Copper Basin Utility District

Financial Statements with Accompanying Information
Years Ended June 30, 2008 and 2007

and

Independent Auditors' Report

COPPER BASIN UTILITY DISTRICT

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HG&A ASSOCIATES, P.C.
Certified Public Accountants

Independent Auditors' Report

Board of Commissioners
of Polk County, Tennessee
Turtletown, Tennessee

We have audited the accompanying balance sheets of the Copper Basin Utility District (the "District"), a component unit of Polk County, Tennessee, as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2008 and 2007, and the changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 27, 2009, on our consideration of District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Richard A. Goldstine • J. Wesley Edmondson • John C. Pannell • Tim Royster • Jenny C. Raines • Michelle Herrell
P.O. Box 50846, Knoxville, TN 37950-0846 • Telephone (865) 691-8000 • FAX (865) 691-3064 • 6504 Deane Hill Drive, Knoxville, TN 37919
CPA
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Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the District taken as a whole. The accompanying information and the schedule of expenditures of federal awards included on pages 20 through 26 are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

HG&A Associates, P.C.

January 27, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Copper Basin Utility District (the "District") offers readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008.

The information presented here should be considered in conjunction with the District's basic financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- The total assets exceeded liabilities at the close of the most recent fiscal year by $2,828,876, a decrease of $109,204 from 2007. Of this amount, $357,763 is available to be used to meet the government's ongoing obligations.
- Operating loss was $71,270 and including nonoperating income and expenses the loss was $109,204.
- Capital assets increased by $3,900.
- Debt was reduced by payments totaling $39,489.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Copper Basin Utility District's basic financial statements. The basic financial statements include the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Financial Statements

The Copper Basin Utility District maintains its activities in a single major proprietary fund. Proprietary funds are used to account for activities that are similar to those often found in the private sector.

The notes to the financial statements provide additional information essential to a full understanding of the data provided in the government fund financial statements. The notes to the financial statements can be found on pages 12 through 19 of this report.

Financial Analysis

Net assets may serve over time as a useful indicator of a District's financial position. The Copper Basin Utility District's assets exceeded liabilities by $2,828,876 and $2,938,080 at the close of 2008 and 2007, respectively.

The largest portion of the District's net assets (87%) reflects its investment in capital assets (e.g., land, buildings, equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide water services to citizens so these assets are not available for future spending. Although the District's $2,471,113 investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CONDENSED FINANCIAL INFORMATION
BALANCE SHEET
June 30, 2008 and 2007

	2008	2007
Current and other assets:		
Cash	$ 271,203	295,342
Other assets	106,965	90,299
Capital assets	3,394,912	3,536,600
Total assets	$ 3,773,080	3,922,241
Other liabilities	$ 65,145	60,207
Noncurrent liabilities	879,059	923,954
Total liabilities	944,204	984,161
Net assets:		
Invested in capital assets, net of related debt	2,471,113	2,573,312
Unrestricted	357,763	364,768
Total net assets	2,828,876	2,938,080
Total liabilities and net assets	$ 3,773,080	3,922,241

Net assets that are subject to external restrictions on how they may be used totaled $6,596 at June 30, 2008 and 2007. The remaining balance of unrestricted net assets ($357,763 and $364,768 at June 30, 2008 and 2007, respectively) may be used to meet the District's ongoing obligations.

During the current fiscal year, the District's net assets decreased by $109,204.

The following is a summary of financial activities for the District during the fiscal years ending June 30, 2008 and 2007:

CONDENSED FINANCIAL INFORMATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended June 30, 2008 and 2007

		2008	2007
Program revenues:			
Charges for services	$	597,651	533,459
General revenues:			
Interest		8,891	12,218
Total revenues		606,542	545,677
Expenses:			
Operating expenses		668,921	667,498
Interest on debt		46,825	42,255
Total expenses		715,746	709,753
Change in net assets		(109,204)	(164,076)
Net assets, beginning of year		2,938,080	3,102,156
Net assets, end of year	$	2,828,876	2,938,080

Copper Basin Utility District's total revenues for 2008 increased $64,192 over 2007. The District attributes the increase to the fact that the customer base has increased slightly over 2007 and an approximately 17% increase in customer rates starting May 1, 2008.

