

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY DISTRICT
MADISON, MISSISSIPPI

FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY DISTRICT

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6
SUPPLEMENTAL INFORMATION	
Supplemental data required by Rural Development	12

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MATTHEWS
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LINDSAY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Lake Lorman Utility Corporation
d/b/a Lake Lorman Utility District
Madison, Mississippi

We have audited the accompanying statements of financial position of Lake Lorman Utility Corporation d/b/a Lake Lorman Utility District as of October 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide 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 Lake Lorman Utility Corporation d/b/a Lake Lorman Utility District as of October 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental data on pages 11 through 13 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information 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 as a whole.

Matthews Cutrer & Lindsay, P.A.

January 10, 2013

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY DISTRICT

STATEMENTS OF FINANCIAL POSITION
AT OCTOBER 31, 2012 AND 2011

	ASSETS	
	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	\$ 171,006	\$ 173,938
Accounts receivable	21,029	22,023
Prepaid expenses	4,644	4,644
	196,679	200,605
CASH RESTRICTED (Note 2)	131,333	129,936
PROPERTY AND EQUIPMENT		
Land	64,440	64,440
Water facilities and equipment	2,576,159	2,564,116
Software	7,407	4,312
	2,648,006	2,632,868
Less: accumulated depreciation	(1,740,868)	(1,648,917)
	907,138	983,951
OTHER ASSETS		
Deposit	150	150
	\$ 1,235,300	\$ 1,314,642

See Notes to Financial Statements.

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY DISTRICT

STATEMENTS OF FINANCIAL POSITION
AT OCTOBER 31, 2012 AND 2011

LIABILITIES AND NET ASSETS (DEFICIT)

	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES		
Accounts payable	\$ 4,979	\$ 5,721
Agency obligations to fire district (Note 2)	71,523	70,656
Accrued interest payable	2,625	3,518
Current installments of long-term debt	68,799	66,369
Meter deposits	<u>17,110</u>	<u>16,580</u>
	165,036	162,844
LONG-TERM DEBT (Note 5)	<u>1,049,632</u>	<u>1,119,180</u>
	<u>1,214,668</u>	<u>1,282,024</u>
NET ASSETS (DEFICIT)		
Unrestricted (deficit)	(22,068)	(10,082)
Temporarily restricted (Note 6)	<u>42,700</u>	<u>42,700</u>
	<u>20,632</u>	<u>32,618</u>
	<u>\$ 1,235,300</u>	<u>\$ 1,314,642</u>

See Notes to Financial Statements.

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY DISTRICT

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
UNRESTRICTED NET ASSETS		
REVENUES AND OTHER SUPPORT		
Water revenue	\$ 123,565	\$ 128,653
Sewer revenue	123,617	125,019
Tap and trench - new meters	275	275
Sewer connection	-	1,775
Interest income	1,686	2,102
Late fees	1,998	2,444
Other income	<u>135</u>	<u>632</u>
	<u>251,276</u>	<u>260,900</u>
EXPENSES		
Audit, engineer, and legal	17,705	8,200
Depreciation and amortization	91,951	88,342
Insurance	5,309	5,163
Interest	39,795	44,210
Management fees (Note 4)	9,266	7,992
Miscellaneous	5,161	3,950
Per diem	2,065	1,995
Repairs and maintenance	77,848	96,484
Utilities - water and sewer	<u>14,162</u>	<u>14,326</u>
	<u>263,262</u>	<u>270,662</u>
CHANGE IN NET ASSETS	(11,986)	(9,762)
NET ASSETS AT BEGINNING OF YEAR	<u>32,618</u>	<u>42,380</u>
NET ASSETS AT END OF YEAR	<u>\$ 20,632</u>	<u>\$ 32,618</u>

See Notes to Financial Statements.

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY DISTRICT

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (11,986)	\$ (9,762)
Adjustment to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	91,951	88,342
Decrease in		
Accounts receivable	994	2,101
Increase (decrease) in		
Accounts payable	(742)	(4,503)
Accrued interest	(893)	(849)
Meter deposits payable	530	-
Agency funds	867	1,096
	<u>80,721</u>	<u>76,425</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(15,138)	(17,667)
Increase in cash restricted	(1,397)	(1,096)
NET CASH USED IN INVESTING ACTIVITIES	<u>(16,535)</u>	<u>(18,763)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of long-term debt	(67,118)	(68,360)
NET INCREASE (DECREASE) IN CASH	(2,932)	(10,698)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>173,938</u>	<u>184,636</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 171,006</u>	<u>\$ 173,938</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 40,688</u>	<u>\$ 45,059</u>

See Notes to Financial Statements.

