

*Financial Statements*

HALLSDALE-POWELL UTILITY DISTRICT

Year Ended March 31, 2012

## TABLE OF CONTENTS

|   | <u>Page Nos.</u> |
|---|------------------|
| INDEPENDENT ACCOUNTANTS' AUDIT REPORT   | 1-2              |
| MANAGEMENT'S DISCUSSION AND ANALYSIS  | 3-15             |
| FINANCIAL STATEMENTS  |                  |
| Statement of Net Assets   | 16               |
| Statement of Revenue, Expenses and Change in Net Assets   | 17-18            |
| Statement of Cash Flows   | 19-20            |
| Notes to the Financial Statements   | 21-37            |
| REQUIRED SUPPLEMENTARY INFORMATION  |                  |
| Funding Progress-Hallsdale-Powell Utility District<br>Defined Benefit Pension Plan  | 38               |
| OTHER SUPPLEMENTARY INFORMATION   |                  |
| Long-Term Debt Requirements   | 39-55            |
| Insurance Coverage  | 56               |
| Customers and Utility Rates   | 57-59            |
| Unaccounted for Water   | 60               |
| Officials   | 61               |
| Expenditures of Federal and State Awards  | 62               |
| INTERNAL CONTROL AND COMPLIANCE   |                  |
| Independent Accountants' Report on Internal Control<br>Over Financial Reporting and on Compliance and<br>Other Matters Based on an Audit of Financial Statements<br>Performed in Accordance with <i>Government Auditing Standards</i> | 63-64            |

TABLE OF CONTENTS  
(continued)

|  | <u>Page Nos.</u> |
|--|------------------|
| Independent Accountants' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 | 65-66            |
| Findings and Questioned Costs  | 67               |

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 March 31, 2012, and the related statement of revenue, expenses, and change in net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the organization'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 of America; and the provisions of U.S. 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, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15 and the schedule of funding progress-Hallsdale-Powell Utility District defined benefit pension plan on page 38 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hallsdale-Powell Utility District's financial statements as a whole. The schedule of expenditures of federal and state awards is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The schedule of long-term debt requirements and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The other accompanying supplementary information listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2012 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.

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

October 29, 2012

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, 2012 and 2011. 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 2.73 billion gallons of water and treated 3.17 billion gallons of sewer, representing an increase of 8.10% and an increase of 38.9%, respectively, from the previous year.
- Total assets at year-end were \$258.6 million and exceeded liabilities (net assets) by \$109.5 million. Of the total net assets, \$21.7 million was unrestricted and was available to support short-term operations. Total assets and total net assets increased from 2011 to 2012 by \$16.7 million and \$6.9 million, respectively. Unrestricted net assets increased from 2011 to 2012 by \$6.1 million.
- Operating revenues were \$27.6 million, an increase of \$0.5 million or 2.0% from 2011.
- Operating expenses before depreciation increased by \$1.5 million which represents a 13.4% increase in 2012 compared to 2011.
- Operating income, in total, for 2012 was \$9.1 million or 12.6% decrease from 2011.
- The ratios of operating income to total operating revenues were 32.9% for 2012 and 38.4% for 2011.
- Debt service coverage was 458% for 2012, exceeding the 110% required by various bond covenants.
- Revenues from water sales in 2012 increased by \$231,697 dollars, an increase of 1.7% from 2011 and revenues from sewer sales increased by \$360,361 million in 2012, an increase of 2.9% over 2011 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, 2012, 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, 2012, consisted of 29,077 water connections (26,984 residential, 302 multi-unit (apartment/condominiums), 1,561 commercial, and 230 irrigation) and 22,254 sewer connections (20,549 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 15 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 670 miles of water distribution lines, 16 water booster stations, and over 9 million gallons of clean drinking water reservoir tank capacity. The District uses over 463 miles of sewer collection lines and 19 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 2012. 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 2013. 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).

In December 2010, the District applied for funding through the states Drinking Water State Revolving Fund Loan (DWSRF) in the amount of \$3,847,000 to fund a water transmission line. The project consists of a 20 inch water line up State Route 33 to Quarry Road. The funding was awarded by the state on December 2, 2010. This state loan bears a fixed interest rate of 0.87% and has a 20 year term with the monthly principal and interest payments projected to begin in FY 2013. This loan qualified for twenty-percent principal forgiveness or \$769,400 that will result in a net loan to be paid back of \$3,077,600 at the above stated interest rate and term.

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%.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

In December 2011, the District received a funding obligation commitment from USDA Rural Development (RUS), to embark on our Phase II Water System Improvements Project throughout the district over a four year schedule. These water line projects will result in a loan in the amount of \$4,983,000 and bears a fixed interest rate of 3.75% and has a 38 year term with the monthly principal and interest payments projected to start in FY 2016. Also during FY 2012 the District applied for funding through the states Clean Water State Revolving Fund in the amount of \$4,800,000 to fund the rehabilitation of the Raccoon Valley Wastewater Treatment Plant and an Effluent Pump Station at our Beaver Creek Wastewater Treatment Plant. This state loan was awarded in December 2011 and bears a fixed interest rate of 0.95% and has a 20 year term with the monthly principal and interest payments projected to begin in FY 2014.

### **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 2012 as compared to fiscal year 2011:*

| Condensed Balance Sheets                        |                   |                   |                  |             |
|---|-------------------|-------------------|------------------|-------------|
| (In Thousands of Dollars)                       |                   |                   |                  |             |
| March 31, 2012 and 2011                         |                   |                   |                  |             |
|   |                   |                   | Variance         |             |
|   | 2012              | 2011              | Amount           | %           |
| <b>ASSETS</b>                                   |                   |                   |                  |             |
| Current assets                                  | \$ 22,977         | \$ 16,974         | \$ 6,003         | 35.4%       |
| Restricted assets                               | 11,129            | 8,422             | 2,707            | 32.1%       |
| Capital Assets:                                 |                   |                   |                  |             |
| Producing - net of depreciation                 | 210,829           | 199,528           | 11,301           | 5.7%        |
| Construction in progress                        | 12,538            | 15,749            | (3,211)          | -20.4%      |
| Other assets                                    | 1,175             | 1,242             | (67)             | -5.4%       |
| <b>TOTAL ASSETS</b>                             | <b>\$ 258,649</b> | <b>\$ 241,915</b> | <b>\$ 16,734</b> | <b>7.7%</b> |
| <b>LIABILITIES</b>                              |                   |                   |                  |             |
| Current Liabilities                             | \$ 9,491          | \$ 4,478          | \$ 5,013         | 111.9%      |
| Long-Term Liabilities                           | 139,632           | 134,840           | 4,793            | 3.6%        |
| <b>TOTAL LIABILITIES</b>                        | <b>149,123</b>    | <b>139,318</b>    | <b>9,805</b>     | <b>7.0%</b> |
| <b>NET ASSETS</b>                               |                   |                   |                  |             |
| Invested in Capital Assets, net of related debt | 78,761            | 78,856            | (95)             | -0.1%       |
| Restricted                                      | 9,060             | 8,090             | 970              | 12.0%       |
| Unrestricted                                    | 21,705            | 15,651            | 6,054            | 38.7%       |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>         | <b>\$ 258,649</b> | <b>\$ 241,915</b> | <b>\$ 16,734</b> | <b>7.7%</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, 2012 and 2011

|  |                |                | Variance       |               |
|--|----------------|----------------|----------------|---------------|
|  |                |                |                |               |
|  |                | \$             | 232            | 1.7%          |
| Wastewater service revenues                                    | 12,580         | 12,219         | 360            | 2.9%          |
| Other revenues   | 1,432          | 1,480          | (48)           | -3.3%         |
| <b>Total Operating Revenues</b>                                | <b>27,645</b>  | <b>27,101</b>  | <b>544</b>     | <b>2.0%</b>   |
| <b>Operating Expenses</b>                                      |                |                |                |               |
| Operations and Maintenance                                     | 13,024         | 11,489         | 1,535          | 13.4%         |
| Depreciation   | 5,528          | 5,205          | 323            | 6.2%          |
| <b>Total Operating Expenses</b>                                | <b>18,552</b>  | <b>16,694</b>  | <b>1,858</b>   | <b>11.1%</b>  |
| Operating Income   | 9,093          | 10,407         | (1,314)        | -12.6%        |
| <b>Non-operating Revenues and (Expenses)</b>                   |                |                |                |               |
| Investment Income  | 150            | 163            | (13)           | -8.1%         |
| Gain (Loss) on sale of assets                                  | (103)          | (12)           | (90)           | 721.2%        |
| Interest Expense   | (4,357)        | (3,814)        | (543)          | 14.2%         |
| <b>Total Non-Operating - net</b>                               | <b>(4,309)</b> | <b>(3,663)</b> | <b>(646)</b>   | <b>17.6%</b>  |
| Increase (Decrease) in Net Assets Before Capital Contributions | 4,784          | 6,744          | (1,960)        | -29.1%        |
| <b>Capital Contributions</b>                                   |                |                |                |               |
| Grant Revenue  | 1,338          | 5,680          | (4,342)        | -76.4%        |
| Cash Contributions   | 39             | 127            | (89)           | -69.6%        |
| Non-Cash   | 768            | 200            | 568            | 283.6%        |
| <b>Total Capital Contributions</b>                             | <b>2,145</b>   | <b>6,008</b>   | <b>(3,863)</b> | <b>-64.3%</b> |
| Increase in Net Assets   | \$ 6,929       | \$ 12,752      | \$ (5,823)     | -45.7%        |
| Net Assets, Beginning of Year                                  | \$ 102,597     | \$ 89,845      | \$ 12,752      | 14.2%         |
| Net Assets, End of Year  | \$ 109,525     | \$ 102,597     | \$ 6,929       | 6.8%          |