Certain expenses increased in 2008 over 2007. Major increases in expenses were due to the following: increased costs of health and general liability insurance, increased costs to inspect and repair lines and the increased cost of materials and supplies to maintain lines and treat water and sewage.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Copper Basin Utility District's investment in capital assets as of June 30, 2008, was $3,394,912 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure and construction in progress.

There were no major capital asset events during the current fiscal year. The total cost for land easements purchased in fiscal year 2008 was $3,900.

Capital Assets
(net of depreciation)

	2008	2007
Land and land easements	$ 142,000	138,100
Buildings and distribution system	2,341,839	2,455,388
Sewer plant	909,432	940,890
Equipment and furnishings	1,641	2,222
	$ 3,394,912	3,536,600

Additional information on the Copper Basin Utility District's capital assets can be found on pages 17 and 18 of this report.

DEBT

At the end of the current fiscal year, the Copper Basin Utility District had total debt outstanding of $923,799.

Outstanding Debt

	2008	2007
Series 2005 Revenue Bonds	$ 545,369	552,854
Series 2002 Revenue Bonds	133,430	135,434
Series 1997 Revenue Bonds	245,000	275,000
	$ 923,799	963,288

During the current fiscal year, the Copper Basin Utility District reduced debt by principal payments of $39,489.

Additional information on the Copper Basin Utility District's long-term debt can be found on pages 15 and 16 of this report.

BUDGETS

There were no variances between the originally adopted budget for the fiscal year ending June 30, 2008 and its final budget.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

Copper Basin Utility District anticipates a 2% increase in the number of its customers during fiscal year 2009 due to growth in the area and another substantial rate increase in May 2009. Based on current trends, the District anticipates a decrease in interest earnings over the prior year due to lower rates on the District's money market funds.

All of the above factors were considered in preparing the Copper Basin Utility District's budget for fiscal year 2009.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Copper Basin Utility District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Copper Basin Utility District, 2597 Highway 68, Turtletown, Tennessee 37391.

COPPER BASIN UTILITY DISTRICT

Balance Sheets

June 30, 2008 and 2007

Assets		2008	2007
Current assets:			
Cash	$	264,607	288,746
Accounts receivable - customers (less allowance for doubtful accounts of $1,420 in 2008 and $995 in 2007)		69,583	48,731
Prepaid insurance		8,959	10,173
Total current assets		343,149	347,650
Restricted assets:			
Customer deposits		6,596	6,596
Other assets:			
Deferred charges-bond issue costs		28,423	31,395
Capital assets:		6,280,517	6,276,617
Less: accumulated depreciation		2,885,605	2,740,017
		3,394,912	3,536,600
Total assets	$	3,773,080	3,922,241
Liabilities and Net Assets			
Current liabilities (payable from current assets):			
Current installments of long-term debt	$	44,740	39,334
Accounts payable		7,492	8,114
Accrued interest		1,485	1,429
Accrued wages and compensated absences		4,832	4,734
Total current liabilities (payable from current assets)		58,549	53,611
Current liabilities (payable from restricted assets):			
Customer deposits		6,596	6,596
Total current liabilities		65,145	60,207
Long-term debt, less current installments		879,059	923,954
Total liabilities		944,204	984,161
Net assets:			
Invested in capital assets, net of related debt		2,471,113	2,573,312
Unrestricted net assets		357,763	364,768
Total net assets		2,828,876	2,938,080
Total liabilities and net assets	$	3,773,080	3,922,241

The notes to financial statements are an integral part of these statements.

