

*Financial Statements*

HALLSDALE-POWELL UTILITY DISTRICT

Year Ended March 31, 2011

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Board of Commissioners  
Hallsdale-Powell Utility District  
Knoxville, Tennessee

We have audited the accompanying statement of net assets of Hallsdale-Powell Utility District as of and for the year ended March 31, 2011 and the related statement of revenue, expenses and changes in net assets and statement of cash flows for the year then ended. 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; and the provisions of Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Those standards and OMB Circular A-133 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 in the first paragraph present fairly, in all material respects, the financial position of Hallsdale-Powell Utility District as of March 31, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 to 14 and the required supplementary information on page 37 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hallsdale-Powell Utility District's basic financial statements. The accompanying other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is required by OMB Circular A-133 and has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The other supplementary information listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2011 on our consideration of Hallsdale-Powell Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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.

A handwritten signature in black ink that reads "Mitchell Emert & Hill". The signature is written in a cursive, flowing style.

October 3, 2011

HALLSDALE-POWELL UTILITY DISTRICT  
OF KNOX COUNTY, TENNESSEE

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section presents management's analysis of the District's financial condition and activities for the years ended March 31, 2011 and 2010. This information should be read in conjunction with the financial statements.

**FINANCIAL HIGHLIGHTS**

Management believes the District is financially strong. It is well within its debt covenants and as the District makes additions and improvements to its distribution system, the operations of the District become more efficient. The following are key financial highlights:

- The District delivered 2.52 billion gallons of water and treated 2.3 billion gallons of sewer, representing an increase of 7.50% and a decrease of 27.3%, respectively, from the previous year.
- Total assets at year-end were \$241.9 million and exceeded liabilities (net assets) by \$102.5 million. Of the total net assets, \$15.6 million was unrestricted and was available to support short-term operations. Total assets and total net assets increased from 2011 to 2010 by \$12.5 million and \$12.7 million, respectively. Unrestricted net assets decreased from 2011 to 2010 by \$3.0 million.
- Operating revenues were \$27.1 million, an increase of \$2.5 million or 10.1% from 2010.
- Operating expenses before depreciation increased by \$823,511 which represents a 7.7% increase in 2011 compared to 2010.
- Operating income, in total, for 2011 was \$10.4 million which represents a 9.7% increase from 2010.
- The ratios of operating income to total operating revenues were 57.6% for 2011 and 38.5% for 2010.
- Debt service coverage was 140% for 2011, exceeding the 110% required by various bond covenants.
- Revenues from water sales in 2011 increased by \$1.34 million, an increase of 11.1% from 2010 and revenues from sewer sales increased by \$1.08 million in 2011, an increase of 9.6 % over 2010 sales.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### **OVERVIEW OF THE ANNUAL FINANCIAL STATEMENTS**

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators, budget, bond resolutions and other management tools were used for this analysis.

The financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by governmental utilities, such as the District.

The financial statements include the statement of net assets, statement of revenues, expenses, and changes in net assets, statement of cash flows, notes to the financial statements and other supplementary information. While the statement of net assets provides information about the nature and amount of resources and obligations at year end, the statement of revenue, expenses and changes in net assets presents results of the District's business activities over the course of the fiscal year presented and information as to how the net assets of the entity changed during those periods.

All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. These statements also provide certain information about the District's recovery of its costs. The District's rates are based on cost of service rate studies that are typically updated annually. The District uses a combination of cost recovery methods in accordance with generally accepted rate making principles in developing its rates.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, financing and investing activities. The statement presents cash receipts and cash disbursements information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information essential to obtaining a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any. Supplementary information presents insurance coverage for the District and the rate schedule still in effect at March 31, 2011, among other information.

The financial statements were prepared by the District's staff from the detailed records of the District. The financial statements are audited and adjusted, if materially incorrect, during the independent external audit process.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### **SUMMARY OF ORGANIZATION AND BUSINESS**

As mentioned in Note A of the financial statements, Hallsdale Powell Utility District of Knox County Tennessee, one of Tennessee's largest public utility districts, was created on September 13, 1954, by decree of the County Court of Knox County, Tennessee pursuant to the provisions of the Utility District Law of 1937 for the purpose of constructing, operating and maintaining a system for the furnishing of water and sewer services for the public. The District serves portions of North Knox County, and portions of Anderson and Union Counties.

The District is governed by a Board of Commissioners composed of three citizens who live or own real estate within the District's. Board members are appointed by the Knox County Mayor for a term of four years. The District is subject to various regulatory requirements of the Tennessee Department of Environment and Conservation, the United States Environmental Protection Agency, the Tennessee Utility Management Review Board and the Tennessee Water and Wastewater Financial Board.

The District does not have taxing authority and does not receive any financial support from Knox County, Tennessee. The District's revenues are derived from water charges, sewer charges based upon metered water consumption of customers and ancillary revenues from various other service fees and charges. The District's customer base, at March 31, 2011, consisted of 28,897 water connections (26,843 residential, 302 multi-unit (apartment/condominiums), 1,561 commercial, and 230 irrigation) and 22,103 sewer connections (20,398 residential, 144 multi-unit and 1,561 commercial).

The District's primary capital assets consist of two water treatment plants, two sewer treatment facilities, one office building and related maintenance facility, and 18 water reservoir tanks. The collection system, consisting of mains, laterals and pump stations, is also owned and maintained by the District. The water customer base is served by means of over 560 miles of water distribution lines, 13 water booster stations, and over 9 million gallons of clean drinking water reservoir tank capacity. The District uses over 410 miles of sewer collection lines and 17 sewer lift stations in servicing its sewer customer base.

The acquisition and construction of utility plant is financed partially through customer revenues and partially through bonded indebtedness. Based on cost of service rate studies, the District assesses the need for funds at current and projected operating levels in relation to the projected capital needs for new construction, maintenance of current distribution and collection system assets and replacement of assets as needed. The District's water and sewer rates are established by the Board of Commissioners based on cost of service rate studies which determine the projected revenue necessary to satisfy projected costs of operations, debt service, costs of necessary improvements to the District's Systems and the requirements of the District's bonded debt, bond covenants and state laws.

The District installed a new Supervisory Control and Data Acquisition (SCADA) system to improve monitoring and operational control and efficiency of the entire system. The SCADA system allows the District to monitor the water and sewer systems and the flow of water and sewage through those systems at all junctures from a centralized location. A computer console in the District's main office monitors the systems for problems, actual or potential, and gives timely, accurate information in order to avoid costly problems.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

During FY 2010 the District received funding from USDA Rural Development (RUS) to embark on a water line extension in the Sharps Chapel area of Union County and the replacement and new construction of the Districts administrative and operations buildings. The Sharps Chapel water line project resulted in a loan in the amount of \$998,000 and bears a fixed interest rate of 3.25% and has a 38 year term with the monthly principal and interest payments starting in October 2010 and was completed in September 2010. The replacement and new construction of the Districts administrative and operations buildings resulted in a loan in the amount of \$4,899,000 and bears a fixed interest rate of 4.125% and has a 38 year term with the monthly principal and interest payments starting in June 2011. This loan was completed in May 2011.

During FY 2010 the District applied for funding through the states Drinking Water State Revolving Fund Loan (DWSRF) in the amount of \$2,825,000 to fund Meter Changeover projects in our capital improvement plan. Those projects consist of changing over meters from old waterlines to new waterlines in multiple areas of the District. The funding was awarded by the state on August 5, 2009. This state loan bears a fixed interest rate of 2.52% and has a 20 year term with the monthly principal and interest payments projected to begin in FY 2011. This loan qualified for forty-percent principal forgiveness or \$1,130,000 that will result in a net loan to be paid back of \$1,695,000 at the above stated interest rate and term. The principal forgiveness is related to the American Recovery and Reinvestment Act of 2009 (ARRA).

Also during FY 2010, the District applied for funding through the states Clean Water State Revolving Fund in the amount of \$12,150,000 to fund two Sanitary Sewer Overflow projects, and two Inflow and Infiltration projects and a "green" Brickey School Outdoor Classroom that demonstrates how the environment can naturally remove contaminants in storm water before it discharges into the watershed. This state loan bears a fixed interest rate of 2.52% and has a 20 year term with the monthly principal and interest payments projected to begin in FY 2011. This loan qualified for forty-percent principal forgiveness or \$4,860,000 that will result in a net loan to be paid back of \$7,290,000 at the above stated interest rate and term. The principal forgiveness is related to the American Recovery and Reinvestment Act of 2009 (ARRA).

Beaver Creek Wastewater Treatment Plant – This project includes upgrades and expansion of the plant to meet current and future discharge permit requirements. This project will also allow the District to treat future wastewater flow capacity. Nearing the end of FY 2006, the District secured a \$44.0 million loan commitment from the State of Tennessee's State Revolving Fund (SRF) on March 17, 2006, to finance the upgrade and expansion of the Beaver Creek Wastewater Treatment Plant and a portion of the installation of automatic meter reading (AMR) technology. The loan commitment has been amended on two separate occasions and now the total loan commitment is \$53.8 million dollars. A loan commitment from the state has been issued for 20 years at a rate of 0.82%. The District has drawn approximately \$43.4 million of these dollars over the past four years from this loan and has only been required to make payments for interest only during the construction period (FY 2007-2011). The full debt service repayment is projected to start in October 2011.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### **FINANCIAL ANALYSIS**

The following condensed financial statements and other selected information provide key financial information for management in conducting, monitoring and planning for operations of the District.