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Activities

Lake Lorman Utility District provides water and sewer services to both residential and non-residential entities in Madison County, Mississippi.

Method of Accounting

The accompanying financial statements have been prepared on the accrual basis. Revenues are recognized in the period in which they are earned and become measurable. This method allows matching of revenues earned during a period with the expenditures incurred.

Financial Statement Presentation

As required by the Not-for-Profit Entities topic of the FASB Accounting Standards Codification, the Organization 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. These financial statements present unrestricted and temporarily restricted net assets, which are its only two classes of the above three categories.

Use of Estimates

Lake Lorman Utility District prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which require that management make estimates and assumptions that affect the reported amounts and disclosures. Actual amounts could differ from those results. In the opinion of management, such differences would not be significant.

Cash and cash equivalents

For financial statement purposes, the Organization considers all investments with original maturity of twelve months or less to be cash equivalents.

Property and Equipment

Property and equipment are valued at cost. Maintenance, repairs and minor replacements are expensed as incurred, significant renewals and betterments are capitalized. Depreciation is provided using the straight line method over the estimated useful life of the asset as follows:

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

1. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Water facilities and equipment – 5 to 30 years
Software – 3 years

Income Taxes

Lake Lorman Utility District is a tax-exempt organization as described in Section 501(c)(12) of the Internal Revenue Code and is generally exempt from Federal and State income taxes pursuant to Section 501(a) of the Code. Rules and regulations regarding unrelated business income tax apply to the Organization. The Organization believes it has no uncertain tax positions.

Concentrations of Credit Risk

The Organization provides services on credit to its customers, all of whom are located within the boundaries of the utility district in Madison County, Mississippi. The Organization performs ongoing credit evaluations of its customers. The Organization has adjusted accounts receivable for all known uncollectible accounts. No allowance for doubtful accounts is considered necessary at year-end.

2. RESTRICTED CASH

Restricted cash is as follows:

	<u>2012</u>	<u>2011</u>
Agency funds	\$ 71,523	\$ 70,656
Bond cushion funds	21,400	21,400
Contingent fund	10,650	10,650
Depreciation funds	10,650	10,650
Customer meter deposits	<u>17,110</u>	<u>16,580</u>
	<u>\$ 131,333</u>	<u>\$ 129,936</u>

Agency Funds

The organization has accepted certificates of deposits from the Madison County Board of Supervisors and has agreed to use those assets along with the return of investment from those assets to benefit the Lake Lorman Fire District.

Rural Development

The terms of the Rural Department bond indentures require monthly deposits to restricted accounts which are segregated from the unrestricted net assets. Meter deposits received from customers are held in a restricted cash account.

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

4. MANAGEMENT AGREEMENT

The District pays management fees that amounted to \$9,266 and \$7,992, respectively, the years ended October 31, 2012 and 2011. In 2012, the District changed management companies.

5. LONG-TERM DEBT

The details of long-term debt are as follows:

	<u>2012</u>	<u>2011</u>
Revenue bond payable to the Rural Department payable in monthly installments of \$1,263, including interest at 5% maturing April, 2019. Collateralized by revenue from operations of the utility system plus an assessment on each user.	\$ 20,875	\$ 34,670
Bond payable to the Rural Department with annual payments of interest only at 7.375% for the first two years in the amount of \$23,600. Beginning on the third anniversary of the bond, principal and interest totaling \$25,296 annually will be payable through the fortieth anniversary date in monthly installments of \$2,108 maturing April, 2029. Collateralized by a lien, junior and subordinate to the corporation's 1979 revenue bond, on the combined revenues of the corporation.	228,997	237,293
State of Mississippi Department of Health, Drinking Water System Improvement payable in monthly installments of \$5,613 including interest at 2.5% maturing May, 2028.	<u>868,559</u>	<u>913,586</u>
Total long-term debt	1,118,431	1,185,549
Less current installments	<u>68,799</u>	<u>66,369</u>
	<u>\$ 1,049,632</u>	<u>\$ 1,119,180</u>

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

5. LONG-TERM DEBT – (Continued)

At October 31, 2012, maturities of long-term debt are as follows:

<u>Year Ending October 31,</u>	
2013	\$ 68,799
2014	63,276
2015	58,406
2016	60,387
2017	62,455
Thereafter	<u>805,108</u>
	<u>\$ 1,118,431</u>

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Bond cushion	\$ 21,400	\$ 21,400
Depreciation	10,650	10,650
Contingent	<u>10,650</u>	<u>10,650</u>
	<u>\$ 42,700</u>	<u>\$ 42,700</u>

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

7. CONTINGENCIES

The Clean Water Act prohibits anybody from discharging "pollutants" through a "point source" into a "water of the United States" unless they have an NPDES permit. As of October 31, 2012, Lake Lorman Utility District has complied with its current NPDES permit which expires in May 2014. The United States Environmental Protection Agency (EPA) has recently revised its requirements in an effort to reduce ammonia levels in sewer lagoons. Before the expiration of its current permit, May 2014, the Organization will be required to incur capital costs to comply with these revisions in order to be re-permitted.