COPPER BASIN UTILITY DISTRICT

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2008 and 2007

		2008	2007
Operating revenues:			
Customer sales:			
Water	$	463,036	419,104
Sewer		107,640	96,044
Tap fees:			
Water		25,000	18,311
Sewer		2,400	-
		598,076	533,459
Less provision for uncollectible accounts		425	-
Total operating revenues		597,651	533,459
Operating expenses:			
Water		538,691	545,618
Sewer		130,230	121,880
Total operating expenses		668,921	667,498
Operating loss		(71,270)	(134,039)
Nonoperating income (expense):			
Interest income		8,891	12,218
Interest expense		(43,853)	(39,283)
Amortization of deferred charges		(2,972)	(2,972)
Total nonoperating income (expense)		(37,934)	(30,037)
Change in net assets		(109,204)	(164,076)
Total net assets, beginning of the year		2,938,080	3,102,156
Total net assets, end of the year	$	2,828,876	2,938,080

The notes to financial statements are an integral part of these statements.

COPPER BASIN UTILITY DISTRICT

Statements of Cash Flows
Years Ended June 30, 2008 and 2007

		2008	2007
Cash flows from operating activities:			
Cash received from customers	$	576,799	529,535
Cash payments for goods and services		(315,607)	(316,197)
Cash payments for employees		(207,036)	(197,781)
Net cash provided by operating activities		54,156	15,557
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(3,900)	(3,800)
Principal payments on long-term debt		(39,489)	(38,769)
Interest paid on long-term debt		(43,797)	(46,296)
Net cash used by capital and related financing activities		(87,186)	(88,865)
Cash flows from investing activities:			
Interest received		8,891	12,218
Net cash provided by investing activities		8,891	12,218
Net decrease in cash and cash equivalents		(24,139)	(61,090)
Cash and cash equivalents, beginning of year		295,342	356,432
Cash and cash equivalents, end of year	$	271,203	295,342
Cash	$	264,607	288,746
Restricted assets		6,596	6,596
	$	271,203	295,342

(continued)

COPPER BASIN UTILITY DISTRICT

Statements of Cash Flows (Continued)
Years Ended June 30, 2008 and 2007

	2008	2007
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (71,270)	(134,039)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	145,588	153,238
(Increase) decrease in:		
Accounts receivable	(20,852)	(3,924)
Prepaid insurance	1,214	(1,780)
Increase (decrease) in:		
Accounts payable	(622)	883
Other accrued expenses	98	1,179
Total adjustments	125,426	149,596
Net cash provided by operating activities	$ 54,156	15,557

The notes to financial statements are an integral part of these statements.

COPPER BASIN UTILITY DISTRICT

Notes to Financial Statements
June 30, 2008 and 2007

(1) Summary of Significant Accounting Policies

The following items set forth the significant accounting policies, not disclosed elsewhere in the notes to financial statements, which the Copper Basin Utility District follows in presenting its financial statements.

(a) Reporting Entity

The Copper Basin Utility District (the District) is organized and operates under Chapter 16, Sections 5-16-101 through 5-16-112, of the Tennessee Code Annotated, as amended, for the purpose of providing water and sewer services to its customers. The powers of the District are vested in and exercised by a majority of the members of the Board of Commissioners who are appointed by the District's primary government.

The District is a discretely presented component unit of Polk County, Tennessee, and the financial statements are presented in both the District's separate financial report and within the Polk County, Tennessee report. The District is considered a discretely presented component unit of Polk County, Tennessee as defined under the criteria set forth in Government Accounting Standards Board Statement 14, because the District would be unable to issue debt without going through Polk County, Tennessee.

(b) Basis of Accounting

The District reports its financial activities under the applicable provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Statement 34 established standards for external reporting for all state and local governmental entities that includes a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets components as the unspent proceeds.

(continued)

COPPER BASIN UTILITY DISTRICT

Notes to Financial Statements
June 30, 2008 and 2007

(1) Summary of Significant Accounting Policies (continued)

(b) Basis of Accounting (continued)

Unrestricted – The component of net asset consisting of net assets that do not meet the definition "restricted" or "invested in capital assets, net of related debt."

Restricted – This component of net assets consists of constraints placed on net assets through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

The District uses the accrual basis of accounting, whereby revenues are recognized when they are earned, and expenses are recognized when they are incurred. The only exception is unbilled revenue from the date of the last month's meter reading to the end of the fiscal year, which is not accrued. The District observes all Financial Accounting Standards Board (FASB) statements and interpretations issued, provided they do not conflict with standards established by the Government Accounting Standards Board (GASB).