*Fiscal Year 2011 as compared to fiscal year 2010:*

Condensed Balance Sheets  
(In Thousands of Dollars)  
March 31, 2011 and 2010

	2011	2010	Variance	
			Amount	%
<b>ASSETS</b>				
Current assets	\$ 16,974	\$ 19,813	\$ (2,839)	-14.3%
Restricted assets	8,422	12,066	(3,644)	-30.2%
Capital Assets:				
Producing - net of depreciation	199,528	144,563	54,965	38.0%
Construction in progress	15,749	51,591	(35,842)	-69.5%
Other assets	1,242	1,308	(66)	-5.1%
<b>TOTAL ASSETS</b>	<b>\$ 241,915</b>	<b>\$ 229,341</b>	<b>\$ 12,574</b>	<b>5.5%</b>
<b>LIABILITIES</b>				
Current Liabilities	\$ 4,478	\$ 6,918	\$ (2,440)	-35.3%
Long-Term Liabilities	134,840	132,578	2,262	1.7%
<b>TOTAL LIABILITIES</b>	<b>139,318</b>	<b>139,496</b>	<b>(178)</b>	<b>-0.1%</b>
<b>NET ASSETS</b>				
Invested in Capital Assets, net of related debt	78,856	61,214	17,642	28.8%
Restricted	8,090	9,964	(1,874)	-18.8%
Unrestricted	15,651	18,667	(3,016)	-16.2%
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 241,915</b>	<b>\$ 229,341</b>	<b>\$ 12,574</b>	<b>5.5%</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Condensed Statement of Revenues, Expenses, and Changes in Net Assets (In Thousands of Dollars) For The Years Ended March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Variance</u>	
			<u>Amount</u>	<u>%</u>
<b>Revenues</b>				
Water service revenues	\$ 13,401	\$ 12,060	\$ 1,341	11.1%
Wastewater service revenues	12,219	11,144	1,075	9.6%
Other revenues	1,480	1,406	74	5.3%
Total Operating Revenues	<u>27,101</u>	<u>24,610</u>	<u>2,491</u>	<u>10.1%</u>
<b>Operating Expenses</b>				
Operations and Maintenance	11,489	10,666	823	7.7%
Depreciation	5,205	4,460	745	16.7%
Total Operating Expenses	<u>16,694</u>	<u>15,126</u>	<u>1,568</u>	<u>10.4%</u>
Operating Income	<u>10,407</u>	<u>9,484</u>	<u>923</u>	<u>9.7%</u>
<b>Non-operating Revenues and (Expenses)</b>				
Investment Income	163	253	(90)	-35.4%
Gain (Loss) on sale of assets	(12)	(10)	(2)	24.9%
Interest Expense	(3,814)	(3,853)	39	-1.0%
Total Non-Operating - net	<u>(3,663)</u>	<u>(3,610)</u>	<u>(53)</u>	<u>1.5%</u>
Increase (Decrease) in Net Assets Before Capital Contributions	<u>6,744</u>	<u>5,874</u>	<u>870</u>	<u>14.8%</u>
<b>Capital Contributions</b>				
Grant Revenue	5,680	620	5,060	816.1%
Cash Contributions	127	10	117	1175.0%
Non-Cash	200	380	(180)	-47.3%
Total Capital Contributions	<u>6,008</u>	<u>1,010</u>	<u>4,998</u>	<u>494.8%</u>
Increase in Net Assets	\$ 12,752	\$ 6,884	\$ 5,868	85.2%
Net Assets, Beginning of Year	<u>\$ 89,845</u>	<u>\$ 82,961</u>	<u>\$ 6,884</u>	<u>8.3%</u>
Net Assets, End of Year	<u><u>\$ 102,596</u></u>	<u><u>\$ 89,845</u></u>	<u><u>\$ 12,752</u></u>	<u><u>14.2%</u></u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### OTHER SELECTED INFORMATION

#### Selected Data:

	<u>2011</u>	<u>2010</u>	<u>Difference</u>	<u>%Change</u>
Employees at Year-End	84	89	-5	-5.5%
Average Employees	84	89	-5	-5.6%
Customers (Billing Units) at Year-End:				
Water	28,867	28,657	210	0.7%
Wastewater	22,103	21,981	122	0.6%
Water (Millions of Gallons)				
Treated	2,529.8	2,349.3	180.5	7.5%
Sold	1,441.4	1,406.7	34.7	2.4%
Wastewater Treated (Millions of Gallons)	2,284.6	3,009.6	-725.0	-27.3%
Per Average Employee:				
Operating Revenues	\$ 322,629	\$ 276,521	\$ 46,108	17.7%
Operating Expenses	\$ 198,740	\$ 169,952	\$ 28,787	16.7%
Residential Rate per 1,000 Gallons of Water Sold				
Water	9.30	8.57	0.72	9.2%
Wastewater	10.29	9.54	0.76	8.7%
Ratio of Operating Revenues to:				
Operating Expenses	1.62	1.63	0.00	-0.2%
Operating Expenses - Net of Depreciation	2.36	2.31	0.05	2.5%
Total Assets	0.11	0.11	0.00	4.3%
Net Assets	0.26	0.27	-0.01	-3.4%
Debt Related Ratios:				
Long-Term Debt to Net Assets	1.31	1.48	-0.16	-10.6%
Long-Term Debt to Total Assets	0.56	0.58	-0.02	-3.6%
Operating Coverage	1.89	2.19	-0.30	-13.9%

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

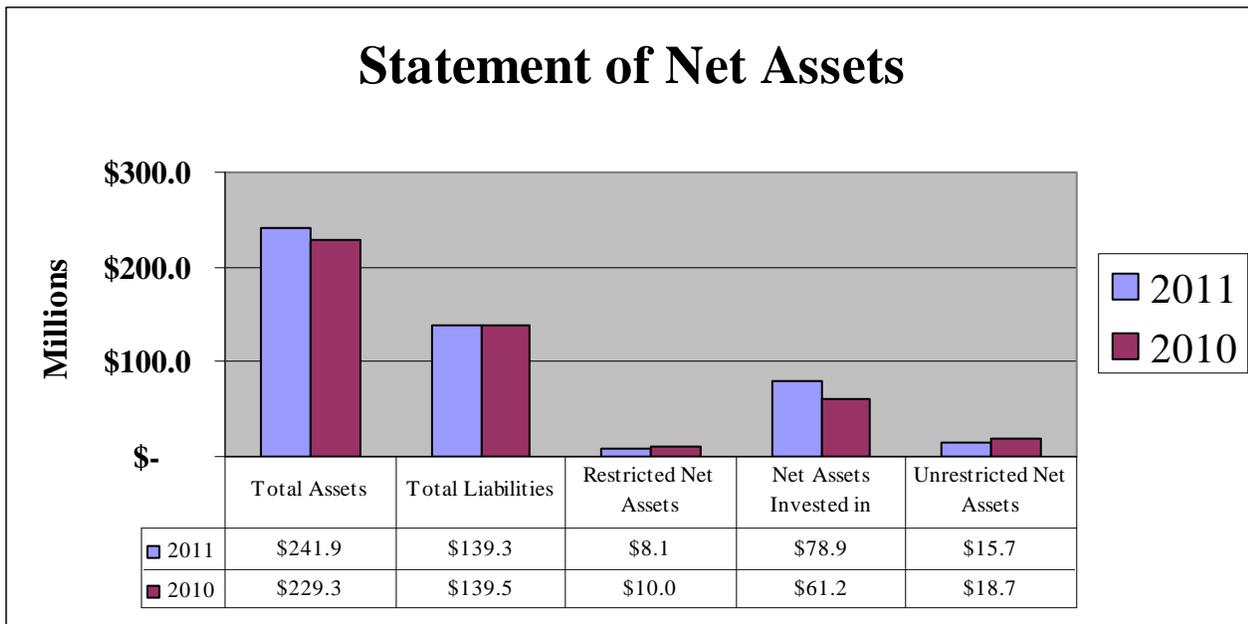
### GENERAL TRENDS AND SIGNIFICANT EVENTS

Customer growth in the District has remained strong over the last decade. The District's number of water and sewer customers (billing units) increased during 2011 by 0.7% and 0.6%, respectively.

Weather temperatures during 2011 and 2010 were generally normal for the seasons. However, wetter conditions were present during 2010 than in 2011 that resulted in 5.9 inches of less rainfall over the rainfall of 2010, all of which contributed to higher than predicted water production and sales as well as lesser wastewater treatment.

### FINANCIAL CONDITION

The District remained financially strong through the end of 2011. The District met all bond covenants for the fiscal year, generated positive operating cash flows and accomplished several goals concerning capital projects. The following charts summarize the financial statements.



Total assets grew from \$229.3 million in 2010 to \$241.9 million in 2011, an increase of approximately \$12.6 million. Total liabilities increased from \$139.5 million in 2010 to \$139.3 million in 2011, an approximate increase of \$178 thousand. Restricted Net Assets decreased from \$9.9 million in 2010 to \$8.1 million in 2011, a decrease of \$1.8 million. Net Assets Invested in Capital Assets increased from \$61.2 million in 2010 to \$78.9 million in 2011, an increase of approximately \$17.6 million. Finally, Unrestricted Net Assets decreased from \$18.7 million in 2010 to \$15.6 million in 2011, a decrease of approximately \$3.0 million.

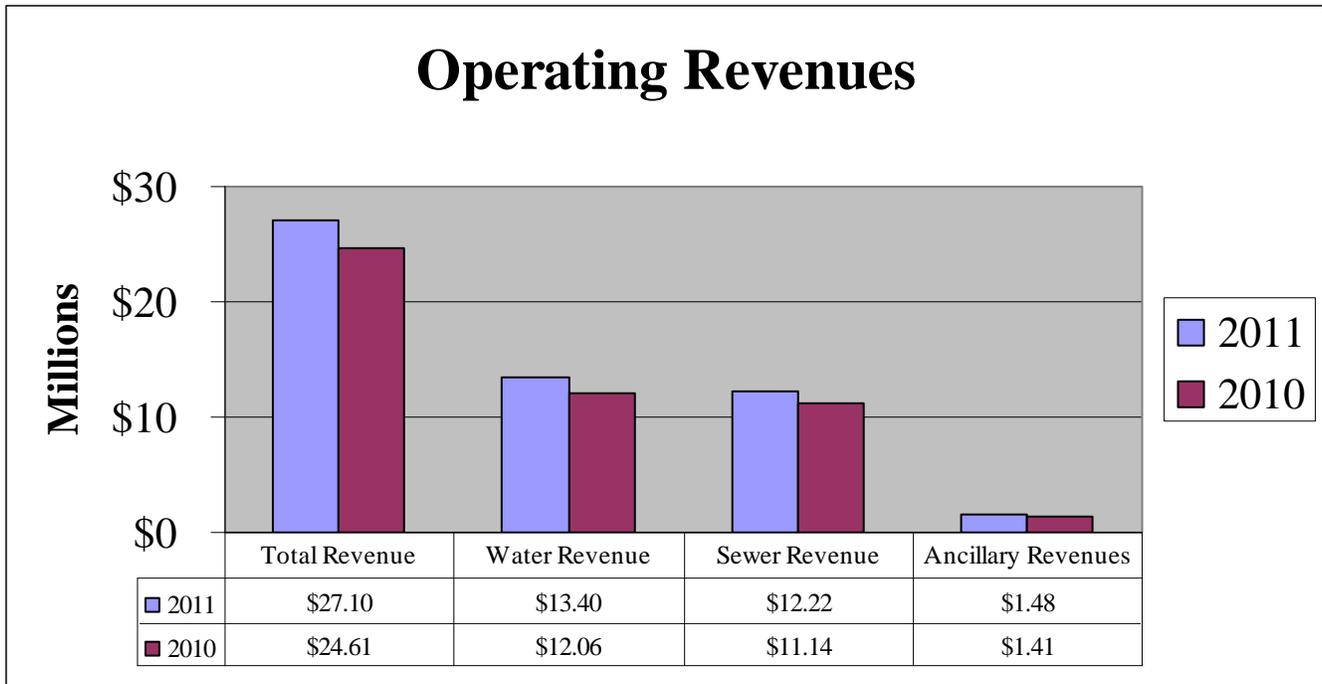
Net accounts receivable at year-end 2011 was 5.0% higher than fiscal year 2010. At 2011 year-end 64.0% of accounts receivable were current within 30 days. The District's provision for bad debt expense was \$105,538 on \$25,620,741 in water and sewer sales.

## MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

Net accounts receivable at year-end 2010 was 2.6% higher than fiscal year 2009. At 2010 year-end 66.4% of accounts receivable were current within 30 days. The District’s provision for bad debt expense was \$66,670 on \$23,203,696 in water and sewer sales.

### RESULTS OF OPERATIONS

Revenues from operations fall into three general categories: water service, sewer service, and ancillary charges. Ancillary charges include connection fees, account set-up and penalty fees and charges from miscellaneous billed services.



Total revenues grew from \$24.6 million in 2010 to \$27.1 million in 2011, an increase of approximately \$2.5 million. Water revenue increased from \$12.1 million in 2010 to \$13.4 million in 2011, an approximate increase of \$1.3 million. Sewer revenue increased from \$11.1 million in 2010 to \$12.2 million in 2011, an increase of \$1.1 million. Ancillary revenue increased from \$1.41 million in 2010 to \$1.48 million in 2011.

In March of 2010, the District approved an increase in both its water and sewer rates by 7.50%, and in March of 2011 the District approved an increase in water rates by 3.50% and sewer rates by 5.50%. The average realized rate from water sales was \$9.30 per thousand gallons in 2011 and \$8.57 per thousand gallons in 2010, an increase of 9.20% and for wastewater sales was \$10.29 per thousand gallons in 2011 and \$9.54 per thousand gallons in 2010, an increase of 8.70%

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### **Capital Contributions**

The District collects water and sewer connection fees in order to ensure that current customers do not bear the burden of growth. These fees are paid by new customers and represent the cost of water and sewer capacity of the new customer. These fees are paid at the time a new customer water meter is connected to the system. In addition, the District accepts new water and sewer lines that are donated by residential and commercial real estate developers. Prior to implementation Governmental Accounting Standards Board (GASB) Statement No. 33, the money and system assets received were recorded as direct contributions to equity. GASB defines these fees as non-operation revenues and requires reporting the amounts through the statement of revenues, expenses, and changes in net assets.

Capital cash contributions were \$5,807,529 for 2011 compared to \$630,325 for 2010, an increase of \$5,177,204. These contributions represent system-connection related fees of \$127,498 and a grant from USDA Rural Development for \$1,571,700 and principal forgiveness from the State Revolving Loan Fund in association to the American Retirement and Reinvestment Act funds in the amount of \$4,180,331.

Noncash capital contributions were \$200,182 for 2011 and \$379,499 for 2010, a decrease of \$179,317 dollars. These contributions represent water and sewer distribution and collection systems donated by developers to the District.

### **Expenses**

Operating expenses, excluding depreciation, increased by \$823,511 in 2011, or 7.70%.

Depreciation expense of the District's system increased by \$744,841 in 2011 or 16.70%. This increase was primarily the result of water & sewer plant upgrades and water and sewer lines put into service.

### **CAPITAL ASSETS**

The District is undergoing aggressive water and sewer treatment plant upgrades, line relocation and replacements. The District is improving and increasing the capacity of its water and wastewater treatment facilities in order to provide adequate capacity for future customer growth.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### DEBT

At March 31, 2011, the District had \$136.4 million in long and short-term debt, an increase of \$1.48 million from 2010.

During FY 2011 and FY 2010 the District made draws of \$-0- and \$8,458,709 respectively, against the Clean Water State Revolving Fund Loan (CWSRF) of the \$53,800,000 available funds. The amount of draws from inception to the year end was \$43,383,882. This state loan bears a fixed interest rate of 0.82% and has a 20 year term. Only interest expense is to be paid during the construction period on the amounts drawn or until 90% of the available funds were drawn would principal have to start being repaid. In February of 2009 we requested the loan to be increased by \$6,300,000. The breakdown of the \$6.3M is \$4,628,803 in construction of the WWTP (original bid \$40,650,000 minus SRF budgeted of \$36,021,197), the approved change order of \$1,330,678, and \$340,519 for additional radio read meters. Additionally, in January 2010 we requested the loan to be increased by \$3,500,000 for rehabilitation of the oxidation ditch treatment works at the same sewer plant. The loan increase was approved on April 28, 2010, and the total loan changed originally from \$44,000,000 to \$50,300,000 to \$53,800,000 at the same interest rate and term as stated above.

During FY 2011 and FY 2010 the District made draws of \$1,804,655 and \$507,276 respectively, against the Drinking Water State Revolving Fund Loan (DWSRF) of the \$2,825,000 concerning Meter Changeovers from old waterlines to new waterlines in multiple areas of the District. This state loan bears a fixed interest rate of 2.52% and has a 20 year term with the monthly principal and interest payments projected to begin in June 2011. This loan qualified for forty-percent principal forgiveness or \$1,130,000 that will result in a net loan to be paid back of \$1,695,000 at the above stated interest rate and term. The principal forgiveness is related to the American Recovery and Reinvestment Act of 2009 (ARRA).

Also during FY 2010, the District applied for a loan from the CWSRF in the amount of \$12,150,000 concerning two Sanitary Sewer Overflow projects, and two Inflow and Infiltration projects and a "green" Brickey School Outdoor Classroom that demonstrates how the environment can naturally remove contaminants in storm water before it discharges into the watershed. This state loan bears a fixed interest rate of 2.52% and has a 20 year term with the monthly principal and interest payments projected to begin in FY 2011. This loan qualified for forty-percent principal forgiveness or \$4,860,000 that will result in a net loan to be paid back of \$7,290,000 at the above stated interest rate and term. The principal forgiveness is related to the American Recovery and Reinvestment Act of 2009 (ARRA). During FY 2011 and FY 2010 the District made draws of \$6,165,961 and \$-0- , respectively, against this loan.

District's debt is described in Notes F, and in the Other Supplementary Information section to the financial statements.

The long-term debt to total asset ratio was 0.56 in 2011 and 0.58 in 2010.

The District is bound by restrictive covenants as set forth in the 2002A, 2002B, 2004A and 2004B, 2006 and 2008 bond documents. These covenants are monitored closely by management and the Board of Commissioners and are intricate in prescribing allowable uses for revenues of the District, amounts to be reserved for debt service and sinking fund requirements, identifying certain financial ratios that must be met by the District and a number of operational restrictions by which the District must abide.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

With the issuance of the Series 2004 Bonds, the District is required to set rates prior to the commencement of each fiscal year sufficient to cover the bond debt service ratio as computed above by 110%. In 2011, the District approved the amended 2008 rate study and the included recommendations. In doing so, the District approved rate increases effective for all water and sewer bills with a due date on or after April 1, 2011. This rate increase is expected to increase billed revenues approximately 4.5% for FY 2012. As evidenced in the amended rate study, the newly adopted rates for 2011 are estimated to cover the expected debt service for FY 2012 by 120%.

The District is also responsible for complying with several operational requirements as provided in restricted covenants of its bonds covenants. Some of these operational requirements include not providing free service to any user, ensuring the system is operated on a fully metered basis, billing customers on a monthly basis and discontinuing service to any customer whose bill remains unpaid after a designated number of days.

The District was in full compliance with all restrictive covenants contained in its bond covenants at March 31, 2011, and 2010.

### **FINAL COMMENTS**

As mentioned earlier, the District currently serves parts of Knox, Anderson, and Union Counties. The District has projected several areas for expansion of its distribution and transmission system. Much of this expansion is located in the north portion of Knox County and the west portion of Union County. There are also several new developments planned for the Sharps Chapel area in Union County. The District projects the highest growth in its customer base, total distribution growth and, therefore, revenue growth in the aforementioned areas for the next several years. These areas are rapidly expanding as the population in the Knox and Union County areas grow. Many of the current and planned capital water projects for the District are aimed at accomplishing more efficient service in these areas as well as further system expansion.

The District has sustained healthy operational and financial stability through planned improvements to its water and sewer facilities over the past 57 years. The District is in position to accept additional planned opportunities for service to the public in the Knox, Anderson, Union County areas, while consistently improving quality and efficiency of services and maintaining its fiscal strength.

### **CONTACTING THE DISTRICT**

This financial report is designed to provide the District's customers and other interested parties with a general overview of the District's finances and to demonstrate the District's fiscal accountability to the public it serves. Questions about this report or requests for additional financial information may be directed to the District:

Darren Cardwell, President  
Hallsdale-Powell Utility District  
3745 Cunningham Drive  
P.O. Box 5199  
Knoxville, Tennessee 37928-0199.

HALLSDALE-POWELL UTILITY DISTRICT

**STATEMENT OF NET ASSETS**

March 31, 2011

**ASSETS**

**UTILITY PLANT IN SERVICE**

Assets not being depreciated:

Land		\$ 2,641,281
Construction in process		15,749,175
Plant in service		<u>247,100,613</u>
		265,491,070
Accumulated depreciation		<u>(50,213,762)</u>
		<u>215,277,308</u>

**RESTRICTED ASSETS**

Cash	\$ 4,578,972	
Investments	<u>3,842,668</u>	8,421,640

**CURRENT ASSETS**

Cash	13,678,242	
Investments	220,286	
Accounts receivable, net of allowance for uncollectible accounts of \$105,538	1,264,211	
Grant receivable	1,280,585	
Prepaid expenses	199,361	
Materials and supplies	<u>331,197</u>	16,973,882

**OTHER ASSET**

Unamortized bond issuance costs, net of accumulated amortization		<u>1,241,686</u>
---	--	------------------

\$ 241,914,516

See the accompanying notes to the financial statements.

