

NOTES TO THE FINANCIAL STATEMENTS

TANSI SEWER UTILITY DISTRICT OF CUMBERLAND COUNTY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Period Beginning February 25, 2010 and Ending February 28, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Tansi Sewer Utility District of Cumberland County, Tennessee have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The *Governmental Accounting Standards Board* (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the District are described below.

Reporting Entity

The Tansi Sewer Utility District of Cumberland County, Tennessee (the District) is a utility district incorporated under the State of Tennessee law “*The Utility District Law of 1937*” and amendments and supplements thereto. It was incorporated on February 25, 2010. The District was created to provide wastewater utility services to the Tansi community within Cumberland County, Tennessee. Three District Commissioners, who are appointed for staggered four (4) year terms, manage the District.

The District, for financial purposes, includes only the Tansi Sewer Utility District of Cumberland County, Tennessee and is the only entity presented in these financial statements. The District has no component units.

Measurement Focus, Basis of Accounting, and Basis of Presentation

The District’s financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Assets. Net Assets (i.e., total assets net of total liabilities) are segregated into Invested Capital Assets, Net of Related Debt; Restricted for Specified Purposes; and Unrestricted Components. The Operating Statement presents increases (e.g. revenues) and decreases (e.g. expenses) in Net Total Assets.

The District follows all pronouncements of the *Governmental Accounting Standards Board*, (GASB), and has elected not to follow *Financial Accounting Standards Board* (FASB) pronouncements issued after November 30, 1989 unless they are adopted by GASB.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents have original maturities of three (3) months or less from the date of acquisition. Investments, if applicable, are stated at fair value.

Receivables

Accounts receivables are stated at the amount management expects to collect from outstanding balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to bad debt expense and a credit to accounts receivable. No charges to bad debt expense have been made during this period.

Prepaid Items

Certain payments to suppliers reflect cost applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

The distribution and collection system and other related capital assets are recorded at cost and include improvements that significantly add to productive capacity or extend useful life. The District generally capitalizes any asset with an individual cost of more than \$100.00. Costs of maintenance and repairs are charged to expense. Upon retirement or disposal of assets, the cost and related depreciation are removed from the accounts and gain or loss, if any, is reflected in the earnings for the period. Any interest cost incurred in the construction of capital assets is capitalized.

Donated capital assets are recorded at installer's cost which approximates estimated fair market value at the date of the District's acquisition, and are recorded as capital contributions when received.

Depreciation and amortization, for financial reporting purposes, is provided on the straight-line method over the period of estimated useful lives of the assets.

Distribution and Collection System	40 years
Office Furniture and Equipment	5 to 10 years
Field Equipment	5 to 15 years

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues and Expenses

The District distinguishes Operating Revenues and Expenses from Non-Operating Items. Operating Revenues and Expenses generally result from providing services and delivering goods in connection with the District's principal ongoing operations. The principal Operating Revenues of the District are sewer fees. Operating Expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as Non-Operating Revenues and Expenses.

Net Assets

The Tansi Sewer Utility District's financial statements are being presented in conformance with provisions of the *Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"* (GASB 34). As required by GASB 34, the District has classified Net Assets into three components: Invested in Capital Assets, Net of Related Debt, Restricted, and Unrestricted. These classifications of Net Assets 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. Instead, 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 assets through external restrictions imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – This component of Net Assets consist of net assets that do not meet the definition of "Restricted" or "Invested in Capital Assets, Net of Related Debt." Generally, these net assets represent those financial resources that are available to the District to meet any future obligations that might arise.

Unrestricted and Restricted Net Assets

When an expense is incurred for purposes for which both Restricted and Unrestricted Net Assets are available, Unrestricted Net Assets should be applied first.

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NOTE 2 – DEPOSITS AND INVESTMENTS

Investment of District funds is restricted by the State of Tennessee statutes to include the following:

- Bonds, notes, or treasury bills of the United States
- Nonconvertible debt securities of the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the Student Loan Marketing Association
- Any other obligations which are guaranteed as to principal and interest by the United States or any of its agencies
- Certificates of Deposit and other evidences of deposit at state and federal chartered banks and savings and loan associations
- Obligations of the United States or its agencies under a repurchase agreement, with certain conditions
- Certain approved money market funds
- The local government investment pool
- Without the approval of the State Director of Local Finance, investments must have a maturity of not greater than two (2) years from the date of investment.