(c) Utility Plant in Service

Utility plant in service is stated at cost and includes expenditures for new facilities and equipment, renewals, extensions or betterments to the system, and costs of significant service connections. Donated property, if any, is recorded at its fair value at the date of donation. Interest costs, if any, are capitalized during the construction phase of plant and equipment. Depreciation is determined on the straight-line method over the estimated useful lives of the assets, which range from 5 to 45 years. Depreciation expense was $145,588 and $153,238 for the years ended June 30, 2008 and 2007, respectively.

(d) Revenues and Expenses

Operating revenues and expenses consists of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expense consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for the purposes for which there are both restricted and unrestricted net assets available, it is the District's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

(continued)

COPPER BASIN UTILITY DISTRICT

Notes to Financial Statements
June 30, 2008 and 2007

(1) Summary of Significant Accounting Policies (continued)

(e) Deferred Charges

Deferred charges represent unamortized bond issue costs and are being amortized over the life of the debt.

(f) Compensated Absences

The District recognizes the cost of vacation pay in the year it is earned. Employees are not permitted to accumulate unused vacation days, which are based on a calendar year. However, at June 30 some employees had earned vacation days that they had not yet used. This amount has been accrued in the financial statements. Sick pay benefits do not vest and are recognized when paid.

(g) Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers temporary investments with original maturities of three months or less as cash equivalents.

(h) Accounts receivable

Accounts receivable are recorded at gross amounts receivable, less an allowance for estimated uncollectible accounts. The allowance is calculated as a percentage of the receivable balance at year-end based upon historical collection rates.

(i) Tax Status

The District is a political subdivision of the State of Tennessee and is not subject to federal income taxes or state franchise and excise taxes.

(j) 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(2) Bank Deposits

The District's deposits consist of various operating accounts, which earned interest at rates ranging from 1.00% to 1.80% during 2008. At June 30, 2008, the total carrying amount of the District's deposits was $271,203 and the bank balances were $276,404.

(continued)

COPPER BASIN UTILITY DISTRICT

Notes to Financial Statements
June 30, 2008 and 2007

(2) Bank Deposits (continued)

Custodial credit risk for the District's deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As required by state statutes, the District's policy is to require that financial institutions holding its deposits to be members of the Tennessee Collateral Pool or pledge collateral for deposits in excess of federal depository insurance. At June 30, 2008 none of the District's bank balances was exposed to credit risk.

(3) Long-Term Debt

Bonds Payable through FHA Program:		2008	2007
$590,900 Waterworks Revenue Bonds, Series 2002, due in monthly installments of $2,713, including interest at 4.5%, through 2040	$	545,369	552,854
$137,200 Waterworks Revenue Bonds, Series 2005, due in monthly installments of $630, including interest at 4.5%, through 2044		133,430	135,434
Total bonds payable with FHA		678,799	688,288
Bond Payable to Financial Institutions:			
$480,000 Waterworks Revenue and Tax Refunding Serial Bonds, Series 1997, principal of $25,000 to 40,000 due each January 1, interest due on January 1 and July 1, including interest at 4.3% to 5.15%, through January 2015		245,000	275,000
Total bonds payable		923,799	963,288
Less current installments (payable from restricted assets)		44,740	39,334
	$	879,059	923,954

(continued)

COPPER BASIN UTILITY DISTRICT

Notes to Financial Statements
June 30, 2008 and 2007

(3) Long-Term Debt (continued)

Changes in long-term debt during the year ended June 30, 2008 are as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due In One Year
FHA bonds: waterworks revenue bonds	$ 688,288	-	9,489	678,799	9,740
Financial institution bonds	275,000	-	30,000	245,000	35,000
	$ 963,288	-	39,489	923,799	44,740

The bond resolutions authorizing the issuance of these bonds contain certain restrictions and requirements with respect to disposition of revenues and reporting the results of operations. Management believes that the District is in compliance with all restrictions and requirements of the bond resolutions at June 30, 2008.