**LIABILITIES AND NET ASSETS**

**LONG-TERM DEBT**, net of current portion

Bonds payable		\$ 79,284,502
Notes payable		<u>55,555,274</u>
		134,839,777

**CURRENT LIABILITIES PAYABLE  
FROM CURRENT ASSETS**

Accounts payable	\$ 1,945,524	
Accrued compensated absences	279,073	
Net pension obligation	<u>339,492</u>	2,564,090

**CURRENT LIABILITIES PAYABLE  
FROM RESTRICTED ASSETS**

Current maturities of long-term debt	1,581,704	
Customer deposits	<u>332,085</u>	<u>1,913,789</u>

**TOTAL CURRENT LIABILITIES** 4,477,878

**TOTAL LIABILITIES** 139,317,655

**NET ASSETS**

Invested in capital assets, net of related debt	78,855,828	
Restricted:		
Construction projects	4,176,442	
Debt retirement	3,913,114	
Unrestricted	<u>15,651,478</u>	<u>102,596,861</u>
		<u>\$ 241,914,516</u>

HALLSDALE-POWELL UTILITY DISTRICT

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**

Year Ended March 31, 2011

**OPERATING REVENUE**

Metered water sales		\$ 13,401,477
Metered sewer sales		11,541,656
Sewer users fee		677,608
Fire protection		98,848
Connection fees		235,597
Transfer fees		92,180
Service charges and reconnection fees		187,785
Backflow inspection		29,245
Penalties		622,383
Miscellaneous		214,077
		<u>27,100,856</u>

**OPERATING EXPENSES**

Salaries and related expenses	\$ 5,570,529	
Professional and contract services	696,556	
Administration	923,237	
Utilities	2,262,508	
Supplies, repairs and maintenance	1,818,385	
Vehicles and equipment	<u>217,982</u>	<u>11,489,198</u>

**OPERATING INCOME BEFORE DEPRECIATION** 15,611,659

**DEPRECIATION** 5,204,925

**OPERATING INCOME** 10,406,733

**OTHER INCOME(EXPENSE)**

Interest income	163,442	
Loss on sale of assets	(12,489)	
Interest expense	<u>(3,813,775)</u>	<u>(3,662,821)</u>

HALLSDALE-POWELL UTILITY DISTRICT

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**

(continued)

Year Ended March 31, 2011

<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	6,743,912
<b>CAPITAL CONTRIBUTIONS</b>	<u>6,007,711</u>
<b>CHANGE IN NET ASSETS</b>	12,751,623
<b>NET ASSETS AT THE BEGINNING OF THE YEAR</b>	<u>89,845,238</u>
<b>NET ASSETS AT THE END OF THE YEAR</b>	<u>\$ 102,596,861</u>

See the accompanying notes to the financial statements.

HALLSDALE-POWELL UTILITY DISTRICT

**STATEMENT OF CASH FLOWS**

Year Ended March 31, 2011

<b>CASH PROVIDED(USED) BY OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 27,054,410
Cash paid to employees	(5,520,935)
Cash paid to suppliers	<u>(5,860,448)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	15,673,027
<b>CASH PROVIDED(USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of property and equipment	\$ (24,316,289)
Principal payments on long-term debt	(4,284,217)
Proceeds from issuance of bonds and notes	5,780,379
Interest paid	(5,569,102)
Capital contributions	<u>4,727,126</u>
<b>NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	(23,662,103)
<b>CASH PROVIDED(USED) BY INVESTING ACTIVITIES</b>	
Increase in investments	(359,570)
Interest received	<u>163,442</u>
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>	<u>(196,128)</u>
<b>NET (DECREASE) IN CASH</b>	(8,185,203)
<b>CASH AT THE BEGINNING OF THE YEAR</b>	<u>26,442,417</u>
<b>CASH AT THE END OF THE YEAR</b>	<u><u>\$ 18,257,214</u></u>
<b>NON-CASH TRANSACTIONS</b>	
Contributed distribution and collection system	\$ 327,680

HALLSDALE-POWELL UTILITY DISTRICT

**STATEMENT OF CASH FLOWS**

(continued)

Year Ended March 31, 2011

**RECONCILIATION OF OPERATING INCOME  
TO NET CASH PROVIDED(USED) BY OPERATING  
ACTIVITIES**

Operating income		\$ 10,406,733
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	\$ 5,204,925	
(Increase)decrease in:		
Accounts receivable	(59,635)	
Materials and supplies	63,484	
Advance deposit	23,328	
Prepaid expenses	(88,888)	
Increase(decrease) in:		
Accounts payable	60,297	
Net pension obligation	(8,025)	
Customer deposits	13,189	
Accrued expenses	<u>57,619</u>	<u>5,266,294</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		<b><u>\$ 15,673,027</u></b>

See the accompanying notes to the financial statements.

## HALLSDALE-POWELL UTILITY DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

March 31, 2011

#### **NOTE A - DESCRIPTION OF ORGANIZATION**

Hallsdale-Powell Utility District (the District) was created on September 13, 1954 by decree of the County Court of Knox County, Tennessee under the provisions of Chapter 248 of the Public Acts of Tennessee, 1937, as amended. The District was created to provide water and wastewater utility services within certain boundaries of Knox, Union and Anderson Counties. All corporate powers of the District are vested in and exercised by a three member Board of Commissioners.

#### **NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### Financial Reporting

The District follows all pronouncements of the Governmental Accounting Standards Board (GASB) and only pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989. The District has not elected to follow FASB pronouncements issued after November 30, 1989.

The District distinguishes operating revenue and expenses from non-operating items. Operating revenue for proprietary funds is revenue that is generated from the primary operations of the District. The principal operating revenue of the District is charges to customers for water sales and sewer services. The District also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. All other revenue is reported as non-operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All other expenses are reported as non-operating expenses.

The District prepares its financial statements in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset groups:

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2011

Invested in capital assets, net of related debt

This category includes capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Invested in capital assets, net of related debt has been calculated as follows:

Capital assets	\$ 265,491,070
Accumulated depreciation	(50,213,762)
Bond discounts, premiums and refunding costs	(608,949)
Principal balance on long-term debt	<u>(135,812,532)</u>
	<u>\$ 78,855,828</u>

Restricted

This category includes net assets whose use is subject to externally imposed stipulations that can either be fulfilled by actions of the District pursuant to those stipulations or that expire by the passage of time. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Unrestricted

This category includes net assets that are not subject to externally imposed stipulations and that do not meet the definition of "restricted" or "invested in capital assets, net of related debt". Unrestricted net assets may be designated for specific purposes by action of management or the Board of Commissioners or may otherwise be limited by contractual agreements with outside parties.

Use of Estimates

The 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 amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions they may undertake in the future, actual results could differ from these estimates. Estimates are used when accounting for allowances for uncollectible accounts receivable, depreciation, revenue and contingencies.

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2011

**Bond Issuance Costs, Discounts and Premiums**

Bond issuance costs, discounts and premiums are deferred and amortized over the term of the bonds using the bonds outstanding method. Amortization of bond issuance costs, discounts and premiums for the year ended March 31, 2011 was \$41,138 and is included in interest expense in the statement of revenue, expenses and changes in net assets. Unamortized bond discounts and premiums are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as deferred costs.

**Refunding of Debt**

The difference between the book value of refunded debt and the amount required to retire debt is deferred together with any related unamortized discount or premium and bond issuance costs. The deferred loss on refunded debt is reported on the statement of net assets as an adjustment to the book value of the new debt issued to finance the refunding. The deferral is amortized over the original remaining life of the old debt or life of the new debt, whichever is less, using the bonds outstanding method. Amortization of the deferred loss for the year ended March 31, 2011 was \$10,494 and is included in interest expense in the statement of revenue, expenses and changes in net assets.

**Investments**

Investments are stated at cost, which approximates market value.

**Materials and Supplies**

Materials and supplies are valued at the lower of cost (as determined by the first in, first out method) or market.

**Plant in Service**

Property and equipment are recorded at the original cost of purchase or construction. Certain distribution and collection lines, acquired by contributions from developers, are valued at the District's estimate of cost. The District uses the straight-line method of depreciation over the estimated lives of the assets, which range from 3 to 50 years. Depreciation expense for the year ended March 31, 2011 was \$5,204,925.

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2011

Compensated Absences

The District adopted a new Paid Time Off (PTO) policy on February 8, 2010. Full-time employees of the District are granted PTO in varying amounts based on years of service. Employees with less than eleven (11) years of service may accumulate a maximum of forty-five (45) days of PTO. Employees with greater than eleven (11) years of service may accumulate a maximum of sixty (60) days of PTO. At the end of each calendar year, days over the maximum accumulation are either paid to the employee at one half of regular pay, or transferred to a long-term disability and/or retirement account. An employee must take at least five (5) PTO days per year. Failure to take the required PTO results in a reduction of the unused days at the end of the year. In the event of termination, the employee is paid fifty percent (50%) of accumulated PTO and twenty-five percent (25%) of the amount accrued in the long-term disability/retirement account. PTO is recorded as an expense in the statement of revenue, expenses and changes in net assets as the benefits accrue to employees.

Basis of Accounting

The District uses the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included in the statement of net assets. The statement of revenue, expenses and changes in net assets presents increases (revenue) and decreases (expenses) in net assets. Under the accrual basis of accounting, revenue is recognized in the period in which it is earned while expenses are recognized in the period in which the liability is incurred. Revenue is recorded when billed to the customers, based on a monthly meter reading cycle. Operating revenue is revenue that is generated from the primary operations of the District. All other revenue is reported as non-operating revenue. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2011

**NOTE C - CASH AND INVESTMENTS**

Marketable securities that are highly liquid and have maturities of three months or less at the date of purchase are classified as cash equivalents. Cash and investments are stated at cost which approximates market value. Carrying amounts at March 31, 2011 are as follows:

Cash on hand	\$ 1,400
Checking and savings accounts	<u>18,255,814</u>
Total cash and cash equivalents	18,257,214
Local government investment pool	3,842,668
U.S. Treasury Bills	<u>220,286</u>
Total investments	<u>4,062,954</u>
	<u>\$ 22,320,168</u>
Unrestricted assets	\$ 13,898,528
Restricted assets	<u>8,421,640</u>
	<u>\$ 22,320,168</u>

State of Tennessee law authorizes the District to invest in obligations of the United States or its agencies, non-convertible debt securities of certain federal agencies, other obligations guaranteed as to principal and interest by the United States or any of its agencies, secured certificates of deposit and other evidences of deposit in state and federal banks and savings and loan associations, and the state treasurer's local government investment pool.

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2011

All deposits with financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits are required to be secured by one of two methods. Excess funds can be deposited with a financial institution that participates in the State of Tennessee Bank Collateral Pool. For deposits with financial institutions that do not participate in the State of Tennessee Bank Collateral Pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits.

The District's cash and investments at March 31, 2011 are entirely insured through the Federal Deposit Insurance Corporation or the State of Tennessee Bank Collateral Pool.

**NOTE D - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District obtains commercial insurance to cover general liability claims, errors or omissions liability, auto liability, and property damage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three fiscal years.

