318) 352-3652  
Fax (318) 352-4447

### INDEPENDENT AUDITOR'S REPORT

Mr. Jimmy Atherton, President  
and Members of the Board of Directors  
Tannehill Water System, Inc.  
P. O. Box 1029  
Winnfield, Louisiana 71483

We have audited the accompanying statement of financial position of the Tannehill Water System, Inc. (a nonprofit corporation) as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Tannehill Water System, Inc.'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 and the *Louisiana Governmental Audit Guide*. 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 the 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 Tannehill Water System, Inc. as of December 31, 2011, and the changes in its net assets and its cash flows 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 18, 2012, on our consideration of the Tannehill Water System'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.

*Johnson, Thomas & Cunningham, CPA's*

Johnson, Thomas & Cunningham, CPA's

Natchitoches, Louisiana

September 18, 2012

Tannehill Water System, Inc.  
Statement of Financial Position  
December 31, 2011

ASSETS:

Current Assets-

Cash & Cash Equivalents	\$ 87,765
Accounts Receivable	<u>8,223</u>
Total Current Assets	<u>\$ 95,988</u>

Capital Assets-

Equipment	\$ 150,518
Water System	1,278,134
Land	1,600
Accumulated Depreciation	<u>(710,874)</u>
Total Capital Assets	<u>\$ 719,378</u>

Total Assets	<u>\$ 815,366</u>
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LIABILITIES & FUND EQUITY:

Current Liabilities-

Accounts Payable	\$ 2,369
Payroll Related Payables	2,286
Current Portion of LTD	<u>19,786</u>
Total Current Liabilities	<u>\$ 24,441</u>

Non-Current Liabilities-

Long-Term Debt	\$ 123,474
1985 Long-Term Payable	49,725
2009 Long-Term Payable	<u>624,811</u>
Total Non-Current Liabilities	<u>\$ 798,010</u>

Total Liabilities	<u>\$ 822,451</u>
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Net Assets-

Unrestricted	<u>\$ (7,085)</u>
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Total Net Assets	<u>\$ (7,085)</u>
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Total Liabilities & Net Assets	<u>\$ 815,366</u>
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See notes to financial statement.

Tannehill Water System, Inc.  
Statement of Activities  
For the Year Ended December 31, 2011

OPERATING REVENUES:	
Water Sales	\$ <u>248,361</u>
OPERATING EXPENSES:	
Salaries	\$ 40,380
Insurance	7,623
Maintenance & Repairs	66,717
Office Administration	7,052
Taxes	3,777
Utilities	32,058
Other Operating Expenses	24,973
Depreciation	<u>44,089</u>
Total Operating Expenses	\$ <u>226,669</u>
Operating Income	\$ <u>21,692</u>
NON-OPERATING REVENUES (EXPENSES):	
State Grant	\$ 363,526
Interest Income	145
Interest Expense	<u>(7,681)</u>
Total Non-operating Revenues (Expenses)	\$ <u>355,990</u>
Change in Net Assets	\$ 377,682
Net Assets-Beginning of Year (Restated - See Note No. 12)	<u>(384,767)</u>
Net Assets-End of Year	\$ <u>(7,085)</u>

See notes to financial statement.

Tannehill Water System, Inc.  
Statement of Cash Flows  
For the Year Ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Customers	\$ 248,219
Cash Payments to Suppliers for Goods and Services	(147,898)
Cash Payments to Employees	(40,380)
Non-operating Revenue	<u>363,526</u>
Net Cash Provided (used) by Operating Activities	\$ 423,467
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal Paid	\$ (18,851)
Interest Paid	(7,681)
Purchase of Capital Assets	<u>(401,694)</u>
Net Cash Provided (used) by Capital and Related Financing Activities	<u>\$(428,226)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment Income	\$ <u>145</u>
Net Decrease in Cash and Cash Equivalents	\$ (4,614)
Cash and Cash Equivalents-Beginning of Year	<u>92,379</u>
Cash and Cash Equivalents-End of Year	<u>\$ 87,765</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income	\$ 21,692
Adjustments to Reconcile Operating Income to Net Cash Provided (used) by Operating Activities-	
Depreciation	44,089
Non-operating Revenue	363,526
Changes in Assets and Liabilities-	
(Increase) Decrease in Accounts Receivable	(142)
Increase (Decrease) in Accounts Payable	(6,351)
Increase (Decrease) in Payroll Payables	<u>653</u>
Net Cash Provided (used) by Operating Activities	<u>\$ 423,467</u>