The bonds are collateralized by a first pledge of revenues derived from the operations of the waterworks system and by a statutory mortgage lien on the waterworks system. In the event of a deficiency of such revenues, these bonds are payable from unlimited ad valorem taxes to be levied on all taxable property within Polk County, Tennessee. Interest expense totaled $43,853 and $39,283 in 2008 and 2007, respectively.

Maturities of long-term debt are as follows:

Year Ended June 30	FHA Bonds		Bonds Payable to Financial Institutions		Total
	Principal	Interest	Principal	Interest	
2009	$ 9,740	30,376	35,000	12,428	87,544
2010	10,219	29,897	30,000	10,695	80,811
2011	10,688	29,428	30,000	9,210	79,326
2012	11,179	28,937	35,000	7,725	82,841
2013	11,693	28,423	35,000	5,923	81,039
2014 to 2018	67,032	133,548	80,000	6,178	286,758
2019 to 2023	83,911	116,669	-	-	200,580
2024 to 2028	105,038	95,542	-	-	200,580
2029 to 2033	131,487	69,093	-	-	200,580
2034 to 2038	164,594	35,986	-	-	200,580
2039 to 2043	71,693	6,802	-	-	78,495
2044	1,525	365	-	-	1,890
	$ 678,799	605,066	245,000	52,159	1,581,024

COPPER BASIN UTILITY DISTRICT

Notes to Financial Statements
June 30, 2008 and 2007

(4) 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. In order to minimize its costs, the District insures itself against potential losses associated with these risks through the purchase of commercial insurance. There were no significant reductions in limits of liability or coverage of insurance policies in effect during 2008 from those in effect in 2007 and 2006. In addition, there have been no losses in excess of insurance coverage during the past three fiscal years.

(5) Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land & land easements	$ 138,100	3,900	-	142,000
	138,100	3,900	-	142,000
Capital assets, being depreciated:				
Buildings & distribution system	4,849,087	-	-	4,849,087
Sewer plant	1,197,034	-	-	1,197,034
Equipment & furnishing	50,590	-	-	50,590
Transportation equipment	41,806	-		41,806
	6,138,517	-	-	6,138,517
Less accumulated depreciation for:				
Buildings & distribution system	(2,393,699)	(113,549)	-	(2,507,248)
Sewer plant	(256,144)	(31,458)	-	(287,602)
Equipment & furnishing	(48,368)	(581)	-	(48,949)
Transportation equipment	(41,806)	-	-	(41,806)
	(2,740,017)	(145,588)	-	(2,885,605)
Total capital assets, being depreciated, net	3,398,500	(145,588)	-	3,252,912
Capital assets, net	$ 3,536,600	(141,688)	-	3,394,912

(continued)

COPPER BASIN UTILITY DISTRICT

Notes to Financial Statements
June 30, 2008 and 2007

(5) Capital Assets (continued)

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land & land easements	$ 134,300	3,800	-	138,100
	134,300	3,800	-	138,100
Capital assets, being depreciated:				
Buildings & distribution system	4,849,087	-	-	4,849,087
Sewer plant	1,197,034	-	-	1,197,034
Equipment & furnishing	50,590	-	-	50,590
Transportation equipment	41,806	-		41,806
	6,138,517	-	-	6,138,517
Less accumulated depreciation for:				
Buildings & distribution system	(2,280,149)	(113,550)	-	(2,393,699)
Sewer plant	(224,686)	(31,458)	-	(256,144)
Equipment & furnishing	(44,731)	(3,637)	-	(48,368)
Transportation equipment	(37,213)	(4,593)	-	(41,806)
	(2,586,779)	(153,238)	-	(2,740,017)
Total capital assets, being depreciated, net	3,551,738	(153,238)	-	3,398,500
Capital assets, net	$ 3,686,038	(149,438)	-	3,536,600

(6) Changes in Amounts Invested in Capital Assets, Net of Related Debt

The change in amounts invested in capital assets, net of related debt can be summarized as follows:

		2008	2007
Balance at July 1	$	2,573,312	2,683,981
Change in capital assets		(141,688)	(149,438)
Change in related debt		39,489	38,769
Balance at June 30	$	2,471,113	2,573,312

COPPER BASIN UTILITY DISTRICT

Notes to Financial Statements
June 30, 2008 and 2007

(7) Subsequent Event

In June 2008 the City of Ducktown, Tennessee entered into an agreement for a water line extension at a total cost of $598,280. The City has secured grant funding for the project totaling $532,469. The District has agreed to pay the local match requirement of $65,811 on the project. For this payment the District will collect tap fees from the hookup of approximately 40 low and moderate income homes to this extension.