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### OTHER SELECTED INFORMATION

#### Selected Data:

|  | <b>2012</b> | <b>2011</b> | <b>Difference</b> | <b>% Change</b> |
|--|-------------|-------------|-------------------|-----------------|
| Employees at Year-End                            | 89          | 84          | 5                 | 6.0%            |
| Average Employees                                | 87          | 84          | 3                 | 3.6%            |
| Customers (Billing Units) at Year-End:           |             |             |                   |                 |
| Water  | 29,077      | 28,867      | 210               | 0.7%            |
| Wastewater                                       | 22,254      | 22,103      | 151               | 0.7%            |
| Water (Millions of Gallons)                      |             |             |                   |                 |
| Treated  | 2,733.8     | 2,529.8     | 203.9             | 8.1%            |
| Sold   | 1,412.9     | 1,441.4     | (28.5)            | -2.0%           |
| Wastewater Treated (Millions of Gallons)         | 3,173.0     | 2,284.6     | 888.3             | 38.9%           |
| Per Average Employee:                            |             |             |                   |                 |
| Operating Revenues                               | \$ 317,756  | \$ 322,629  | (4,873)           | -1.5%           |
| Operating Expenses                               | \$ 213,240  | \$ 198,740  | 14,501            | 7.3%            |
| Residential Rate per 1,000 Gallons of Water Sold |             |             |                   |                 |
| Water  | 9.65        | 9.30        | 0.35              | 3.8%            |
| Wastewater                                       | 10.69       | 10.29       | 0.40              | 3.9%            |
| Ratio of Operating Revenues to:                  |             |             |                   |                 |
| Operating Expenses                               | 1.49        | 1.62        | (0.13)            | -8.2%           |
| Operating Expenses - Net of Depreciation         | 2.12        | 2.36        | (0.24)            | -10.0%          |
| Total Assets                                     | 0.11        | 0.11        | (0.01)            | -4.6%           |
| Net Assets                                       | 0.25        | 0.26        | (0.01)            | -4.4%           |
| Debt Related Ratios:                             |             |             |                   |                 |
| Long-Term Debt to Net Assets                     | 1.27        | 1.31        | (0.04)            | -3.0%           |
| Long-Term Debt to Total Assets                   | 0.54        | 0.56        | (0.02)            | -3.1%           |
| Operating Coverage                               | 4.58        | 1.60        | 2.98              | 186.1%          |

## 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 2012 by 0.7% and 0.7%, respectively.

Weather temperatures during 2012 and 2011 were generally normal for the seasons. However, wetter conditions were present during 2012 than in 2011 that resulted in 18.99 inches of more rainfall over the rainfall of 2011, all of which contributed to lower than predicted water production and sales as well as more wastewater treatment.

### FINANCIAL CONDITION

The District remained financially strong through the end of 2012. 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.

#### Statement of Net Assets



Total assets grew from \$241.9 million in 2011 to \$258.6 million in 2012, an increase of approximately \$16.7 million. Total liabilities increased from \$139.3 million in 2011 to \$149.1 million in 2012, an approximate increase of \$9.8 million. Restricted Net Assets increased from \$8.1 million in 2011 to \$9.1 million in 2012, an increase of \$1.0 million. Net Assets Invested in Capital Assets decreased from \$78.9 million in 2011 to \$78.8 million in 2011, a decrease of approximately \$95 thousand. Finally, Unrestricted Net Assets increased from \$15.7 million in 2011 to \$21.7 million in 2012, an increase of approximately \$6.0 million.

Net accounts receivable at year-end 2012 was 4.6% lower than fiscal year 2011. At 2012 year-end 64.0% of accounts receivable were current within 30 days. The District’s provision for bad debt expense was \$326,699 on \$26,212,799 in water and sewer sales.

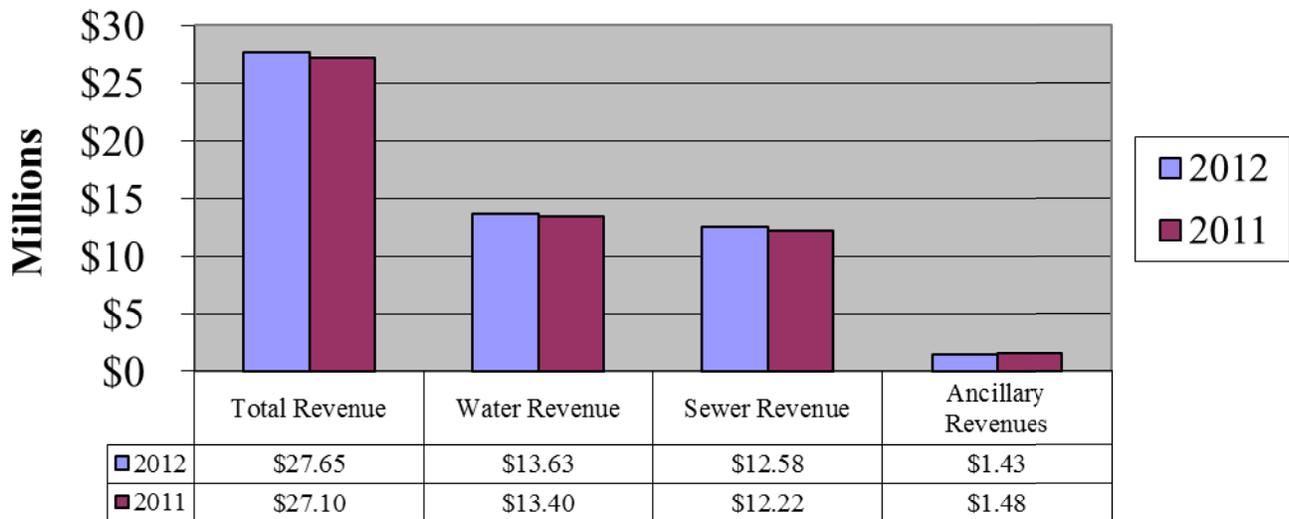
## MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

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.

### 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.

### Operating Revenues



Total revenues grew from \$27.1 million in 2011 to \$27.6 million in 2012, an increase of approximately \$0.55 million. Water revenue increased from \$13.4 million in 2011 to \$13.6 million in 2012, an approximate increase of \$0.23 million. Sewer revenue increased from \$12.2 million in 2011 to \$12.6 million in 2012, an increase of \$0.35 million. Ancillary revenue decreased from \$1.48 million in 2011 to \$1.43 million in 2012 a decrease of \$48,162.

In March of 2011, the District approved an increase in water rates by 3.50% and sewer rates by 5.50%, and in March of 2012 the District approved an increase in water rates by 3.00% and sewer rates by 3.75%. The average realized rate from water sales was \$9.65 per thousand gallons in 2012 and \$9.30 per thousand gallons in 2011, an increase of 3.80% and for wastewater sales was \$10.69 per thousand gallons in 2012 and \$10.29 per thousand gallons in 2011, an increase of 3.90%

## 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 \$1,376,860 for 2012 compared to \$5,807,529 for 2011, a decrease of \$4,430,669. These contributions represent system-connection related fees of \$38,776 and principal forgiveness from the State Revolving Loan Fund in association to the American Retirement and Reinvestment Act funds in the amount of \$1,338,084.

Noncash capital contributions were \$767,959 for 2012 and \$200,182 for 2011, an increase of \$567,777 dollars. These contributions represent water and sewer distribution and collection systems donated by developers to the District \$195,416 as well as capital grants applied for by Union County with EPA Stag Grant \$218,250 and a Tennessee Community Development Block Grant of \$354,293.

### **Expenses**

Operating expenses, excluding depreciation, increased by \$1,534,905 in 2012, or 13.40%.