See notes to financial statement.

## NOTES TO FINANCIAL STATEMENTS



Tannehill Water System, Inc.  
Notes to Financial Statements  
December 31, 2011

## INTRODUCTION

The Tannehill Water System, Inc. was formed as a non-profit corporation on a non-stock basis under the provisions of Title 12, Sections 201-209, of the Louisiana Revised Statutes in 1977. The Corporation was formed for the mutual benefit of its members to construct, maintain, and operate a private water system providing a supply of water to its membership. Persons who are owners or part owners, or have a substantial possessory interest in property desired to be served by the corporation's water system, shall be admitted as members. The voting power and property rights and interest of each member whose fees are fully paid and who is in good standing shall be equal and each member shall be entitled to one vote only regardless of the number of membership certificates held.

### 1. Summary of Significant Accounting Policies:

The accounting and reporting policies of the Tannehill Water System, Inc. conform to generally accepted accounting principles as applicable to non-profit organizations, and are applied on a consistent basis between periods.

#### A. Financial Statement Presentation-

The Tannehill Water System, Inc. has adopted FASB Accounting Standard Codification 958 "Not-for-Profit Organizations." Under FASB ASC 958, the Tannehill Water System, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Tannehill Water System, Inc. is required to present a statement of cash flows. As permitted by the statement, the Tannehill Water System, Inc. has discontinued its use of fund accounting.

#### B. Basis of Accounting-

The Tannehill Water System, Inc. uses the accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized when they are incurred. Purchases of various operating supplies are regarded as expenditures at the time purchased.

#### C. Financial Statement Preparation-

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures 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.

Tannehill Water System, Inc.  
Notes to Financial Statements  
December 31, 2011

D. Budgets and Budgetary Accounting-

The Tannehill Water System, Inc. is not required to adopt a budget. Accordingly, no budget comparisons have been presented.

E. Capital Assets-

The capital assets of the Tannehill Water System, Inc. are included on the Statement of Financial Position. Depreciation of all exhaustible capital assets is charged as an expense against operations. Depreciation has been computed using the straight-line method over the estimated useful lives of the assets, which are 5 to 10 years for furniture and equipment, and 50 years for water systems.

F. Cash Equivalents-

For purposes of cash flows, cash equivalents include all highly liquid deposits and debt instruments acquired with maturities of three months or less.

G. Estimates-

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require 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, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents:

At December 31, 2011, the Tannehill Water System had cash and cash equivalents (collected bank balances) totaling \$93,639. These deposits were fully secured by FDIC Insurance.

3. Income Taxes:

The Tannehill Water System is exempt from federal income taxes. Therefore, no provision for federal income taxes has been made in the accompanying financial statements.

Tannehill Water System, Inc.  
Notes to Financial Statements  
December 31, 2011

4. Receivables:

The Tannehill Water System has receivables reported on the statement of net assets at December 31, 2011 of \$8,223 and represents receivables due from water customers. The System considers all receivables to be collectible; therefore, no allowance for doubtful accounts is calculated.