ACCOMPANYING INFORMATION

COPPER BASIN UTILITY DISTRICT

Schedules of Operating Expenses by Department

Years Ended June 30, 2008 and 2007

	2008		
	Water	Sewer	Total
Wages	$ 176,128	30,908	207,036
Directors fees	4,468	1,117	5,585
Utilities	37,416	6,443	43,859
Chemicals	10,116	-	10,116
Insurance	80,045	20,011	100,056
Advertising	560	140	700
Payroll taxes	13,427	2,435	15,862
Materials and supplies	30,490	2,424	32,914
Lab analysis	3,705	571	4,276
Depreciation	114,130	31,458	145,588
Repairs and maintenance	1,362	1,338	2,700
Inspection fees and permits	640	160	800
Office expense	5,167	1,128	6,295
Postage	4,890	1,222	6,112
Dues and subscriptions	2,062	726	2,788
Travel	3,486	872	4,358
Auto and truck expense	3,416	854	4,270
Contract labor	28,243	16,428	44,671
Professional fees	15,318	-	15,318
Miscellaneous	3,622	933	4,555
Penalties	-	-	-
Waste removal	-	11,062	11,062
	$ 538,691	130,230	668,921

	2007		
	Water	Sewer	Total
$	167,483	30,298	197,781
	4,176	1,044	5,220
	37,047	5,683	42,730
	9,583	210	9,793
	82,547	20,637	103,184
	233	58	291
	13,214	3,512	16,726
	32,049	9,350	41,399
	5,388	2,493	7,881
	121,780	31,458	153,238
	6,867	1,170	8,037
	440	110	550
	1,945	301	2,246
	4,994	1,249	6,243
	2,531	633	3,164
	3,341	835	4,176
	3,665	916	4,581
	10,494	9,003	19,497
	19,299	847	20,146
	3,542	885	4,427
	15,000	-	15,000
	-	1,188	1,188
$	545,618	121,880	667,498

COPPER BASIN UTILITY DISTRICT

Schedule of Debt Service Requirements to Maturity
June 30, 2008

Year ended June 30	Waterworks Revenue Bonds					
	Series 2001 $590,000			Series 2005 $137,200		
	Principal	Interest	Total	Principal	Interest	Total
2009	$ 8,182	24,374	32,556	1,558	6,002	7,560
2010	8,558	23,998	32,556	1,661	5,899	7,560
2011	8,951	23,605	32,556	1,737	5,823	7,560
2012	9,362	23,194	32,556	1,817	5,743	7,560
2013	9,792	22,764	32,556	1,901	5,659	7,560
2014	10,242	22,314	32,556	1,988	5,572	7,560
2015	10,712	21,844	32,556	2,079	5,481	7,560
2016	11,205	21,351	32,556	2,175	5,385	7,560
2017	11,719	20,837	32,556	2,275	5,285	7,560
2018	12,258	20,298	32,556	2,379	5,181	7,560
2019	12,821	19,735	32,556	2,489	5,071	7,560
2020	13,410	19,146	32,556	2,603	4,957	7,560
2021	14,026	18,530	32,556	2,722	4,838	7,560
2022	14,670	17,886	32,556	2,848	4,712	7,560
2023	15,344	17,212	32,556	2,978	4,582	7,560
2024	16,049	16,507	32,556	3,115	4,445	7,560
2025	16,786	15,770	32,556	3,258	4,302	7,560
2026	17,557	14,999	32,556	3,408	4,152	7,560
2027	18,364	14,192	32,556	3,565	3,995	7,560
2028	19,208	13,348	32,556	3,728	3,832	7,560
2029	20,090	12,466	32,556	3,900	3,660	7,560
2030	21,013	11,543	32,556	4,079	3,481	7,560
2031	21,978	10,578	32,556	4,266	3,294	7,560
2032	22,988	9,568	32,556	4,462	3,098	7,560
2033	24,044	8,512	32,556	4,667	2,893	7,560
2034	25,149	7,407	32,556	4,881	2,679	7,560
2035	26,304	6,252	32,556	5,106	2,454	7,560
2036	27,512	5,044	32,556	5,340	2,220	7,560
2037	28,776	3,780	32,556	5,586	1,974	7,560
2038	30,098	2,458	32,556	5,842	1,718	7,560
2039	31,481	1,075	32,556	6,111	1,449	7,560
2040	6,720	1,419	8,139	6,391	1,169	7,560
2041	-	-	-	6,685	875	7,560
2042	-	-	-	6,992	568	7,560
2043	-	-	-	7,313	247	7,560
2044	-	-	-	1,525	365	1,890
	$ 545,369	472,006	1,017,375	133,430	133,060	266,490