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2011

**NOTE E - UTILITY PLANT IN SERVICE**

Utility plant in service for the year ended March 31, 2011 was as follows:

	<u>Balance</u> 4/1/10	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> 3/31/11
<b><u>Capital assets not being depreciated</u></b>				
Land	\$ 2,438,298	\$ 202,983	\$ 0	\$ 2,641,281
Construction in progress	<u>51,590,577</u>	<u>19,995,859</u>	<u>(55,837,260)</u>	<u>15,749,175</u>
	54,028,875	20,198,842	(55,837,260)	18,390,456
<b><u>Capital assets being depreciated</u></b>				
Buildings	440,356	2,771,086	(94,538)	3,116,904
Distribution and collection system	49,149,271	3,438,999	0	52,588,269
Vehicles	1,924,922	30,700	(134,910)	1,820,713
Equipment, tools and furniture	4,810,567	1,002,852	(409,057)	5,404,362
Wastewater treatment plants	20,429,379	49,830,308	0	70,259,688
Water treatment plant	40,470,532	115,074	0	40,585,606
Sewer lines	53,762,062	1,114,866	0	54,876,927
Steel reservoirs	5,509,170	0	0	5,509,170
Pumping and booster stations	350,134	104,106	0	454,240
Service connection and meters	<u>10,825,711</u>	<u>1,659,028</u>	<u>0</u>	<u>12,484,739</u>
	187,672,104	60,067,019	(638,505)	247,100,618
<b><u>Accumulated depreciation</u></b>				
Buildings	(300,558)	(40,922)	62,695	(278,784)
Distribution and collection system	(10,244,481)	(1,051,689)	0	(11,296,170)
Vehicles	(1,448,999)	(191,458)	134,910	(1,505,547)
Equipment, tools and furniture	(3,047,206)	(438,748)	339,848	(3,146,106)
Wastewater treatment plants	(6,166,581)	(907,714)	0	(7,073,476)
Water treatment plants	(3,978,659)	(799,927)	0	(4,778,586)
Sewer lines	(16,591,901)	(1,401,846)	0	(17,993,746)
Steel reservoirs	(1,033,979)	(110,183)	0	(1,144,163)
Pumping and booster stations	(186,010)	(12,743)	0	(198,753)
Service connection and meters	<u>(2,547,915)</u>	<u>(249,695)</u>	<u>0</u>	<u>(2,797,609)</u>
	<u>(45,546,289)</u>	<u>(5,204,925)</u>	<u>537,453</u>	<u>(50,213,762)</u>
	<u>\$ 196,154,690</u>	<u>\$ 75,060,934</u>	<u>\$ (55,938,313)</u>	<u>\$ 215,277,308</u>

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2011

**NOTE F - LONG-TERM DEBT**

Bonds Payable

Water and Sewer Revenue Refunding Improvement Bond, Series 2002 A and 2002 B, varying interest rates of 3% to 5% maturing in 2027, principal payments ranging from \$1,220,000 to \$2,275,000 due April 1 every year, with interest payments due twice per year (including issue premium of \$71,688)	\$ 29,526,688
Water and Sewer Revenue Refunding Improvement Bond, Series 2004 A and 2004 B, varying interest rates of 3% to 5% maturing in 2034, principal payments ranging from \$155,000 to \$3,350,000 due April 1 every year, with interest payments due twice per year (including issue premium and deferred refunding cost of \$189,816)	20,924,816
Water and Sewer Revenue Improvement Bond, Series 2006, varying interest rates from 4% to 5% maturing in 2040, principal payments ranging from \$250,000 to \$930,000 due April 1 every year, with interest payments due twice per year (including issue premium of \$395,495)	15,315,495
Water and Sewer Revenue Improvement Bond, Series 2008, varying interest rates from 3% to 5% maturing in 2028, principal payments ranging from \$365,000 to \$735,000 due April 1 every year, with interest payments due twice per year (net of issue discount of \$48,050)	8,826,950
Utilities Improvement Revenue Bond, Series 2005 (Rural Utilities Services), 4.375% interest rate maturing in 2045, monthly installments of \$4,022	859,335

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2011

Utilities Improvement Revenue Bond, Series 2007 (Rural Utilities Services), 4.125% interest rate maturing in 2045, monthly installments of \$13,129	2,903,246
Utilities Improvement Revenue Bond, Series 2009 (Rural Utilities Services), 3.25% interest rate maturing in 2048, monthly installments of \$3,823	991,234
<u>Notes Payable</u>	
State of Tennessee DWSRF Loan #2006-069, 0.84% interest rate through 2028, monthly installments of \$33,893	2,151,234
State of Tennessee DWSRF Loan #2005-186, 0.82% interest rate, maturity date determined when project is completed, interest only payments due monthly	43,383,882
State of Tennessee DWSRF Loan #2005-062, 0.82% interest rate through 2028, monthly installments of \$11,320	6,451,865
State of Tennessee DWSRF Loan #DGA 2009-086, 2.52% interest rate through 2031, monthly installments of \$7,498	1,155,965
State of Tennessee DWSRF Loan #DGA 2009-086 ARRA, 2.52% interest rate through 2031, monthly installments of \$1,500	231,193

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2011

State of Tennessee CWSRF Loan #CGA 2009-233, 2.52% interest rate maturity date determined when project is completed	3,082,981
State of Tennessee CWSRF Loan #CGA 2009-233 ARRA, 2.52% interest rate maturity date determined when project is completed	<u>616,596</u>
	136,421,481
Less current maturities	<u>(1,581,704)</u>
	<u>\$ 134,839,777</u>

Future maturities of bonds and notes payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 1,581,704	\$ 2,148,469	\$ 3,730,173
2013	4,600,915	3,984,774	8,585,689
2014	4,700,513	3,885,002	8,585,515
2015	4,760,422	3,780,695	8,541,117
2016	4,870,658	3,671,343	8,542,001
2017	4,981,220	3,555,282	8,536,502
2018	5,102,117	3,433,292	8,535,409
2019	5,233,351	3,302,308	8,535,659
2020	5,364,936	3,164,153	8,529,089
2021	5,506,893	3,018,559	8,525,452
2022	5,659,204	2,864,601	8,523,805
2023	5,816,896	2,701,031	8,517,927
2024	5,989,968	2,521,892	8,511,860
2025	6,173,437	2,334,161	8,507,598
2026	6,372,308	2,137,142	8,509,450
2027	6,571,596	1,930,647	8,502,243
2028	6,786,302	1,713,816	8,500,118
2029	6,276,829	1,510,457	7,787,286
2030	5,712,903	1,319,958	7,032,861

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2011

Future maturities of bonds and notes payable (continued):

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2031	5,899,395	1,126,216	7,025,611
2032	4,843,601	926,262	5,769,863
2033	3,821,090	733,923	4,555,013
2034	4,012,055	534,958	4,547,013
2035	4,213,264	325,999	4,539,263
2036	904,730	282,533	1,187,263
2037	946,463	237,050	1,183,513
2038	993,473	193,365	1,186,838
2039	1,035,772	147,816	1,183,588
2040	1,083,372	100,166	1,183,538
2041	1,131,286	50,402	1,181,688
2042	209,526	42,162	251,688
2043	218,107	33,581	251,688
2044	227,042	24,646	251,688
2045	236,346	15,342	251,688
2046	172,676	6,081	178,757
2047	43,182	2,694	45,876
2048	44,606	1,270	45,876
2049	14,790	96	14,886
	<u>\$ 132,112,948</u>	<u>\$ 57,762,144</u>	<u>\$ 189,875,092</u>

Future maturities for the Series 2009-233 State Revolving Fund loan have not been determined yet and are not included in the amounts reported above.

All bond issues are collateralized by a pledge of the net revenue derived from the operations of the District and a statutory mortgage lien on the Waterworks and Sewer Systems. Covenants of the Water and Sewer Bond Resolutions contain various requirements, including monthly deposits to a debt service fund, a debt service reserve requirement, maintenance of insurance coverage on the District's utility plant, officer fidelity bonds, an annual coverage requirement based on budgeted revenue and restrictions on the issuance of additional parity bonds, all of which were complied with during the year.

During the year ended March 31, 2004, the District issued the \$21,725,000 Water and Sewer Revenue Refunding and Improvement Bond, Series 2004. The proceeds of the bond have been used to finance the costs of water and wastewater plant expansions.

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2011

During the year ended March 31, 2005, the District obtained a loan from the State of Tennessee Clean Water State Revolving Fund with a maximum loan amount of \$53,800,000. During the year ended March 31, 2008, the District made initial draws against this loan of \$15,318,862. During the year ended March 31, 2009 additional draws of \$19,606,311 were made. During the year ended March 31, 2010 additional draws of \$8,458,709 were made. There were no additional draws during the year ended March 31, 2011. The District is paying interest only payments on this loan based on current loan balance and the interest rate of the loan, which is 0.82%. Repayment of principal will begin when certain criteria are met. The District anticipates repayments of principal to begin in October 2011.

During the year ended March 31, 2005, the District obtained a loan from the State of Tennessee Clean Water State Revolving Fund with a maximum loan amount of \$7,500,000 which has been drawn by the District in its entirety. The District makes monthly payments of principal and interest in the amount of \$33,893. The interest rate on this loan is 0.82%.

During the year ended March 31, 2005, the District obtained a loan from the State of Tennessee Clean Water State Revolving Fund with a maximum loan amount of \$2,500,000 which has been drawn by the District in its entirety. The District makes monthly payments of principal and interest in the amount of \$11,320. The interest rate on this loan is 0.84%.

During the year ended March 31, 2006, the District issued a \$16,000,000 Water and Sewer Revenue Improvement Bond, Series 2006. The proceeds of the bond are being used to finance the costs of water and wastewater plant expansions. The District makes annual payments of principal varying from \$250,000 to \$930,000 and semi-annual payments of interest. The interest rate on this bond varies from 4% to 5%.

During the year ended March 31, 2008, the District issued a \$10,000,000 Water and Sewer Revenue Improvement Bond, Series 2008. The proceeds of the bond are being used to finance the costs of water and wastewater plant expansions. The District makes annual payments of principal varying from \$365,000 to \$735,000 and semi-annual payments of interest. The interest rate on this bond varies from 3% to 5%.

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2011

During the year ended March 31, 2010, the District obtained a loan from the State of Tennessee Drinking Water State Revolving Fund with a maximum loan amount of \$2,825,000. The funding sources for this loan are divided as follows: \$1,412,500 from State Revolving Fund and \$1,412,500 from American Recovery and Reinvestment Act (ARRA) funds. During the year ended March 31, 2010 initial draws of \$253,638 were made from the State Revolving Fund and \$50,728 from ARRA funds. During the year ended March 31, 2011 draws of \$902,332 were made from the State Revolving Fund and \$180,470 from ARRA funds. The District will begin making monthly payments of principal and interest in the amount of \$8,998 in June 2011. The interest rate on this loan is 2.52%.