Depreciation expense of the District's assets increased by \$322,880 in 2012 or 6.20%. This increase was primarily the result of water & sewer plant upgrades, a new administration building 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, 2012, the District had \$144.6 million in long and short-term debt, an increase of \$8.18 million from 2011.

During FY 2012 and FY 2011 the District did not make any draws 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 or the project initiates operations. 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. The District will start paying both principal and interest on the full loan amount in August 2012 due to initiations of operations of the new WWTP facility in FY 2012. The District is in the process of filing with the CWSRF the final reimbursement request of funds to close the loan out by the end of October 2012. The District has drawn approximately \$43.4 million of these dollars over the past six years from this loan and has only been required to make payments for interest only during the construction period (FY 2007-2012). The full debt service repayment is projected to start in October 2012.

During FY 2012 and FY 2011 the District made draws of \$513,069 and \$1,804,655 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. All of the proceeds of this loan have been drawn since May 2011. This state loan bears a fixed interest rate of 2.52% and has a 20 year term with the monthly principal and interest payments beginning 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 2013. 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 2012 and FY 2011 the District made draws of \$4,120,322 and \$6,165,961, respectively, against this loan.

In December 2010, the District applied for funding through the states Drinking Water State Revolving Fund Loan (DWSRF) in the amount of \$3,847,000 to fund a water transmission line. The project consists of a 20 inch water line up State Route 33 to Quarry Road. The funding was awarded by the state on December 2, 2010. This state loan bears a fixed interest rate of 0.87% and has a 20 year term. This loan qualified for twenty-percent principal forgiveness or \$769,400 that will result in a net loan to be paid back of \$3,077,600 at the above stated interest rate and term. During FY 2012 the District made draws of \$1,447,419, against

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

this loan and is anticipating filing for reimbursement for the remainder of the loan in August 2012 to close the loan out. The District anticipates the monthly principal and interest payments to begin in October 2012.

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 0.54 in 2012 and 0.56 in 2011.

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. 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 2012, 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, 2012. This rate increase is expected to increase billed revenues approximately 3.5% for FY 2013. As evidenced in the amended rate study, the newly adopted rates for 2012 are estimated to cover the expected debt service for FY 2013 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, 2012, and 2011.

### **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 58 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### **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, 2012

**ASSETS**

**UTILITY PLANT IN SERVICE**

Assets not being depreciated:

|                          |  |                     |
|--------------------------|--|---------------------|
| Land                     |  | \$ 3,189,015        |
| Construction in process  |  | 12,537,902          |
| Plant in service         |  | <u>262,871,372</u>  |
|                          |  | 278,598,289         |
| Accumulated depreciation |  | <u>(55,230,912)</u> |
|                          |  | <u>223,367,377</u>  |

**RESTRICTED ASSETS**

|             |                  |            |
|-------------|------------------|------------|
| Cash        | \$ 6,177,989     |            |
| Investments | <u>4,950,846</u> | 11,128,835 |

**CURRENT ASSETS**

|  |                |            |
|--|----------------|------------|
| Cash   | 20,825,790     |            |
| Accounts receivable, net of allowance for uncollectible<br>accounts of \$300,000 | 1,206,657      |            |
| Grant receivable   | 469,528        |            |
| Prepaid expenses   | 96,045         |            |
| Materials and supplies   | <u>379,226</u> | 22,977,246 |

**OTHER ASSET**

|   |  |                  |
|---|--|------------------|
| Unamortized bond issuance costs,<br>net of accumulated amortization |  | <u>1,175,158</u> |
|---|--|------------------|

\$ 258,648,616

See the accompanying notes to the financial statements.

**LIABILITIES AND NET ASSETS**

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

|               |  |                   |
|---------------|--|-------------------|
| Bonds payable |  | \$ 82,010,800     |
| Notes payable |  | <u>57,621,537</u> |
|               |  | 139,632,337       |

**CURRENT LIABILITIES PAYABLE  
FROM CURRENT ASSETS**

|                              |                |           |
|------------------------------|----------------|-----------|
| Accounts payable             | \$ 1,683,930   |           |
| Accrued compensated absences | 294,312        |           |
| Net pension obligation       | <u>470,940</u> | 2,449,182 |

**CURRENT LIABILITIES PAYABLE  
FROM RESTRICTED ASSETS**

|                                      |                  |                  |
|--------------------------------------|------------------|------------------|
| Current maturities of long-term debt | 4,974,278        |                  |
| Customer deposits                    | 350,159          |                  |
| Accrued interest                     | <u>1,717,168</u> | <u>7,041,606</u> |

**TOTAL CURRENT LIABILITIES** 9,490,788

**TOTAL LIABILITIES** 149,123,125

**NET ASSETS**

|   |                   |                       |
|---|-------------------|-----------------------|
| Invested in capital assets, net of related debt | 78,760,761        |                       |
| Restricted:                                     |                   |                       |
| Construction projects                           | 2,753,590         |                       |
| Debt retirement                                 | 6,305,939         |                       |
| Unrestricted                                    | <u>21,705,201</u> | <u>109,525,491</u>    |
|   |                   | <u>\$ 258,648,616</u> |

HALLSDALE-POWELL UTILITY DISTRICT

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

Year Ended March 31, 2012

**OPERATING REVENUE**

|                                       |                |
|---------------------------------------|----------------|
| Metered water sales                   | \$ 13,633,174  |
| Metered sewer sales                   | 11,881,391     |
| Sewer users fee                       | 698,234        |
| Fire protection                       | 100,016        |
| Connection fees                       | 221,777        |
| Transfer fees                         | 97,643         |
| Service charges and reconnection fees | 199,595        |
| Backflow inspection                   | 25,065         |
| Penalties                             | 612,690        |
| Miscellaneous                         | <u>175,166</u> |

**TOTAL OPERATING REVENUE** 27,644,752

**OPERATING EXPENSES**

|                                    |                |
|------------------------------------|----------------|
| Salaries and related expenses      | \$ 5,791,382   |
| Professional and contract services | 1,085,963      |
| Administration                     | 1,032,381      |
| Utilities                          | 2,493,803      |
| Supplies, repairs and maintenance  | 2,369,744      |
| Vehicles and equipment             | <u>250,830</u> |

**TOTAL OPERATING EXPENSES** 13,024,103

**INCOME FROM OPERATIONS BEFORE DEPRECIATION** 14,620,649

Depreciation 5,527,805

**INCOME FROM OPERATIONS** 9,092,844

**NONOPERATING INCOME(EXPENSE)**

|                            |                    |                    |
|----------------------------|--------------------|--------------------|
| Interest income            | 150,125            |                    |
| Loss on disposal of assets | (102,565)          |                    |
| Interest expense           | <u>(4,356,594)</u> | <u>(4,309,034)</u> |

HALLSDALE-POWELL UTILITY DISTRICT

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

(continued)

Year Ended March 31, 2012

|  |                       |
|--|-----------------------|
| <b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>         | 4,783,810             |
| Capital contributions                              | <u>2,144,819</u>      |
| <b>CHANGE IN NET ASSETS</b>                        | 6,928,630             |
| <b>NET ASSETS AT THE<br/>BEGINNING OF THE YEAR</b> | <u>102,596,861</u>    |
| <b>NET ASSETS AT THE END OF THE YEAR</b>           | <u>\$ 109,525,491</u> |

See the accompanying notes to the financial statements.

HALLSDALE-POWELL UTILITY DISTRICT

**STATEMENT OF CASH FLOWS**

Year Ended March 31, 2012

**CASH PROVIDED(USED) BY OPERATING ACTIVITIES**

|                              |                    |
|------------------------------|--------------------|
| Cash received from customers | \$ 27,702,306      |
| Cash paid to employees       | (5,771,563)        |
| Cash paid to suppliers       | <u>(7,294,086)</u> |

**NET CASH PROVIDED BY  
OPERATING ACTIVITIES**

14,636,657

**CASH PROVIDED(USED) BY CAPITAL  
AND RELATED FINANCING ACTIVITIES**

|   |                  |
|---|------------------|
| Acquisition of property and equipment     | \$ (13,720,439)  |
| Principal payments on long-term debt      | (636,939)        |
| Proceeds from issuance of bonds and notes | 8,836,970        |
| Interest paid                             | (2,587,794)      |
| Capital contributions                     | <u>2,955,877</u> |

**NET CASH (USED) BY CAPITAL AND  
RELATED FINANCING ACTIVITIES**

(5,152,325)

**CASH PROVIDED(USED) BY INVESTING ACTIVITIES**

|                         |                |
|-------------------------|----------------|
| Increase in investments | (887,892)      |
| Interest received       | <u>150,125</u> |

**NET CASH (USED) BY  
INVESTING ACTIVITIES**

(737,767)