5. Capital Assets:

Capital assets and depreciation activity as of and for the year ended December 31, 2011, is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets - Not Depreciated-				
Construction in Progress	\$ 18,674	\$ 0	\$18,674	\$ 0
Land	1,600	0	0	1,600
Capital Assets - Depreciated-				
Water System	868,525	409,609	0	1,278,134
Equipment	<u>139,759</u>	<u>10,759</u>	<u>0</u>	<u>150,518</u>
Total Assets	<u>\$1,028,558</u>	<u>\$420,368</u>	<u>\$18,674</u>	<u>\$1,430,252</u>
Accumulated Depreciation-				
Equipment	\$ 93,559	\$ 18,526	\$ 0	\$ 112,085
Water System	<u>573,226</u>	<u>25,563</u>	<u>0</u>	<u>598,789</u>
Total Accumulated Depr.	<u>\$ 666,785</u>	<u>\$ 44,089</u>	<u>\$ 0</u>	<u>\$ 710,874</u>
Total Net Assets	<u>\$ 361,773</u>	<u>\$376,279</u>	<u>\$18,674</u>	<u>\$ 719,378</u>

Depreciation expense of \$44,089 was included in operating expenses.

6. Lease Commitments:

There were no leases in effect at December 31, 2011.

7. Compensation of Board Directors:

The members of the Board of Directors of the Tannehill Water System receive the free usage of water for their services.

Tannehill Water System, Inc.  
Notes to Financial Statements  
December 31, 2011

8. Litigation and Claims:

The Tannehill Water System is not aware of any litigation or claims at December 31, 2011.

9. Grants:

The Tannehill Water System received \$363,526 in grants from the State of Louisiana in the current fiscal year for the LA 501 extension.

10. Accounts Payable:

The Tannehill Water System has accounts payables reported on the statement of financial position at December 31, 2011 of \$2,369. This balance represents amounts owed to vendors.

11. Notes Payable:

In September 1978, the Tannehill Water System, Inc. finalized a loan for the construction and origination of the water system. The terms of the loan are monthly principal and interest payments for 480 months at 5% interest. The annual debt requirements to maturity for this loan are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 19,787	\$ 6,745	\$ 26,532
2013	20,821	5,711	26,532
2014	21,889	4,643	26,532
2015	23,011	3,521	26,532
2016	24,183	2,349	26,532
Thereafter	<u>33,569</u>	<u>1,176</u>	<u>34,746</u>
Total	<u>\$143,260</u>	<u>\$24,145</u>	<u>\$167,406</u>

The following is a summary of changes in long-term debt for the year ended December 31, 2011:

	<u>Balance 12/31/10</u>	<u>Additions</u>	<u>Reduction</u>	<u>Balance 12/31/11</u>
Long-Term Debt	<u>\$162,111</u>	<u>\$0</u>	<u>\$18,851</u>	<u>\$143,260</u>

Tannehill Water System, Inc.  
Notes to Financial Statements  
December 31, 2011

12. Prior Period Adjustment:

A prior period adjustment had to be made for two long-term payables. Management was under the assumption these amounts were to be forgiven; therefore they were treated as grant revenue in prior years.

Both of these loans relate to the relocation of Highway 167. These amounts are reflected on the current financials as long-term payables, as the State has notified the water system not to begin making payments until they either forgive the loans or require payments to be made. The prior period adjustment affects the following accounts:

1985 Long-Term Payable	\$ (49,725)
2009 Long-Term Payable	<u>(624,811)</u>
Unrestricted Net Assets	<u>\$ 674,536</u>

13. Related Parties:

The water system has six board members. Two of these board members are paid for bookkeeping services. The secretary, Linda Bamberg, is paid as an employee and received a W-2 in the amount of \$18,759. Another board member, Tammy Griffin, is paid as contract labor and received a 1099 in the amount of \$3,259. We have included the \$1,376 owed to the bookkeepers at 12/31/11 in accounts payable.

14. Subsequent Events:

Management has evaluated subsequent events through September 18, 2012, which is the date of the financial statements. There were no items to be reported as subsequent events.