Engineers have advised Lake Lorman Utility District that the following options are available along with the related estimated capital and annual operating and maintenance costs as of October 31, 2012:

<u>Project</u>	<u>Est. Total Project Cost</u>	<u>Est. Annual O&M Costs</u>
Tie-in to proposed Bear Creek Sewer	\$ 350,000	\$ 76,440
Tie-in to Annandale lagoon system	610,000	74,040
Onsite treatment for immediate (Phase II) regulations only	100,000	18,960
Onsite treatment for anticipated ultimate nutrient regulations	750,000	60,960

As of January 10, 2013, management has not decided which option it will pursue to comply with new regulations.

8. SUBSEQUENT EVENTS

In connection with the preparation of the financial statements, management has evaluated events through January 10, 2013, which is the date the financial statements are available to be issued, and concluded that no additional disclosures are required.

SUPPLEMENTAL INFORMATION

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY DISTRICT

SUPPLEMENTAL DATA REQUIRED BY RURAL DEVELOPMENT
FOR THE YEAR ENDED OCTOBER 31, 2012

1. EXISTING SYSTEM

The current number of residential and non-residential users as of October 31, 2012 are as follows:

Residential	212
Non-residential	<u>1</u>
	<u>213</u>

All users are located in Madison County, Mississippi.

2. WATER AND SEWAGE USAGE

Average monthly gallons used in the Lake Lorman Utility District for the year ended October 31, 2012 are as follows:

All users	967,633
Residential	966,633

3. WATER AND SEWER RATES

The water rates for the Organization for the dates November 1, 2010 through October 31, 2012 were:

Water

\$37.00	monthly minimum up to 2,000 gallons
5.25	per 1,000 gallons for the next 2,000 gallons
5.25	per subsequent 1,000 gallons

Sewer

\$30.00	monthly minimum up to 2,000 gallons
3.00	per 1,000 gallons for next 2,000 gallons
3.00	per 1,000 gallons exceeding 4,000 gallons

4. ETHNICITY

The current users in the Lake Lorman Utility District are primarily caucasian.

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY DISTRICT

SUPPLEMENTAL DATA REQUIRED BY RURAL DEVELOPMENT
FOR THE YEAR ENDED OCTOBER 31, 2012

5. INSURANCE COVERAGE

Lake Lorman Utility Corporation had the following insurance policies at October 31, 2012:

<u>Type</u>	<u>Coverage</u>	<u>Dates</u>		<u>Policy Number</u>
		<u>From</u>	<u>To</u>	
Fidelity Bond	\$50,000	03/01/12	03/01/13	104796141
Commercial Package	\$1,000,000	10/02/12	10/02/13	63832
Fidelity Bond	\$50,000	03/01/12	03/01/13	105341398
Fidelity Bond	\$50,000	02/28/12	02/28/13	104879526
Fidelity Bond	\$50,000	03/01/12	03/01/13	105568288
Fidelity Bond	\$50,000	02/28/12	02/28/13	400TC3931
Fidelity Bond	\$10,000	04/20/12	04/20/13	400LZ0090
Fidelity Bond	\$10,000	10/08/12	10/08/13	104879511

6. ELECTED OFFICIALS

The following officials are nominated by the customers of the Organization and approved by the Madison County Board of Supervisors for five year terms. The commissioners elect officers annually.

President 3/1/11 - 2/28/16	Don Seagrove 118 Northshore Drive, Madison, MS 39110
Vice President 3/1/08 - 2/28/14	Woody Holt 120 Moss Ridge Drive, Madison, MS 39110
Secretary 3/1/09 - 2/28/14	Linda McCraw 141 Lakeshore Drive, Madison, MS 39110
Treasurer 3/1/10 - 2/28/15	Mary Ann Sones 3910 Coker Road, Madison, MS 39110

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY DISTRICT

SUPPLEMENTAL DATA REQUIRED BY RURAL DEVELOPMENT
FOR THE YEAR ENDED OCTOBER 31, 2012

6. ELECTED OFFICIALS – (Continued)

Commissioner
3/1/12 - 2/28/17

Jimmie L. King
110 Moss Ridge Drive, Madison, MS 39110