**NET INCREASE IN CASH**

8,746,565

**CASH AT THE BEGINNING OF THE YEAR**

18,257,214

**CASH AT THE END OF THE YEAR**

\$ 27,003,779

**NONCASH TRANSACTIONS**

|  |            |
|--|------------|
| Contributed distribution and collection system | \$ 767,959 |
|--|------------|

HALLSDALE-POWELL UTILITY DISTRICT

**STATEMENT OF CASH FLOWS**

(continued)

Year Ended March 31, 2012

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

|  |               |                             |
|--|---------------|-----------------------------|
| Income from operations   |               | \$ 9,092,844                |
| Adjustments to reconcile income from operations<br>to net cash provided by operating activities: |               |                             |
| Depreciation   | \$ 5,527,805  |                             |
| (Increase)decrease in:   |               |                             |
| Accounts receivable  | 57,554        |                             |
| Materials and supplies   | (48,028)      |                             |
| Prepaid expenses   | 103,316       |                             |
| Increase(decrease) in:   |               |                             |
| Accounts payable   | (261,594)     |                             |
| Net pension obligation   | 131,448       |                             |
| Customer deposits  | 18,074        |                             |
| Accrued expenses   | <u>15,239</u> | <u>5,543,813</u>            |
| <b>NET CASH PROVIDED BY<br/>OPERATING ACTIVITIES</b>   |               | <b><u>\$ 14,636,657</u></b> |

See the accompanying notes to the financial statements.

## HALLSDALE-POWELL UTILITY DISTRICT

### **NOTES TO THE FINANCIAL STATEMENTS**

March 31, 2012

#### **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 uses the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included in the statement of net assets. The statement of revenue, expenses and change 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.

The District distinguishes operating revenue and expenses from nonoperating 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 nonoperating 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 nonoperating expenses.

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2012

The District prepares its financial statements in accordance with the GASB 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:

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                               | \$ 278,598,289       |
| Accumulated depreciation                     | (55,230,912)         |
| Bond discounts, premiums and refunding costs | (594,054)            |
| Principal balance on long-term debt          | <u>(144,012,561)</u> |
|  | <u>\$ 78,760,761</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.

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2012

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.

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, 2012 was \$41,138 and is included in interest expense in the statement of revenue, expenses and change 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, 2012 was \$10,494 and is included in interest expense in the statement of revenue, expenses and change 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.

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2012

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, 2012 was \$5,527,805.

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 change in net assets as the benefits accrue to employees.

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2012

**NOTE C - CASH AND INVESTMENTS**

Investments that 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, 2012 were as follows:

|                                  |                      |
|----------------------------------|----------------------|
| Cash on hand                     | \$ 2,402             |
| Checking and savings accounts    | <u>27,001,377</u>    |
| Total cash and cash equivalents  | 27,003,779           |
| U. S. obligations                | 750,665              |
| Local government investment pool | <u>4,200,181</u>     |
|                                  | <u>\$ 31,954,625</u> |
| Unrestricted assets              | \$ 20,825,790        |
| Restricted assets                | <u>11,128,835</u>    |
|                                  | <u>\$ 31,954,625</u> |

State of Tennessee law authorizes the District to invest in obligations of the United States or its agencies, nonconvertible 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 of Tennessee Local Government Investment Pool.

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2012

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, 2012 were 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, 2012

**NOTE E - UTILITY PLANT IN SERVICE**

Utility plant in service for the year ended March 31, 2012 was as follows:

|  | <u>Balance</u><br>4/1/11 | <u>Additions</u>     | <u>Retirements</u>     | <u>Balance</u><br>3/31/12 |
|--|--------------------------|----------------------|------------------------|---------------------------|
| <b><u>Capital assets not being depreciated</u></b> |                          |                      |                        |                           |
| Land   | \$ 2,641,281             | \$ 547,734           | \$ 0                   | \$ 3,189,015              |
| Construction in progress                           | <u>15,749,175</u>        | <u>9,060,818</u>     | <u>(12,272,091)</u>    | <u>12,537,902</u>         |
|  | 18,390,456               | 9,608,552            | (12,272,091)           | 15,726,917                |
| <b><u>Capital assets being depreciated</u></b>     |                          |                      |                        |                           |
| Buildings  | 3,116,904                | 3,437,093            | (345,818)              | 6,208,179                 |
| Distribution and collection system                 | 52,588,269               | 1,770,518            | 0                      | 54,358,787                |
| Vehicles   | 1,820,713                | 252,751              | (38,375)               | 2,035,088                 |
| Equipment, tools and furniture                     | 5,404,362                | 901,316              | (257,715)              | 6,048,959                 |
| Wastewater treatment plants                        | 70,259,688               | 3,616,332            | 0                      | 73,876,019                |
| Water treatment plant                              | 40,585,606               | 707,435              | 0                      | 41,293,041                |
| Sewer lines  | 54,876,927               | 5,040,752            | 0                      | 59,917,678                |
| Steel reservoirs                                   | 5,509,170                | 370,510              | 0                      | 5,879,680                 |
| Pumping and booster stations                       | 454,240                  | 121,907              | 0                      | 576,147                   |
| Service connection and meters                      | <u>12,484,739</u>        | <u>194,049</u>       | <u>0</u>               | <u>12,678,788</u>         |
|  | 247,100,618              | 16,412,662           | (641,909)              | 262,871,372               |
| <b><u>Accumulated depreciation</u></b>             |                          |                      |                        |                           |
| Buildings  | (278,784)                | (106,827)            | 261,448                | (124,164)                 |
| Distribution and collection system                 | (11,296,170)             | (1,059,201)          | 0                      | (12,355,371)              |
| Vehicles   | (1,505,547)              | (182,349)            | 36,295                 | (1,651,601)               |
| Equipment, tools and furniture                     | (3,146,926)              | (581,791)            | 212,912                | (3,515,805)               |
| Wastewater treatment plants                        | (7,073,476)              | (924,972)            | 0                      | (7,998,449)               |
| Water treatment plants                             | (4,778,586)              | (812,217)            | 0                      | (5,590,805)               |
| Sewer lines  | (17,993,746)             | (1,482,248)          | 0                      | (19,475,994)              |
| Steel reservoirs                                   | (1,144,163)              | (110,673)            | 0                      | (1,254,836)               |
| Pumping and booster stations                       | (198,753)                | (13,950)             | 0                      | (212,703)                 |
| Service connection and meters                      | <u>(2,797,609)</u>       | <u>(253,576)</u>     | <u>0</u>               | <u>(3,051,185)</u>        |
|  | <u>(50,213,762)</u>      | <u>(5,527,805)</u>   | <u>510,655</u>         | <u>(55,230,912)</u>       |
|  | <u>\$ 215,277,308</u>    | <u>\$ 20,493,409</u> | <u>\$ (12,403,345)</u> | <u>\$ 223,367,377</u>     |

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2012

**NOTE F - LONG-TERM DEBT**

Long-term debt at March 31, 2012 consisted of the following:

Bonds Payable

|  |               |
|--|---------------|
| Water and Sewer Revenue Refunding Improvement<br>Bonds, Series 2002 A and 2002 B, varying interest rates<br>of 3% to 5% maturing in 2027, principal payments<br>ranging from \$1,220,000 to \$2,275,000 due annually on<br>April 1, with interest payments due semi-annually<br>(including issue premium of \$67,207)                            | \$ 29,522,207 |
| Water and Sewer Revenue Refunding Improvement<br>Bonds, Series 2004 A and 2004 B, varying interest rates<br>of 3% to 5% maturing in 2034, principal payments<br>ranging from \$155,000 to \$3,350,000 due annually on<br>April 1, with interest payments due semi-annually<br>(including issue premium and deferred refunding cost of \$189,816) | 20,925,101    |
| Water and Sewer Revenue Improvement Bonds, Series 2006,<br>varying interest rates from 4% to 5% maturing in 2040,<br>principal payments ranging from \$250,000 to \$930,000 due<br>annually on April 1, with interest payments due semi-annually<br>(including issue premium of \$382,089)   | 15,302,089    |
| Water and Sewer Revenue Improvement Bonds, Series 2008,<br>varying interest rates from 3% to 5% maturing in 2028,<br>principal payments ranging from \$365,000 to \$735,000<br>due annually on April 1, with interest payments due semi-annually<br>(net of issue discount of \$45,343)  | 8,829,657     |
| Utilities Improvement Revenue Bonds, Series 2005<br>(Rural Utilities Services), 4.375% interest rate<br>maturing in 2045, monthly installments of \$4,022  | 848,451       |