During the year ended March 31, 2011, the District obtained a loan from the State of Tennessee Clean Water State Revolving Fund with a maximum loan amount of \$12,150,000. The funding sources for this loan are divided as follows: \$6,075,000 from State Revolving Fund and \$6,075,000 from American Recovery and Reinvestment Act (ARRA) funds. During the year ended March 31, 2011 initial draws of \$3,082,981 were made from the State Revolving Fund and \$616,596 from ARRA funds.

Interest cost incurred for the year ended March 31, 2011 was \$4,175,475 of which \$413,702 was capitalized.

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2011

Changes in long-term debt for the year ended March 31, 2011 were as follows:

	<u>Balance</u> 4/1/10	<u>Issued</u>	<u>Paid</u>	<u>Balance</u> 3/31/11
Notes Payable:				
DWSRF Loan #2005-062	\$ 6,804,552	\$ 0	\$ 352,687	\$ 6,451,865
DWSRF Loan #2006-069	2,268,616	0	117,382	2,151,234
CWSRF Loan #2005-186	43,383,882		0	43,383,882
DWSRF Loan				
#DGA 2009-086	253,633	902,332	0	1,155,965
DWSRF Loan				
#DGA 2009-086 ARRA	50,723	180,470	0	231,193
CWSRF Loan				
#CGA 2009-233	0	3,082,981	0	3,082,981
CWSRF Loan				
#CGA 2009-233 ARRA	0	616,596	0	616,596
Bonds Payable:				
Series 2002 A, Series 2002 B	31,755,000	0	2,300,000	29,455,000
Series 2004 A, Series 2004 B	21,035,000	0	300,000	20,735,000
Series 2006	15,390,000	0	470,000	14,920,000
Series 2008	9,565,000	0	690,000	8,875,000
Series 2005	869,755	0	10,420	859,335
Series 2007	2,940,204		36,958	2,903,246
Series 2009	0	998,000	6,766	991,234
	<u>\$ 134,316,366</u>	<u>\$ 5,780,379</u>	<u>\$ 4,284,215</u>	<u>\$ 135,812,532</u>

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2011

**NOTE G - CAPITAL CONTRIBUTIONS**

Capital contributions for the year ended March 31, 2011 were as follows:

Cash:	
Water and sewer taps	\$ 127,498
Capital grants	5,680,031
Property:	
Distribution and collection system	<u>200,182</u>
	<u>\$ 6,007,711</u>

**NOTE H - PENSION PLAN**

Plan Description

Employees of the District are eligible to participate in the Hallsdale-Powell Utility District Defined Benefit Pension Plan (the Plan). The plan is administered by a three person committee appointed by the District. Full-time employees with six months of service and who have attained the age of 21 are eligible to enroll in the Plan. Employees who entered the Plan prior to January 1, 2007 become vested at a rate of 25% per year up to a maximum of 100% after 4 years of service. Employees who entered the Plan after January 1, 2007 are not vested until they complete 5 years of service, at which time they become 100% vested. At January 1, 2010 all 90 active employees were enrolled in the Plan. Normal retirement age is 65 and early retirement age is 55 with reduced benefits.

The Plan provides the District's employees a normal retirement benefit equal to 60.0% of average annual compensation based on the three consecutive plan years during which compensation is highest. The employer contribution necessary to fund the Plan is determined by actuarial methods.

For the plan year ended December 31, 2010, the District contributed \$691,992 to the Plan.

Funding Policy

The District does not require employees to contribute to the Plan. The District is required to contribute at an actuarially determined rate; the rate for the fiscal year ended March 31, 2011 was 22.30% of annual covered payroll.

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2011

Annual Pension Cost

For the year ended March 31, 2011, the District's annual pension cost of \$683,987 was less than the District's actual contributions. The required contribution was determined as part of the January 1, 2011 actuarial valuation using the entry age normal with single amortization of all unfunded liability method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 4% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), and (c) normal retirement age of 65. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a four-year period. The District's unfunded actuarial accrued liability (UAAL) is being amortized as a level dollar amount on a closed basis. The remaining amortization period at January 1, 2010 was 9 years. An actuarial valuation was performed as of January 1, 2011, which established contribution rates effective March 31, 2011.

Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/10	\$ 683,987	101%	\$ 339,492
12/31/09	741,444	101	347,517
12/31/08	648,680	98	355,731

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was 55.77% funded. The actuarial accrued liability (AAL) for benefits was \$6.30 million, and the actuarial value of assets was \$3.51 million, resulting in a UAAL of \$2.79 million. The covered payroll (annual payroll of active employees covered by the plan) was \$3.63 million and the ratio of the UAAL to the covered payroll was 76.67%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2011

The annual required contribution was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize UAALs, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2011	\$3,513	\$6,229	\$2,786	55.77%	\$3,634	76.67%

**NOTE I - COMMITMENTS**

The District has entered into contracts with various construction companies totaling \$72,383,206 for construction, design, engineering and inspection services related to the upgrade and expansion of the District's water and wastewater facilities. As of March 31, 2011, \$57,105,157 has been expended on these contracts.

**NOTE J - SUBSEQUENT EVENT**

In May 2011 the District obtained a loan from Rural Utilities Services in the amount of \$4,899,000. Monthly installments of \$21,311 will begin in June 2011.

REQUIRED SUPPLEMENTARY INFORMATION

HALLSDALE-POWELL UTILITY DISTRICT

**FUNDING PROGRESS – HALLSDALE-POWELL UTILITY DISTRICT**  
**DEFINED BENEFIT PENSION PLAN**

March 31, 2011

	1/1/11	1/1/10	1/1/09
Actuarial valuation date			
Actuarial value of plan assets	\$ 3,512,868	\$ 3,118,942	\$ 2,777,999
Actuarial accrued liability (AAL)	6,298,757	6,227,876	6,092,913
Unfunded AAL (UAAL)	2,785,889	3,108,934	3,314,914
Funded ratio	55.77%	50.08%	45.60%
Covered payroll	3,633,706	3,629,953	3,481,369
UAAL as a percentage of covered payroll	76.67%	85.65%	95.22%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the schedule of funding progress using the entry age actuarial cost method. The requirement to present the schedule of funding progress using the entry age actuarial cost method was a change made during recent years and therefore only the three most recent years are presented.

See the accompanying independent accountants' audit report.

OTHER SUPPLEMENTARY INFORMATION

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

March 31, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Water and Sewer Revenue Refunding			
Improvement Bond, Series 2002 A, 2002 B			
interest rate 3% to 5%			
Year Ending March 31,			
2012	\$ 0	\$ 637,333	\$ 637,333
2013	1,220,000	1,271,790	2,491,790
2014	1,265,000	1,227,515	2,492,515
2015	1,435,000	1,174,420	2,609,420
2016	1,490,000	1,117,800	2,607,800
2017	1,550,000	1,055,800	2,605,800
2018	1,615,000	989,585	2,604,585
2019	1,685,000	918,815	2,603,815
2020	1,755,000	843,350	2,598,350
2021	1,835,000	762,610	2,597,610
2022	1,920,000	676,210	2,596,210
2023	2,010,000	583,750	2,593,750
2024	2,105,000	478,500	2,583,500
2025	2,215,000	367,750	2,582,750
2026	2,330,000	251,250	2,581,250
2027	2,450,000	128,750	2,578,750
2028	2,575,000	0	2,575,000
	<u>\$ 29,455,000</u>	<u>\$ 12,485,228</u>	<u>\$ 41,940,228</u>

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Water and Sewer Revenue Refunding			
Improvement Bond, Series 2004A, 2004B			
interest rate 3% to 5%			
Year Ending March 31,			
2012	\$ 0	\$ 500,863	\$ 500,863
2013	155,000	1,000,800	1,155,800
2014	160,000	995,200	1,155,200
2015	0	995,200	995,200
2016	0	995,200	995,200
2017	0	995,200	995,200
2018	0	995,200	995,200
2019	0	995,200	995,200
2020	0	995,200	995,200
2021	0	995,200	995,200
2022	0	995,200	995,200
2023	0	995,200	995,200
2024	0	995,200	995,200
2025	0	995,200	995,200
2026	0	995,200	995,200
2027	0	995,200	995,200
2028	0	995,200	995,200
2029	2,520,000	881,800	3,401,800
2030	2,640,000	763,000	3,403,000
2031	2,770,000	624,500	3,394,500
2032	2,910,000	479,000	3,389,000
2033	3,040,000	327,000	3,367,000
2034	3,190,000	167,500	3,357,500
2035	3,350,000	0	3,350,000
	<u>\$ 20,735,000</u>	<u>\$ 19,672,463</u>	<u>\$ 40,407,463</u>

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Water and Sewer Revenue Improvement Bond, Series 2006, interest rate 4% to 5%			
Year Ending March 31,			
2012	\$ 0	\$ 348,822	\$ 348,822
2013	250,000	697,244	947,244
2014	260,000	686,844	946,844
2015	270,000	676,044	946,044
2016	285,000	664,644	949,644
2017	295,000	652,844	947,844
2018	305,000	640,644	945,644
2019	320,000	625,844	945,844
2020	335,000	610,350	945,350
2021	350,000	594,163	944,163
2022	365,000	576,825	941,825
2023	385,000	557,575	942,575
2024	405,000	537,325	942,325
2025	425,000	516,075	941,075
2026	450,000	493,575	943,575
2027	470,000	470,075	940,075
2028	495,000	445,325	940,325
2029	520,000	419,325	939,325
2030	545,000	392,075	937,075
2031	575,000	363,325	938,325
2032	605,000	333,075	938,075
2033	635,000	301,325	936,325
2034	670,000	267,825	937,825
2035	705,000	232,575	937,575
2036	740,000	195,575	935,575
2037	775,000	156,825	931,825
2038	815,000	120,150	935,150

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Water and Sewer Revenue Improvement Bond, Series 2006, interest rate 4% to 5%			
(continued):			
Year Ending March 31,			
2039	850,000	81,900	931,900
2040	890,000	41,850	931,850
2041	930,000	0	930,000
	<u>\$ 14,920,000</u>	<u>\$ 12,700,043</u>	<u>\$ 27,620,043</u>