SUPPLEMENTARY INFORMATION

# Johnson, Thomas & Cunningham

## Certified Public Accountants

Eddie G. Johnson, CPA - A Professional Corporation (1927-1996)

Mark D. Thomas, CPA - A Professional Corporation  
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321 Bienville Street  
Natchitoches, Louisiana 71457  
(318) 352-3652  
Fax (318) 352-4447

### 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*

Mr. Jimmy Atherton, President  
and Members of the Board of Directors  
Tannehill Water System, Inc.  
P. O. Box 1029  
Winnfield, LA 71483

We have audited the financial statements of Tannehill Water System, Inc. (a nonprofit organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated September 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operations 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 controls such that there is a reasonable possibility that a material misstatement of the Tannehill Water System's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified one deficiency in internal control over financial reporting, described as item 11-01 in the accompanying schedule of audit findings that we consider to be a significant deficiency in internal control over financial reporting. 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.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tannehill Water System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of audit findings as item 11-02.

Tannehill Water System, Inc.'s responses to the findings in our audit are described in the accompanying schedule of audit findings. We did not audit the Tannehill Water System's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Tannehill Water System's management, the Louisiana Legislative Auditor, and interested state and federal agencies, and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:315, this report is distributed by the Legislative Auditor as a public document.

*Johnson, Thomas & Cunningham, CPA's*  
Johnson, Thomas & Cunningham, CPA's

Natchitoches, Louisiana  
September 18, 2012



Tannehill Water System, Inc.  
Schedule of Audit Findings  
Year Ended December 31, 2011

I. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Tannehill Water System, Inc.
2. There was one significant deficiency noted during the audit of the financial statements.
3. There was one instance of noncompliance material to the financial statements of Tannehill Water System, Inc. disclosed during the audit.

II. Findings in Accordance with Governmental Auditing Standards

Internal Control

*11-01 Segregation of Duties*

*Criteria* - No one employee should have access to both physical assets and the related accounting records or to all phases of transactions.

*Condition* - Our evaluation of the internal control structure revealed an absence of appropriate segregation of duties. The secretary receives incoming checks, prepares the deposit slip, and then delivers the deposit to the bank.

*Effect* - Intentional or unintentional errors could be made and not detected within the accounting system.

*Cause* - Due to a lack of funds, the Tannehill Water System does not have a sufficient number of employees to adequately separate accounting duties.

*Recommendation* - Since the costs associated with establishing an appropriate system of internal control should not outweigh the benefits derived from it, we do not have a recommendation to make.

*Management's Response* - The Tannehill Water System has always tried to operate in a frugal manner and that includes having just one employee to manage the daily operation of the accounting duties.

Tannehill Water System, Inc.  
Schedule of Audit Findings (continued)  
Year Ended December 31, 2011

Compliance

11-02 *Late Submission of Report*

*Criteria* - Louisiana state law requires that the Tannehill Water System have an annual audit performed and submitted to the Legislative Auditor with six (6) months after the close of their fiscal year.

*Condition* - For the year ended December 31, 2011, the Tannehill Water System did not submit their annual audit within six months after the close of their fiscal year.

*Effect* - The Tannehill Water System is not in compliance with state law.

*Cause* - The Tannehill Water System's previous accountant was unable to provide balanced financial statements to the auditor in a timely manner.

*Recommendation* - The Tannehill Water System should institute procedures to ensure that the books and records are ready for the auditors within 45 days after the end of their fiscal year.

*Management's Response* - The Tannehill Water System had an accountant that was unable to provide balanced financial statements to the auditor in a timely manner. We have since engaged Lawrence White, CPA, of Winnfield to handle all of our financial reports. This should ensure that the books and records will be ready for the auditors within 45 days after the end of our fiscal year.

III. Prior Year Finding

*Finding* - Late submission of annual report to Legislative Auditor for December 31, 2010.

*Status* - At December 31, 2011, this condition still existed.