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2012

|  |            |
|--|------------|
| Utilities Improvement Revenue Bonds, Series 2007<br>(Rural Utilities Services), 4.125% interest rate maturing<br>in 2045, monthly installments of \$13,129 | 2,864,734  |
| Utilities Improvement Revenue Bonds, Series 2009<br>(Rural Utilities Services), 3.25% interest rate maturing<br>in 2048, monthly installments of \$3,823   | 977,368    |
| Utilities Improvement Revenue Bonds, Series 2011<br>(Rural Utilities Services), 4.125% interest rate maturing<br>in 2049, monthly installments of \$21,311 | 4,853,595  |
| <u>Notes Payable</u>   |            |
| State of Tennessee DWSRF Loan #2006-069,<br>0.84% interest rate through 2028, monthly<br>installments of \$33,893  | 2,033,014  |
| State of Tennessee DWSRF Loan #2005-186,<br>0.82% interest rate, through 2032, monthly<br>installments of \$243,127 beginning June 2012                    | 43,383,882 |
| State of Tennessee DWSRF Loan #2005-062,<br>0.82% interest rate through 2028, monthly<br>installments of \$11,320  | 6,096,718  |
| State of Tennessee DWSRF Loan #DGA 2009-086,<br>2.52% interest rate through 2031, monthly<br>installments of \$7,498                                       | 1,366,660  |
| State of Tennessee DWSRF Loan #DGA 2009-086 ARRA,<br>2.52% interest rate through 2031, monthly<br>installments of \$1,500                                  | 273,434    |

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2012

|   |                       |
|---|-----------------------|
| State of Tennessee CWSRF Loan #CGA 2009-233,<br>2.52% interest rate through 2032, monthly<br>installments of \$32,250, beginning September 2012     | 5,143,142             |
| State of Tennessee CWSRF Loan #CGA 2009-233 ARRA,<br>2.52% interest rate through 2032, monthly<br>installments of \$6,451, beginning September 2012 | 1,028,628             |
| State of Tennessee DWSRF Loan #DGO 2011-111,<br>0.87% interest rate through 2032, monthly<br>installments of \$13,976, beginning September 2012     | <u>1,157,935</u>      |
|   | 144,606,615           |
| Less current maturities   | <u>(4,974,278)</u>    |
|   | <u>\$ 139,632,337</u> |

Future maturities of bonds and notes payable are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-------------|------------------|-----------------|---------------|
| 2013        | \$ 4,974,278     | \$ 4,334,027    | \$ 9,308,305  |
| 2014        | 5,675,957        | 4,381,819       | 10,057,776    |
| 2015        | 5,751,145        | 4,262,233       | 10,013,378    |
| 2016        | 5,877,004        | 4,137,258       | 10,014,262    |
| 2017        | 6,003,540        | 4,005,223       | 10,008,763    |
| 2018        | 6,140,766        | 3,866,897       | 10,007,663    |
| 2019        | 6,288,717        | 3,719,204       | 10,007,921    |
| 2020        | 6,437,393        | 3,563,957       | 10,001,349    |
| 2021        | 6,499,230        | 3,389,280       | 9,888,510     |
| 2022        | 6,614,572        | 3,213,782       | 9,828,354     |
| 2023        | 6,789,243        | 3,033,233       | 9,822,476     |
| 2024        | 6,979,713        | 2,836,696       | 9,816,409     |
| 2025        | 7,181,008        | 2,631,141       | 9,812,149     |
| 2026        | 7,398,149        | 2,415,851       | 9,814,000     |
| 2027        | 7,616,163        | 2,190,630       | 9,806,793     |
| 2028        | 7,850,067        | 1,954,600       | 9,804,667     |

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2012

Future maturities of bonds and notes payable (continued):

| <u>Year</u> | <u>Principal</u>      | <u>Interest</u>      | <u>Totals</u>         |
|-------------|-----------------------|----------------------|-----------------------|
| 2029        | 6,060,963             | 1,687,914            | 7,748,878             |
| 2030        | 3,932,557             | 1,456,831            | 5,389,388             |
| 2031        | 3,704,675             | 1,243,551            | 4,948,226             |
| 2032        | 3,797,039             | 1,055,459            | 4,852,498             |
| 2033        | 3,950,023             | 860,722              | 4,810,745             |
| 2034        | 4,146,408             | 656,337              | 4,802,745             |
| 2035        | 4,353,265             | 441,730              | 4,794,995             |
| 2036        | 1,050,617             | 392,378              | 1,442,995             |
| 2037        | 1,098,482             | 340,763              | 1,439,245             |
| 2038        | 1,151,884             | 290,686              | 1,442,570             |
| 2039        | 1,200,842             | 238,478              | 1,439,320             |
| 2040        | 1,255,381             | 183,889              | 1,439,270             |
| 2041        | 1,310,526             | 126,894              | 1,437,420             |
| 2042        | 396,301               | 111,119              | 507,420               |
| 2043        | 412,734               | 94,686               | 507,420               |
| 2044        | 429,851               | 77,569               | 507,420               |
| 2045        | 447,681               | 59,739               | 507,420               |
| 2046        | 392,901               | 41,594               | 434,495               |
| 2047        | 272,659               | 28,949               | 301,608               |
| 2048        | 283,710               | 17,898               | 301,608               |
| 2049        | 264,014               | 6,604                | 270,617               |
| 2050        | 23,102                | 85                   | 23,187                |
|             | <u>\$ 144,012,561</u> | <u>\$ 63,349,704</u> | <u>\$ 207,362,265</u> |

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 Sewage 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 Bonds, Series 2004. The proceeds of the bonds 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, 2012

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 years ended March 31, 2012 and 2011. The District will begin making monthly payments of principal and interest in the amount of \$243,127 in June 2012. 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 \$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 \$16,000,000 in Water and Sewer Revenue Improvement Bonds, Series 2006. The proceeds of the bonds 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 rates on these bonds vary from 4% to 5%.

During the year ended March 31, 2008, the District issued \$10,000,000 in Water and Sewer Revenue Improvement Bonds, Series 2008. The proceeds of the bonds 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 rates on these bonds vary from 3% to 5%.

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2012

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. During the year ended March 31, 2012, draws of \$2,060,161 were made from the State Revolving Fund and \$412,032 from ARRA funds. The District will begin making monthly payments of principal and interest in the amount of \$38,701 in September 2012. The interest rate on this loan is 2.52%.

During the year ended March 31, 2012, the District obtained a loan from the State of Tennessee Drinking Water State Revolving Fund with a maximum loan amount of \$3,487,000. During the year ended March 31, 2012, an initial draw of \$1,157,935 was made from the State Revolving Fund. The District will begin making monthly payments of principal and interest in the amount of \$13,976 in September 2012. The interest rate on this loan is 0.87%.

During the year ended March 31, 2012, the District issued \$4,899,000 in Utilities Improvement Revenue Bonds, Series 2011. The proceeds of the bonds are being used to finance the costs of the new building complex. The District makes monthly payments of principal and interest in the amount of \$21,311. The interest rate on these bonds is 4.125%.

Interest cost incurred for the year ended March 31, 2012 was \$4,426,971 of which \$122,010 was capitalized.

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2012

Changes in long-term debt for the year ended March 31, 2012 were as follows:

|                              | <u>Balance</u><br>4/1/11 | <u>Issued</u>       | <u>Paid</u>       | <u>Balance</u><br>3/31/12 |
|------------------------------|--------------------------|---------------------|-------------------|---------------------------|
| Notes Payable:               |                          |                     |                   |                           |
| DWSRF Loan #2005-062         | \$ 6,451,865             | \$ 0                | \$ 355,147        | \$ 6,096,718              |
| DWSRF Loan #2006-069         | 2,151,234                | 0                   | 118,220           | 2,033,014                 |
| CWSRF Loan #2005-186         | 43,383,882               |                     | 0                 | 43,383,882                |
| DWSRF Loan                   |                          |                     |                   |                           |
| #DGA 2009-086                | 1,155,965                | 256,535             | 45,840            | 1,366,660                 |
| DWSRF Loan                   |                          |                     |                   |                           |
| #DGA 2009-086 ARRA           | 231,193                  | 51,307              | 9,066             | 273,434                   |
| CWSRF Loan                   |                          |                     |                   |                           |
| #CGA 2009-233                | 3,082,981                | 2,060,161           | 0                 | 5,143,142                 |
| CWSRF Loan                   |                          |                     |                   |                           |
| #CGA 2009-233 ARRA           | 616,596                  | 412,032             | 0                 | 1,028,628                 |
| DWSRF Loan                   |                          |                     |                   |                           |
| #DGO 2011-111                | 0                        | 1,157,935           | 0                 | 1,157,935                 |
| Bonds Payable:               |                          |                     |                   |                           |
| Series 2002 A, Series 2002 B | 29,455,000               | 0                   | 0                 | 29,455,000                |
| Series 2004 A, Series 2004 B | 20,735,000               | 0                   | 0                 | 20,735,000                |
| Series 2006                  | 14,920,000               | 0                   | 0                 | 14,920,000                |
| Series 2008                  | 8,875,000                | 0                   | 0                 | 8,875,000                 |
| Series 2005                  | 859,335                  | 0                   | 10,884            | 848,451                   |
| Series 2007                  | 2,903,246                |                     | 38,512            | 2,864,734                 |
| Series 2009                  | 991,234                  | 0                   | 13,866            | 977,368                   |
| Series 2011                  | <u>0</u>                 | <u>4,899,000</u>    | <u>45,405</u>     | <u>4,853,595</u>          |
|                              | <u>\$ 135,812,532</u>    | <u>\$ 8,836,970</u> | <u>\$ 636,939</u> | <u>\$ 144,012,561</u>     |

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2012

**NOTE G - CAPITAL CONTRIBUTIONS**

Capital contributions for the year ended March 31, 2012 were as follows:

|                                    |                     |
|------------------------------------|---------------------|
| Cash:                              |                     |
| Water and sewer taps               | \$ 38,776           |
| Capital grants                     | 1,338,084           |
| Property:                          |                     |
| Distribution and collection system | <u>767,959</u>      |
|                                    | <u>\$ 2,144,819</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 District 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, 2012, 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, 2012 was 22.90% of annual covered payroll.