Water and Sewer Revenue Improvement Bond,  
Series 2008, interest rate 3% to 5%

Year Ending March 31,			
2012	\$ 0	\$ 198,907	\$ 198,907
2013	365,000	390,513	755,513
2014	380,000	375,613	755,613
2015	395,000	360,113	755,113
2016	410,000	344,013	754,013
2017	425,000	327,313	752,313
2018	445,000	309,634	754,634
2019	465,000	290,459	755,459
2020	485,000	269,852	754,852
2021	505,000	248,133	753,133
2022	530,000	225,230	755,230
2023	550,000	201,063	751,063
2024	580,000	175,493	755,493
2025	605,000	148,231	753,231
2026	635,000	119,084	754,084
2027	665,000	87,876	752,876

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Water and Sewer Revenue Improvement Bond, Series 2008, interest rate 3% to 5% (continued):			
Year Ending March 31,			
2028	700,000	54,250	754,250
2029	735,000	18,375	753,375
	<u>\$ 8,875,000</u>	<u>\$ 4,144,152</u>	<u>\$ 13,019,152</u>
State of Tennessee DWSRF Loan #2006-069, interest rate 0.84%			
Year Ending March 31,			
2012	\$ 118,220	\$ 17,619	\$ 135,839
2013	119,217	16,623	135,840
2014	120,224	15,617	135,841
2015	121,235	14,603	135,838
2016	122,261	13,581	135,842
2017	123,293	12,550	135,843
2018	124,334	11,510	135,844
2019	125,378	10,461	135,839
2020	126,431	9,404	135,835
2021	127,506	8,337	135,843
2022	128,577	7,261	135,838
2023	129,663	6,174	135,837
2024	130,755	5,085	135,840
2025	131,856	3,984	135,840
2026	132,969	2,871	135,840
2027	134,094	1,746	135,840
2028	135,221	616	135,837
	<u>\$ 2,151,234</u>	<u>\$ 158,042</u>	<u>\$ 2,309,276</u>

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
State of Tennessee DWSRF Loan #2005-062, interest rate 0.82 %			
Year Ending March 31,			
2012	\$ 355,147	\$ 51,569	\$ 406,716
2013	358,070	48,646	406,716
2014	361,017	45,699	406,716
2015	363,988	42,728	406,716
2016	366,984	39,732	406,716
2017	370,004	36,712	406,716
2018	373,049	33,667	406,716
2019	376,120	30,596	406,716
2020	379,215	27,501	406,716
2021	382,337	24,380	406,717
2022	385,483	21,233	406,716
2023	388,656	18,060	406,716
2024	391,855	14,861	406,716
2025	395,080	11,636	406,716
2026	398,331	8,384	406,715
2027	401,610	5,106	406,716
2028	404,919	1,801	406,720
	<u>\$ 6,451,865</u>	<u>\$ 462,311</u>	<u>\$ 6,914,176</u>

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
State of Tennessee CWSRF Loan			
#2005-186, interest rate 0.82 %			
Year Ending March 31,			
2012	\$ 1,000,140	\$ 176,225	\$ 1,176,365
2013	2,012,623	340,106	2,352,729
2014	2,029,194	323,535	2,352,729
2015	2,045,902	306,827	2,352,729
2016	2,062,747	289,982	2,352,729
2017	2,079,731	272,998	2,352,729
2018	2,096,855	255,874	2,352,729
2019	2,114,119	238,610	2,352,729
2020	2,131,526	221,203	2,352,729
2021	2,149,076	203,653	2,352,729
2022	2,166,771	185,958	2,352,729
2023	2,184,611	168,118	2,352,729
2024	2,202,598	150,131	2,352,729
2025	2,220,734	131,995	2,352,729
2026	2,239,019	113,710	2,352,729
2027	2,257,454	95,275	2,352,729
2028	2,276,041	76,688	2,352,729
2029	2,294,781	57,948	2,352,729
2030	2,313,675	39,054	2,352,729
2031	2,332,725	20,004	2,352,729
2032	1,173,554	2,811	1,176,365
	<u>\$ 43,383,876</u>	<u>\$ 3,670,705</u>	<u>\$ 47,054,581</u>

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
State of Tennessee DWSRF Loan			
#DGA 2009-086, interest rate 2.52 %			
Year Ending March 31,			
2012	\$ 44,934	\$ 28,707	\$ 73,641
2013	55,180	33,189	88,369
2014	56,586	31,783	88,369
2015	58,029	30,340	88,369
2016	59,508	28,861	88,369
2017	61,025	27,344	88,369
2018	62,581	25,788	88,369
2019	64,176	24,193	88,369
2020	65,813	22,556	88,369
2021	67,490	20,879	88,369
2022	69,211	19,158	88,369
2023	70,975	17,394	88,369
2024	72,784	15,585	88,369
2025	74,640	13,729	88,369
2026	76,543	11,826	88,369
2027	78,494	9,875	88,369
2028	80,495	7,874	88,369
2029	82,547	5,822	88,369
2030	84,652	3,717	88,369
2031	86,810	1,559	88,369
2032	14,685	50	14,735
	<u>\$ 1,387,158</u>	<u>\$ 380,229</u>	<u>\$ 1,767,387</u>

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Utilities Improvement Revenue Bond, Series 2005 (Rural Utilities Service), interest rate 4.375 %			
Year Ending March 31,			
2012	\$ 10,885	\$ 37,379	\$ 48,264
2013	11,370	36,894	48,264
2014	11,878	36,386	48,264
2015	12,408	35,856	48,264
2016	12,962	35,302	48,264
2017	13,541	34,723	48,264
2018	14,145	34,119	48,264
2019	14,777	33,487	48,264
2020	15,436	32,828	48,264
2021	16,125	32,139	48,264
2022	16,845	31,419	48,264
2023	17,597	30,667	48,264
2024	18,382	29,882	48,264
2025	19,203	29,061	48,264
2026	20,060	28,204	48,264
2027	20,956	27,308	48,264
2028	21,891	26,373	48,264
2029	22,868	25,396	48,264
2030	23,889	24,375	48,264
2031	24,955	23,309	48,264
2032	26,069	22,195	48,264
2033	27,233	21,031	48,264
2034	28,449	19,815	48,264
2035	29,718	18,546	48,264
2036	31,045	17,219	48,264
2037	32,431	15,833	48,264
2038	33,879	14,385	48,264

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Utilities Improvement Revenue Bond, Series 2005 (Rural Utilities Service), interest rate 4.375 % (continued):			
Year Ending March 31,			
2039	35,391	12,873	48,264
2040	36,971	11,293	48,264
2041	38,621	9,643	48,264
2042	40,345	7,919	48,264
2043	42,146	6,118	48,264
2044	44,027	4,237	48,264
2045	45,992	2,272	48,264
2046	26,845	383	27,228
	<u>\$ 859,335</u>	<u>\$ 808,869</u>	<u>\$ 1,668,204</u>

Utilities Improvement Revenue Bond, Series 2007  
(Rural Utilities Service), interest rate 4.125 %

Year Ending March 31,			
2012	\$ 38,512	\$ 119,036	\$ 157,548
2013	40,131	117,417	157,548
2014	41,818	115,730	157,548
2015	43,576	113,972	157,548
2016	45,408	112,140	157,548
2017	47,317	110,231	157,548
2018	49,306	108,242	157,548
2019	51,378	106,170	157,548
2020	53,538	104,010	157,548
2021	55,789	101,759	157,548
2022	58,134	99,414	157,548

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Utilities Improvement Revenue Bond, Series 2007 (Rural Utilities Service), interest rate 4.125 % (continued):			
Year Ending March 31,			
2023	60,578	96,970	157,548
2024	63,125	94,423	157,548
2025	65,779	91,769	157,548
2026	68,544	89,004	157,548
2027	71,425	86,123	157,548
2028	74,428	83,120	157,548
2029	77,557	79,991	157,548
2030	80,817	76,731	157,548
2031	84,215	73,333	157,548
2032	87,755	69,793	157,548
2033	91,444	66,104	157,548
2034	95,288	62,260	157,548
2035	99,294	58,254	157,548
2036	103,468	54,080	157,548
2037	107,818	49,730	157,548
2038	112,351	45,197	157,548
2039	117,074	40,474	157,548
2040	121,995	35,553	157,548
2041	127,124	30,424	157,548
2042	132,468	25,080	157,548
2043	138,037	19,511	157,548
2044	143,840	13,708	157,548
2045	149,887	7,661	157,548
2046	104,028	1,625	105,653
	<u>\$ 2,903,246</u>	<u>\$ 2,559,039</u>	<u>\$ 5,462,285</u>

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Utilities Improvement Revenue Bond, Series 2009 (Rural Utilities Service), interest rate 3.25 %			
Year Ending March 31,			
2012	\$ 13,866	\$ 32,010	\$ 45,876
2013	14,324	31,552	45,876
2014	14,796	31,080	45,876
2015	15,284	30,592	45,876
2016	15,788	30,088	45,876
2017	16,309	29,567	45,876
2018	16,847	29,029	45,876
2019	17,403	28,473	45,876
2020	17,977	27,899	45,876
2021	18,570	27,306	45,876
2022	19,183	26,693	45,876
2023	19,816	26,060	45,876
2024	20,469	25,407	45,876
2025	21,145	24,731	45,876
2026	21,842	24,034	45,876
2027	22,563	23,313	45,876
2028	23,307	22,569	45,876
2029	24,076	21,800	45,876
2030	24,870	21,006	45,876
2031	25,690	20,186	45,876
2032	26,538	19,338	45,876
2033	27,413	18,463	45,876
2034	28,318	17,558	45,876
2035	29,252	16,624	45,876
2036	30,217	15,659	45,876
2037	31,214	14,662	45,876

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2011

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Utilities Improvement Revenue Bond, Series 2009 (Rural Utilities Service), interest rate 3.25 % (continued):			
Year Ending March 31,			
2038	32,243	13,633	45,876
2039	33,307	12,569	45,876
2040	34,406	11,470	45,876
2041	35,541	10,335	45,876
2042	36,713	9,163	45,876
2043	37,924	7,952	45,876
2044	39,175	6,701	45,876
2045	40,467	5,409	45,876
2046	41,803	4,073	45,876
2047	43,182	2,694	45,876
2048	44,606	1,270	45,876
2049	14,790	96	14,886
	<u>\$ 991,234</u>	<u>\$ 721,064</u>	<u>\$ 1,712,298</u>

See the accompanying independent accountants' audit report.

HALLSDALE-POWELL UTILITY DISTRICT

**INSURANCE COVERAGE**

March 31, 2011

<u>Description</u>	<u>Insurer</u>	<u>Expiration Date</u>	<u>Amount of coverage</u>
Property, equipment, office contents, accounts receivable, and other assets	CNA Insurance Company	4/1/11	\$ 4,911,581
Automobile liability and physical damage	CNA Insurance Company	4/1/11	500,000
General liability	CNA Insurance Company	4/1/11	2,000,000
Employee dishonesty, forgery, theft, computer fraud	CNA Insurance Company	4/1/11	200,000
Public officials liability	Scottsdale Indemnity Company	4/1/11	3,000,000
Workers compensation	CNA Insurance Company	4/1/11	500,000

See the accompanying independent accountants' audit report.