At February 28, 2011 the District's deposits consisted of the following:

	Book Balance	Bank Balance
First National Bank of Tennessee Demand Deposits	<u>\$ 159,845.89</u>	<u>\$ 159,845.89</u>

As of February 28, 2011, the total demand deposits of the District were insured by Federal Depository Insurance. FDIC covers deposit amounts up to \$250,000 per depositor, per insured bank, for each account ownership category.

The District had no investments at February 28, 2011.

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NOTE 3 – CAPITAL ASSETS

Capital Asset activity for the period beginning February 25, 2010 and ending February 28, 2011 was as follows:

	Balance February 25, 2010	Increases	Decreases	Balance February 28, 2011
Capital Assets Not Being Depreciated:				
Easements	\$.00	\$ 1,075.00	\$.00	\$ 1,075.00
Capital Assets Being Depreciated:				
Distribution and Collection System	.00	1,622,933.53	.00	1,622,933.53
Equipment	.00	19,960.08	.00	19,960.08
Total	.00	1,642,893.61	.00	1,642,893.61
Accumulated Depreciation:				
Distribution and Collection System	.00	(20,119.82)	.00	(20,119.82)
Equipment	.00	(813.49)	.00	(813.49)
Total Accumulated Depreciation	.00	(20,933.31)	.00	(20,933.31)
Net Capital Assets Being Depreciated	.00	1,621,960.30	.00	1,621,960.30
Total Capital Assets (Net)	\$.00	\$ 1,623,035.30	\$.00	\$ 1,623,035.30

Depreciation Expense was \$20,933.31 for 2011.

See Note 8 and Note 9 for additional details.

NOTE 4 – RISK MANAGEMENT

The District is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, business interruption, errors and omissions, and natural disasters. It is the policy of the District to purchase commercial insurance for the risk of losses to which it is exposed. These risks include general liability, property and casualty, worker's compensation, and accident and environmental. There were no claims during the period.

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NOTE 5 – COMMITMENTS

Service Contract

The District has contracted with ~~Darian K. Dykes~~ to operate the sewer plant. Total cost incurred for these services for the period was ~~\$8,000.00~~.

NOTE 6 – MAJOR CUSTOMERS

The District had sales to two (2) major commercial customers totaling ~~\$37,995.08~~ which was approximately ~~98.45%~~ of the total sewer fees for this period.

38395.08
400.00

NOTE 7 – OPERATING LEASES

The District's leases their office building on a month to month basis from Tansi Waste Management, Inc. at rate of \$710.00 per month. Lease expense for the period was \$2,840.00. Future minimum lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2012	\$8,520.00
2013	8,520.00
2014	8,520.00
2015	8,520.00
2016	8,520.00

NOTE 8 – CAPITAL CONTRIBUTIONS

Distribution and collection system assets and office furniture and equipment were donated to the Tansi Sewer Utility District by Tansi Waste Management, Inc. Capital Contributions from Tansi Waste Management, Inc. are as follows:

Donated Capital Assets	\$1,285,116.71
Other Capital Contributions	\$ 486,095.00

~~It is the District's policy to classify as Contributions From Customers, the portion of tap fee that is substantially in excess of installation charges. The amount recognized as Contributions From Customers for the period ended February 28, 2011 was \$98,175.00~~

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NOTE 9 – CONTINGENT LIABILITIES

Tansi Waste Management, Inc. transferred to Tansi Sewer Utility District of Cumberland County, Tennessee assets totaling \$1,285,116.71 on August 26, 2010. These assets were transferred free of any liens, mortgages, or encumbrances.

Tansi Waste Management, Inc. owes to the Lake Tansi Property Owners' Association approximately \$1,275,000 on a loan as of July 31, 2010. The loan to Tansi Waste Management, Inc. is not secured by the sewer system. The District agreed to pay the Lake Tansi Property Owners' Association the amount Tansi Waste Management, Inc. owes within 10 days after the District receives the bond proceeds from a public bond issue. Both parties understand and agree that the District's obligation to pay the amount owed by Tansi Waste Management, Inc. to the Lake Tansi Property Owners' Association is conditioned upon the District receiving the proceeds from a public bond issue.

At this time, the District is not planning a public bond issue.

NOTE 10 – SUBSEQUENT EVENTS

On September 23, 2011 the Tansi Sewer Utility District was notified that they have been named in a lawsuit by the Lake Tansi Village Property Owners' Association regarding the transfer of assets from Tansi Waste Management, Inc. as disclosed in Note 9. The outcome of this lawsuit is not determinable at this time.