HALLSDALE-POWELL UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

March 31, 2012

Annual Pension Cost

For the year ended March 31, 2012, the District's annual pension cost of \$684,152 was less than the District's actual contributions. The required contribution was determined as part of the January 1, 2012 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, 2011 was 8 years. An actuarial valuation was performed as of January 1, 2012, which established contribution rates effective March 31, 2012.

Trend Information

| <u>Year Ended</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|-------------------|----------------------------------|--------------------------------------|-------------------------------|
| 12/31/11          | \$ 684,152                       | 101%                                 | \$ 331,652                    |
| 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, 2012, the most recent actuarial valuation date, the plan was 60.93% funded. The actuarial accrued liability (AAL) for benefits was \$6.99 million, and the actuarial value of assets was \$4.26 million, resulting in a UAAL of \$2.73 million. The covered payroll (annual payroll of active employees covered by the plan) was \$3.62 million and the ratio of the UAAL to the covered payroll was 75.49%.

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, 2012

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)

| <u>Actuarial<br/>Valuation<br/>Date</u> | <u>Actuarial<br/>Value of<br/>Plan Assets<br/>(a)</u> | <u>Actuarial<br/>Accrued<br/>Liability<br/>(AAL)<br/>-Entry Age<br/>(b)</u> | <u>Unfunded<br/>AAL<br/>(UAAL)<br/>(b)-(a)</u> | <u>Funded<br/>Ratio<br/>(a/b)</u> | <u>Covered<br/>Payroll<br/>(c)</u> | <u>UAAL as a<br/>Percentage<br/>of Covered<br/>Payroll<br/>((b-a)/c)</u> |
|---|---|---|--|-----------------------------------|------------------------------------|--|
| January 1, 2012                         | \$4,261   | \$6,994   | \$2,733  | 60.93%                            | \$3,620                            | 75.49%   |

**NOTE I - COMMITMENTS**

The District has entered into contracts with various construction companies totaling \$13,195,271 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, 2012, \$657,368 has been expended on these contracts.

**NOTE J - SUBSEQUENT EVENT**

The District has obtained a loan commitment from the State of Tennessee in the amount of \$4,800,000 for improvements to the Raccoon Valley and Beaver Creek wastewater treatment plants. The District has obtained a letter of commitment from Rural Utilities Services in the amount of \$4,983,000 for water system improvements. Work on these projects had not been started as of March 31, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

HALLSDALE-POWELL UTILITY DISTRICT

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

March 31, 2012

|  | 1/1/12       | 1/1/11       | 1/1/10       |
|--|--------------|--------------|--------------|
| Actuarial valuation date                   |              |              |              |
| Actuarial value of plan assets             | \$ 4,261,044 | \$ 3,512,868 | \$ 3,118,942 |
| Actuarial accrued liability (AAL)          | 6,993,615    | 6,298,757    | 6,227,876    |
| Unfunded AAL (UAAL)                        | 2,732,571    | 2,785,889    | 3,108,934    |
| Funded ratio                               | 60.93%       | 55.77%       | 50.08%       |
| Covered payroll                            | 3,619,860    | 3,633,706    | 3,629,953    |
| UAAL as a percentage of<br>covered payroll | 75.49%       | 76.67%       | 85.65%       |

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, 2012

|   | <u>Principal</u>     | <u>Interest</u>      | <u>Totals</u>        |
|---|----------------------|----------------------|----------------------|
| Water and Sewer Revenue Refunding                                   |                      |                      |                      |
| Improvement Bonds, Series 2002 A,<br>2002 B, interest rate 3% to 5% |                      |                      |                      |
| Year Ending March 31,   |                      |                      |                      |
| 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>\$ 11,847,895</u> | <u>\$ 41,302,895</u> |

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2012

|                                   | <u>Principal</u>     | <u>Interest</u>      | <u>Totals</u>        |
|-----------------------------------|----------------------|----------------------|----------------------|
| Water and Sewer Revenue Refunding |                      |                      |                      |
| Improvement Bonds, Series 2004 A, |                      |                      |                      |
| 2004 B, interest rate 3% to 5%    |                      |                      |                      |
| Year Ending March 31,             |                      |                      |                      |
| 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>\$ 19,171,600</u> | <u>\$ 39,906,600</u> |

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2012

|  | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|--|------------------|-----------------|---------------|
| Water and Sewer Revenue<br>Improvement Bonds, Series 2006,<br>interest rate 4% to 5% |                  |                 |               |
| Year Ending March 31,  |                  |                 |               |
| 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, 2012

|                                 | <u>Principal</u>     | <u>Interest</u>      | <u>Totals</u>        |
|---------------------------------|----------------------|----------------------|----------------------|
| Water and Sewer Revenue         |                      |                      |                      |
| Improvement Bonds, 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>\$ 12,351,221</u> | <u>\$ 27,271,221</u> |

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

|                       |            |            |            |
|-----------------------|------------|------------|------------|
| Year Ending March 31, |            |            |            |
| 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, 2012

|                                 | <u>Principal</u>    | <u>Interest</u>     | <u>Totals</u>        |
|---------------------------------|---------------------|---------------------|----------------------|
| Water and Sewer Revenue         |                     |                     |                      |
| Improvement Bonds, 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>735,000</u>      | <u>18,375</u>       | <u>753,375</u>       |
|                                 | <u>\$ 8,875,000</u> | <u>\$ 3,945,245</u> | <u>\$ 12,820,245</u> |
| State of Tennessee DWSRF Loan   |                     |                     |                      |
| #2006-069, interest rate 0.84%  |                     |                     |                      |
| Year Ending March 31,           |                     |                     |                      |
| 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>135,221</u>      | <u>616</u>          | <u>135,837</u>       |
|                                 | <u>\$ 2,033,014</u> | <u>\$ 140,423</u>   | <u>\$ 2,173,437</u>  |

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2012

|  | <u>Principal</u>    | <u>Interest</u>   | <u>Totals</u>       |
|--|---------------------|-------------------|---------------------|
| State of Tennessee DWSRF Loan<br>#2005-062, interest rate 0.82 % |                     |                   |                     |
| Year Ending March 31,  |                     |                   |                     |
| 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>\$ 6,096,718</u> | <u>\$ 410,742</u> | <u>\$ 6,507,460</u> |

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2012

|  | <u>Principal</u>     | <u>Interest</u>     | <u>Totals</u>        |
|--|----------------------|---------------------|----------------------|
| State of Tennessee CWSRF Loan<br>#2005-186, interest rate 0.82 % |                      |                     |                      |
| Year Ending March 31,  |                      |                     |                      |
| 2013   | \$ 2,069,993         | \$ 361,276          | \$ 2,431,269         |
| 2014   | 2,502,730            | 414,794             | 2,917,524            |
| 2015   | 2,523,329            | 394,194             | 2,917,523            |
| 2016   | 2,544,098            | 373,425             | 2,917,523            |
| 2017   | 2,565,039            | 352,485             | 2,917,524            |
| 2018   | 2,586,151            | 331,372             | 2,917,523            |
| 2019   | 2,607,438            | 310,086             | 2,917,524            |
| 2020   | 2,628,899            | 288,624             | 2,917,523            |
| 2021   | 2,650,537            | 266,986             | 2,917,523            |
| 2022   | 2,672,353            | 245,170             | 2,917,523            |
| 2023   | 2,694,349            | 223,174             | 2,917,523            |
| 2024   | 2,716,526            | 200,997             | 2,917,523            |
| 2025   | 2,738,886            | 178,638             | 2,917,524            |
| 2026   | 2,761,429            | 156,094             | 2,917,523            |
| 2027   | 2,784,158            | 133,365             | 2,917,523            |
| 2028   | 2,807,074            | 110,449             | 2,917,523            |
| 2029   | 1,530,893            | 43,672              | 1,574,565            |
|  | <u>\$ 43,383,882</u> | <u>\$ 4,384,801</u> | <u>\$ 47,768,683</u> |