HALLSDALE-POWELL UTILITY DISTRICT

CUSTOMERS AND UTILITY RATES

March 31, 2011

**Water:**

Active customer accounts 28,867

**Sewer:**

Active customer accounts 22,103

**Residential and Commercial Water:**

First 1,500 gallons \$ 19.49 (minimum bill)  
Over 1,500 gallons \$ 7.18 per 1,000 gallons

**Residential Sewer:**

First 1,500 gallons \$ 22.26 (minimum bill)  
1,501 gallons through 12,000 gallons \$ 6.88 per 1,000 gallons  
Over 12,000 gallons no additional charge  
\*Grinder pump (if applicable) \$ 6.65 per month

**Commercial Sewer:**

First 1,500 gallons \$ 22.26 (minimum bill)  
Over 1,500 gallons \$ 6.88 per 1,000 gallons  
\*Grinder pump (if applicable) \$ 6.65 per month

**Sunset Bay Sewer:**

Vacant Lot \$ 9.00 (minimum bill)  
1,500 gallons \$ 22.26 (minimum bill)  
Over 1,500 gallons \$ 8.56 per 1,000 gallons

HALLSDALE-POWELL UTILITY DISTRICT

**CUSTOMERS AND UTILITY RATES**

(continued)

March 31, 2011

**\*Sewer Grinder Pump Service/Maintenance Fees**

The service maintenance fee for sewer grinder pumps is \$6.65 per month as of March 31, 2011 and increases to \$7.00 per month as of April 1, 2011. This fee only applies for E-One pump model numbers.

**Sewer User's Fee**

A six percent (6%) surcharge will be added to every sewer bill, which is dedicated to the repayment of indebtedness owed to the State of Tennessee for improvements to the District's sewer system. A monthly sewer availability charge equal to the minimum sewer bill will be assessed to the owner of any house, building and/or structure of any kind that is not connected to the District's sewer system when the District's sewer system is available to the property as provided by the District's rules and regulations.

**Surcharge for Excess Concentration**

Grease, fats, oils, etc., in excess of 50 milligrams/liter at \$4.00 per hundred pounds; biochemical oxygen demand in excess of 240 milligrams/liter at \$6.00 per hundred pounds; suspended solids in excess of 300 milligrams/liter at \$5.50 per hundred pounds; ammonia in excess of 30 milligrams/liter at \$4.00 per hundred pounds.

The Board of Commissioners for the District sets the rates, fees and charges for the services provided by the District to ensure that the utility system is self-supporting. These rates, fees and charges are set so as to produce revenue at least sufficient to provide for all expenses of operation and maintenance of the District, including establishing necessary reserves, and pay when due all of the District's debt obligations, including related interest and debt service reserve requirements.

HALLSDALE-POWELL UTILITY DISTRICT

**CUSTOMERS AND UTILITY RATES**

(continued)

March 31, 2011

**Connection Fees**

The minimum connection fee for tapping privileges shall be determined in accordance with the following schedule determined by the District.

Standard Water and Sewer Connection Fees

Residential

	<u>Subdivision</u>	<u>Not in Subdivision</u>
Water connection fee	\$ 600.00	\$ 600.00
Sewer connection fee	300.00	1,000.00
Transfer fee	25.00	25.00
Sewer inspection fee	30.00	30.00

Commercial and Industrial

<u>Water Meter Size</u>	<u>Water Tap Fee</u>	<u>Sewer Connection Fee</u>
5/8-3/4"	\$ 600.00	\$ 600.00
1"	850.00	850.00
1 1/2"	1,650.00	1,650.00
2"	1,800.00	1,800.00
3"	6,000.00	6,000.00
4"	8,200.00	8,200.00
6"	12,000.00	12,000.00

All of the above connection fees are also potentially subject to surcharges by the District for road crossing (boring) costs. Customers located outside Knox County are also potentially liable for a Water System Improvements Fee to offset the District's cost of extending its lines and providing service outside its service boundary.

See the accompanying independent accountants' audit report.

HALLSDALE-POWELL UTILITY DISTRICT

**UNACCOUNTED FOR WATER**

March 31, 2011

*(All amounts in gallons)*

**Water Treated and Purchased:**

Water pumped (potable)	2,529,839,000	
Water purchased	<u>0</u>	
		2,529,839,000

**Accounted for Water:**

Water sold	1,441,430,000	
Metered for consumption (in house usage)	109,050,000	
Fire department usage	0	
Flushing	48,264,340	
Tank cleaning and filling	75,700,000	
Street cleaning	0	
Bulk sales	0	
Water bill adjustments	<u>194,965,174</u>	
<b>Total Accounted for Water</b>		<u>1,869,409,514</u>

**Unaccounted for Water** 660,429,486

**Percent Unaccounted for Water** 26.11%

**Other:** 0

Explain Other: None

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

See the accompanying independent accountants' audit report.

HALLSDALE-POWELL UTILITY DISTRICT

**OFFICIALS**

March 31, 2011

**Board of Commissioners**

Jim Hill, Chairman  
Kevin Julian, Secretary  
Sandy Liford, Treasurer

**President**

Darren Cardwell

**Chief Financial Officer**

James Smith, CPA

See the accompanying independent accountants' audit report.

HALLSDALE-POWELL UTILITY DISTRICT

**EXPENDITURES OF FEDERAL AND STATE AWARDS**

Year Ended March 31, 2011

<u>CFDA #</u>	<u>Program Name</u>	<u>Federal Grantor/ Pass-Through Grantor</u>
10.760	Wastewater Disposal System for Rural Communities	United States Department of Agriculture/Rural Development
66.458	Capitalization Grant for Clean Water State Revolving Fund - Loan	Environmental Protection Agency/Tennessee Department of Environment and Conservation
66.458 ARRA	Capitalization Grant for Clean Water State Revolving Fund - Grant	Environmental Protection Agency/Tennessee Department of Environment and Conservation
66.468	Capitalization Grant for Drinking Water State Revolving Fund - Loan	Environmental Protection Agency/Tennessee Department of Environment and Conservation
66.468 ARRA	Capitalization Grant for Drinking Water State Revolving Fund - Grant	Environmental Protection Agency/Tennessee Department of Environment and Conservation

The schedule of expenditures of federal and state awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations." Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See the accompanying independent accountants' audit report.

<u>Receivable</u> <u>April 1, 2010</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Receivable</u> <u>March 31, 2011</u>	
\$ 0	\$ 1,211,200	\$ 1,571,700	\$ 360,500	
0	513,933	662,891	148,958	State
	616,596	795,310	178,714	Federal ARRA
<u>0</u>	<u>2,569,048</u>	<u>3,313,661</u>	<u>744,613</u>	Federal
0	3,699,577	4,771,862	1,072,285	
0	2,466,384	3,181,241	714,857	
0	150,418	193,182	42,764	State
	180,465	231,772	51,307	Federal ARRA
<u>0</u>	<u>751,910</u>	<u>965,680</u>	<u>213,770</u>	Federal
0	1,082,793	1,390,634	307,841	
<u>0</u>	<u>721,862</u>	<u>927,090</u>	<u>205,228</u>	
<u>\$ 0</u>	<u>\$ 9,181,816</u>	<u>\$ 11,842,528</u>	2,660,712	

Less: loan funds received  
subsequent to March 31, 2011

(1,380,127)

\$ 1,280,585

Recap: Federal funds	\$ 10,986,455
State funds	<u>856,073</u>
	<u>\$ 11,842,528</u>

INTERNAL CONTROL

AND

COMPLIANCE

INDEPENDENT ACCOUNTANTS' 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*

Board of Commissioners  
Hallsdale-Powell Utility District  
Knoxville, Tennessee

We have audited the financial statements of Hallsdale-Powell Utility District as of and for the year ended March 31, 2011, and have issued our report thereon dated October 3, 2011. 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 of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Hallsdale-Powell Utility District'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 Hallsdale-Powell Utility District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hallsdale-Powell Utility District's internal control over financial reporting.

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 financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hallsdale-Powell Utility 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain other matters that we have reported to the management of Hallsdale-Powell Utility District in a separate letter dated October 3, 2011.

This report is intended solely for the information and use of management and government regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Mitchell Emert & Hill". The signature is written in a cursive, flowing style.

October 3, 2011

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133

Board of Commissioners  
Hallsdale-Powell Utility District  
Knoxville, Tennessee

Compliance

We have audited Hallsdale-Powell Utility District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Hallsdale-Powell Utility District's major federal programs for the year ended March 31, 2011. Hallsdale-Powell Utility District's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Hallsdale-Powell Utility District's management. Our responsibility is to express an opinion on Hallsdale-Powell Utility District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hallsdale-Powell Utility District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hallsdale-Powell Utility District's compliance with those requirements.

In our opinion, Hallsdale-Powell Utility District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2011.

## Internal Control Over Compliance

Management of Hallsdale-Powell Utility District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Hallsdale-Powell Utility District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hallsdale-Powell Utility District's internal control over compliance.

A deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management and government regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Mitchell Emert & Hill*

October 3, 2011

HALLSDALE-POWELL UTILITY DISTRICT

**FINDINGS AND QUESTIONED COSTS**

Year Ended March 31, 2011

**SUMMARY OF AUDIT RESULTS**

1. The Independent Accountants' Audit Report expresses an unqualified opinion on the financial statements of Hallsdale-Powell Utility District.
2. No significant deficiencies in internal control over financial reporting were disclosed.
3. No instances of noncompliance material to the financial statements were disclosed.
4. No significant deficiencies in internal control over major federal programs were disclosed.
5. The Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 expresses an unqualified opinion on Hallsdale-Powell Utility District's compliance with laws, regulations, contracts and grants applicable to its major federal programs.
6. No findings or questioned costs were disclosed which would be required to be reported in accordance with OMB Circular A-133.
7. The following programs were tested as a major program:

<u>Program Name</u>	<u>CFDA No.</u>
Capitalization Grant for Drinking Water State Revolving Fund	66.468
Capitalization Grant for Clean Water State Revolving Fund	66.458
Water Disposal System for Rural Communities	10.760

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Hallsdale-Powell Utility District was determined not to be a low-risk auditee.

HALLSDALE-POWELL UTILITY DISTRICT

**FINDINGS AND QUESTIONED COSTS**

(continued)

Year Ended March 31, 2011

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No findings or questioned costs were disclosed which would be required to be reported in accordance with OMB Circular A-133.