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2012

|                                     | <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,               |                     |                   |                     |
| 2013                                | \$ 67,425           | \$ 40,555         | \$ 107,980          |
| 2014                                | 69,144              | 38,836            | 107,980             |
| 2015                                | 70,907              | 37,074            | 107,981             |
| 2016                                | 72,715              | 35,266            | 107,981             |
| 2017                                | 74,568              | 33,412            | 107,980             |
| 2018                                | 76,469              | 31,511            | 107,980             |
| 2019                                | 78,419              | 29,562            | 107,981             |
| 2020                                | 80,418              | 27,563            | 107,981             |
| 2021                                | 82,468              | 25,513            | 107,981             |
| 2022                                | 84,570              | 23,410            | 107,980             |
| 2023                                | 86,726              | 21,254            | 107,980             |
| 2024                                | 88,937              | 19,043            | 107,980             |
| 2025                                | 91,205              | 16,776            | 107,981             |
| 2026                                | 93,530              | 14,451            | 107,981             |
| 2027                                | 95,914              | 12,067            | 107,981             |
| 2028                                | 98,359              | 9,621             | 107,980             |
| 2029                                | 100,867             | 7,114             | 107,981             |
| 2030                                | 103,438             | 4,543             | 107,981             |
| 2031                                | 106,075             | 1,906             | 107,981             |
| 2032                                | 17,940              | 57                | 17,997              |
|                                     | <u>\$ 1,640,094</u> | <u>\$ 429,534</u> | <u>\$ 2,069,628</u> |

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2012

|                                     | <u>Principal</u>    | <u>Interest</u>     | <u>Totals</u>       |
|-------------------------------------|---------------------|---------------------|---------------------|
| State of Tennessee CWSRF Loan       |                     |                     |                     |
| #CGA 2009-233, interest rate 2.52 % |                     |                     |                     |
| Year Ending March 31,               |                     |                     |                     |
| 2013                                | \$ 164,779          | \$ 106,128          | \$ 270,907          |
| 2014                                | 288,170             | 176,242             | 464,412             |
| 2015                                | 295,516             | 168,896             | 464,412             |
| 2016                                | 303,049             | 161,362             | 464,412             |
| 2017                                | 310,775             | 153,637             | 464,412             |
| 2018                                | 318,698             | 145,714             | 464,412             |
| 2019                                | 326,822             | 137,589             | 464,412             |
| 2020                                | 335,154             | 129,258             | 464,412             |
| 2021                                | 343,698             | 120,714             | 464,412             |
| 2022                                | 352,460             | 111,952             | 464,412             |
| 2023                                | 361,445             | 102,966             | 464,412             |
| 2024                                | 370,660             | 93,752              | 464,412             |
| 2025                                | 380,109             | 84,303              | 464,412             |
| 2026                                | 389,799             | 74,613              | 464,412             |
| 2027                                | 399,736             | 64,675              | 464,412             |
| 2028                                | 409,927             | 54,485              | 464,412             |
| 2029                                | 420,377             | 44,035              | 464,412             |
| 2030                                | 400,594             | 33,318              | 433,912             |
|                                     | <u>\$ 6,171,770</u> | <u>\$ 1,963,639</u> | <u>\$ 8,135,409</u> |

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2012

|                                    | <u>Principal</u>    | <u>Interest</u>   | <u>Totals</u>       |
|------------------------------------|---------------------|-------------------|---------------------|
| State of Tennessee DWSRF Loan      |                     |                   |                     |
| #DGO 2011-111, interest rate 0.87% |                     |                   |                     |
| Year Ending March 31,              |                     |                   |                     |
| 2013                               | \$ 82,392           | \$ 15,440         | \$ 97,832           |
| 2014                               | 142,219             | 25,492            | 167,711             |
| 2015                               | 143,461             | 24,250            | 167,711             |
| 2016                               | 144,714             | 22,997            | 167,711             |
| 2017                               | 145,979             | 21,733            | 167,711             |
| 2018                               | 147,254             | 20,458            | 167,711             |
| 2019                               | 148,540             | 19,171            | 167,711             |
| 2020                               | 149,837             | 17,873            | 167,711             |
| 2021                               | 53,539              | 4,970             | 58,509              |
|                                    | <u>\$ 1,157,935</u> | <u>\$ 172,384</u> | <u>\$ 1,330,319</u> |

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2012

|   | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|---|------------------|-----------------|---------------|
| Utilities Improvement Revenue Bonds,<br>Series 2005 (Rural Utilities Service),<br>interest rate 4.375 % |                  |                 |               |
| Year Ending March 31,   |                  |                 |               |
| 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, 2012

|   | <u>Principal</u>  | <u>Interest</u>   | <u>Totals</u>       |
|---|-------------------|-------------------|---------------------|
| Utilities Improvement Revenue Bonds,<br>Series 2005 (Rural Utilities Service),<br>interest rate 4.375 %<br>(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  | 26,846            | 383               | 27,229              |
|   | <u>\$ 848,451</u> | <u>\$ 771,490</u> | <u>\$ 1,619,941</u> |

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

|                       |           |            |            |
|-----------------------|-----------|------------|------------|
| Year Ending March 31, |           |            |            |
| 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, 2012

|   | <u>Principal</u>    | <u>Interest</u>     | <u>Totals</u>       |
|---|---------------------|---------------------|---------------------|
| Utilities Improvement Revenue Bonds,<br>Series 2007 (Rural Utilities Service),<br>interest rate 4.125 %<br>(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>\$ 2,864,734</u> | <u>\$ 2,440,003</u> | <u>\$ 5,304,737</u> |

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2012

|  | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|--|------------------|-----------------|---------------|
| Utilities Improvement Revenue Bonds,<br>Series 2009 (Rural Utilities Service),<br>interest rate 3.25 % |                  |                 |               |
| Year Ending March 31,  |                  |                 |               |
| 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, 2012

|  | <u>Principal</u>  | <u>Interest</u>   | <u>Totals</u>       |
|--|-------------------|-------------------|---------------------|
| Utilities Improvement Revenue Bonds,<br>Series 2009 (Rural Utilities Service),<br>interest rate 3.25 %<br>(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>\$ 977,368</u> | <u>\$ 689,054</u> | <u>\$ 1,666,422</u> |

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2012

|   | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|---|------------------|-----------------|---------------|
| Utilities Improvement Revenue Bonds,<br>Series 2011 (Rural Utilities Service),<br>interest rate 4.125 % |                  |                 |               |
| Year Ending March 31,   |                  |                 |               |
| 2013  | \$ 56,583        | \$ 199,149      | \$ 255,732    |
| 2014  | 58,962           | 196,770         | 255,732       |
| 2015  | 61,440           | 194,292         | 255,732       |
| 2016  | 64,023           | 191,709         | 255,732       |
| 2017  | 66,715           | 189,017         | 255,732       |
| 2018  | 69,519           | 186,213         | 255,732       |
| 2019  | 72,442           | 183,290         | 255,732       |
| 2020  | 75,487           | 180,245         | 255,732       |
| 2021  | 78,661           | 177,071         | 255,732       |
| 2022  | 81,967           | 173,765         | 255,732       |
| 2023  | 85,413           | 170,319         | 255,732       |
| 2024  | 89,004           | 166,728         | 255,732       |
| 2025  | 92,746           | 162,986         | 255,732       |
| 2026  | 96,644           | 159,088         | 255,732       |
| 2027  | 100,707          | 155,025         | 255,732       |
| 2028  | 104,941          | 150,791         | 255,732       |
| 2029  | 109,325          | 146,407         | 255,732       |
| 2030  | 113,949          | 141,783         | 255,732       |
| 2031  | 118,740          | 136,992         | 255,732       |
| 2032  | 123,732          | 132,000         | 255,732       |
| 2033  | 128,933          | 126,799         | 255,732       |
| 2034  | 134,353          | 121,379         | 255,732       |
| 2035  | 140,001          | 115,731         | 255,732       |
| 2036  | 145,887          | 109,845         | 255,732       |
| 2037  | 152,020          | 103,712         | 255,732       |

HALLSDALE-POWELL UTILITY DISTRICT

**LONG-TERM DEBT REQUIREMENTS**

(continued)

March 31, 2012

|   | <u>Principal</u>    | <u>Interest</u>     | <u>Totals</u>       |
|---|---------------------|---------------------|---------------------|
| Utilities Improvement Revenue Bonds,<br>Series 2011 (Rural Utilities Service),<br>interest rate 4.125 %<br>(continued): |                     |                     |                     |
| Year Ending March 31,   |                     |                     |                     |
| 2038  | 158,410             | 97,322              | 255,732             |
| 2039  | 165,070             | 90,662              | 255,732             |
| 2040  | 172,009             | 83,723              | 255,732             |
| 2041  | 179,240             | 76,492              | 255,732             |
| 2042  | 186,775             | 68,957              | 255,732             |
| 2043  | 194,627             | 61,105              | 255,732             |
| 2044  | 202,809             | 52,923              | 255,732             |
| 2045  | 211,335             | 44,397              | 255,732             |
| 2046  | 220,219             | 35,513              | 255,732             |
| 2047  | 229,477             | 26,255              | 255,732             |
| 2048  | 239,104             | 16,628              | 255,732             |
| 2049  | 249,224             | 6,508               | 255,732             |
| 2050  | 23,102              | 83                  | 23,185              |
|   | <u>\$ 4,853,595</u> | <u>\$ 4,631,674</u> | <u>\$ 9,485,269</u> |

See the accompanying independent accountants' audit report.

HALLSDALE-POWELL UTILITY DISTRICT

**INSURANCE COVERAGE**

March 31, 2012

| <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            | 4/1/12                 | \$ 5,761,581              |
| Automobile liability and physical damage                                    | CNA Insurance Company            | 4/1/12                 | 500,000                   |
| General liability   | CNA Insurance Company            | 4/1/12                 | 2,000,000                 |
| Inland marine   | CNA Insurance Company            | 4/1/12                 | 2,076,828                 |
| Employee dishonesty, forgery, theft, computer fraud                         | CNA Insurance Company            | 4/1/12                 | 325,000                   |
| Public officials liability  | Great American Insurance Company | 4/1/12                 | 3,000,000                 |
| Workers' compensation   | CNA Insurance Company            | 4/1/12                 | 500,000                   |

See the accompanying independent accountants' audit report.

HALLSDALE-POWELL UTILITY DISTRICT

CUSTOMERS AND UTILITY RATES

March 31, 2012

**Water:**

Active customer accounts 29,075

**Sewer:**

Active customer accounts 22,254

**Residential and Commercial Water:**

First 1,500 gallons \$ 20.17 (minimum bill)  
Over 1,500 gallons \$ 7.43 per 1,000 gallons

**Residential Sewer:**

First 1,500 gallons \$ 23.48 (minimum bill)  
1,501 gallons through 12,000 gallons \$ 7.26 per 1,000 gallons  
Over 12,000 gallons no additional charge  
\*Grinder pump (if applicable) \$ 7.00 per month

**Commercial Sewer:**

First 1,500 gallons \$ 23.48 (minimum bill)  
Over 1,500 gallons \$ 7.26 per 1,000 gallons  
\*Grinder pump (if applicable) \$ 7.00 per month

**Sunset Bay Sewer:**

Vacant Lot \$ 9.00 (minimum bill)  
1,500 gallons \$ 23.48 (minimum bill)  
Over 1,500 gallons \$ 8.56 per 1,000 gallons

HALLSDALE-POWELL UTILITY DISTRICT

**CUSTOMERS AND UTILITY RATES**

(continued)

March 31, 2012

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

The service maintenance fee for sewer grinder pumps is \$7.00 per month as of March 31, 2012 and increases to \$7.26 per month as of April 1, 2012. This fee only applies for E-One pump model numbers.

**Sewer User's Fee**

A six percent (6%) surcharge is 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 is 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, 2012

**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, 2012

*(All amounts in gallons)*

**Water Treated and Purchased:**

|                        |               |               |
|------------------------|---------------|---------------|
| Water pumped (potable) | 2,377,224,164 |               |
| Water purchased        | <u>0</u>      |               |
|                        |               | 2,377,224,164 |

**Accounted for Water:**

|  |                   |                      |
|--|-------------------|----------------------|
| Water sold                               | 1,412,938,500     |                      |
| Metered for consumption (in house usage) | 125,076,000       |                      |
| Fire department usage                    | 0                 |                      |
| Flushing                                 | 67,389,067        |                      |
| Tank cleaning and filling                | 75,700,000        |                      |
| Street cleaning                          | 0                 |                      |
| Bulk sales                               | 0                 |                      |
| Water bill adjustments                   | <u>19,086,476</u> |                      |
| <b>Total Accounted for Water</b>         |                   | <u>1,700,190,043</u> |

**Unaccounted for Water** 677,034,120

**Percent Unaccounted for Water** 28.48%

**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, 2012

**Board of Commissioners**

Jim Hill, Chairman  
Kevin Julian, Secretary  
Robert Crye, 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, 2012

| <u>CFDA #</u>  | <u>Program Name</u>  | <u>Federal Grantor/<br/>Pass-Through Grantor</u>   |
|----------------|--|--|
| 10.760         | Wastewater Disposal System<br>for Rural Communities                        | United States Department of<br>Agriculture/Rural Development                               |
| 66.458         | Capitalization Grant for<br>Clean Water State Revolving<br>Fund - Loan     | Environmental Protection<br>Agency/Tennessee Department of<br>Environment and Conservation |
| 66.458<br>ARRA | Capitalization Grant for<br>Clean Water State Revolving<br>Fund - Grant    | Environmental Protection<br>Agency/Tennessee Department of<br>Environment and Conservation |
| 66.468         | Capitalization Grant for<br>Drinking Water State Revolving<br>Fund - Loan  | Environmental Protection<br>Agency/Tennessee Department of<br>Environment and Conservation |
| 66.468<br>ARRA | Capitalization Grant for<br>Drinking Water State Revolving<br>Fund - Grant | Environmental Protection<br>Agency/Tennessee Department of<br>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><br><u>April 1, 2011</u> | <u>Receipts</u>      | <u>Expenditures</u>  | <u>Receivable</u><br><u>March 31, 2012</u> |              |
|---|----------------------|----------------------|--|--------------|
| \$ 360,500                                | \$ 5,259,500         | \$ 4,899,000         | \$ 0                                       |              |
| 148,958                                   | 343,428              | 194,470              | 0  | State        |
| 178,714                                   | 412,032              | 233,318              | 0  | Federal ARRA |
| <u>744,613</u>                            | <u>1,716,732</u>     | <u>972,119</u>       | <u>0</u>                                   | Federal      |
| 1,072,285                                 | 2,472,192            | 1,399,907            | 0  |              |
| 714,857                                   | 1,648,129            | 933,272              | 0  |              |
| 42,764                                    | 267,519              | 589,297              | 364,541                                    | State        |
| 51,307                                    | 51,307               | 0                    | 0  | Federal ARRA |
| <u>213,770</u>                            | <u>1,146,950</u>     | <u>2,446,750</u>     | <u>1,513,570</u>                           | Federal      |
| 307,841                                   | 1,465,776            | 3,036,046            | 1,878,111                                  |              |
| 0   | 56,189               | 147,324              | 91,135                                     | State        |
| 205,228                                   | 205,228              | 0                    | 0  | Federal ARRA |
| <u>0</u>                                  | <u>233,295</u>       | <u>611,687</u>       | <u>378,392</u>                             | Federal      |
| <u>205,228</u>                            | <u>494,712</u>       | <u>759,011</u>       | <u>469,527</u>                             |              |
| <u>\$ 2,660,712</u>                       | <u>\$ 11,340,310</u> | <u>\$ 11,027,237</u> | 2,347,638                                  |              |

Less: loan funds received  
subsequent to March 31, 2012

(1,878,111)  
\$ 469,528

Recap: Federal funds      \$ 10,096,146  
State funds                      931,091  
    \$ 11,027,237

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, 2012 and have issued our report thereon dated October 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

Management of Hallsdale-Powell Utility District is responsible for establishing and maintaining effective 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 an 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Hallsdale-Powell Utility District's 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 29, 2012.

This report is intended solely for the information and use of management, Board of Commissioners, federal and state awarding agencies, and pass-through entities 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 29, 2012

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON 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 *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, 2012. Hallsdale-Powell Utility District's major federal programs are identified in the summary of auditor's 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, *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 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 of 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, 2012.

## Internal Control Over Compliance

Management of Hallsdale-Powell Utility District is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program to determine the 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 over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, 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, Board of Commissioners, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mitchell Emert & Hill*

October 29, 2012

HALLSDALE-POWELL UTILITY DISTRICT

**FINDINGS AND QUESTIONED COSTS**

Year Ended March 31, 2012

**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 That Could Have a Direct and Material Effect on Each Major Program and on 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 grant agreements 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.

**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.