Note: Actual maturity dates may vary from original bond maturity dates due to prepayments of principal.

Series 1997 $480,000		
Principal	Interest	Total
35,000	12,428	47,428
30,000	10,695	40,695
30,000	9,210	39,210
35,000	7,725	42,725
35,000	5,923	40,923
40,000	4,120	44,120
40,000	2,058	42,058
-	-	-
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245,000	52,159	297,159

COPPER BASIN UTILITY DISTRICT

Schedules of Property Additions and Retirements
Years Ended June 30, 2008 and 2007

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008
Land & land easements	$ 138,100	3,900	-	142,000
Buildings & distribution system	4,849,087	-	-	4,849,087
Sewer plant	1,197,034	-	-	1,197,034
Equipment & furnishings	50,590	-	-	50,590
Transportation equipment	41,806	-	-	41,806
	$ 6,276,617	3,900	-	6,280,517

	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2007
Land & land easements	$ 134,300	3,800	-	138,100
Buildings & distribution system	4,849,087	-	-	4,849,087
Sewer plant	1,197,034	-	-	1,197,034
Equipment & furnishings	50,590	-	-	50,590
Transportation equipment	41,806	-	-	41,806
	$ 6,272,817	3,800	-	6,276,617

COPPER BASIN UTILITY DISTRICT

Schedule of Insurance Coverage

June 30, 2008

Type of Coverage	Amount of Coverage
Public Officials Liability: Period covered - 3/1/08 to 3/1/09	
Each claim limit	$ 1,000,000
Annual aggregate limit	3,000,000
Workers' Compensation: Period covered - 1/30/08 to 1/30/09	Statutory
Employer's liability:	
Each accident	500,000
Each employee	500,000
Policy limit	500,000
Fidelity Bonds: Period covered - 9/20/07 to 9/20/08	
Commissioners (5)	70,000 each
Office Manager	70,000
Office Clerk	70,000
Commercial Package: Period covered - 3/1/08 to 3/1/09	
General Liability:	
Bodily injury and property damage	1,000,000
Personal injury and advertising injury	1,000,000
Professional liability	1,000,000
Employee benefits liability	1,000,000
Employment practices liability	1,000,000
Fire damage limit	1,000,000
Medical expense (any one person)	10,000
Aggregate per coverage	3,000,000
General liability property damage ($2,500 deductible)	
Commercial Property:	
Real and personal property and equipment	2,914,640
Covered property and coverage extensions	500,000
Loss of income/extra expense	25,000
Deductible (per occurrence)	500
Wrongful Acts:	
Each claim limit	1,000,000
Annual aggregate limit	3,000,000
Deductible (per claim)	1,000
Crime Liability:	
Employee dishonesty	50,000
Forgery or alteration	50,000
Theft, disappearance and destruction	50,000
Computer fraud	25,000
Funds transfer/Money orders	25,000
Deductible (per occurrence)	250
Automobile Liability:	
Liability	1,000,000
Uninsured motorist	1,000,000
Medical payments	5,000

COPPER BASIN UTILITY DISTRICT

Schedule of Customers, Water Loss and Utility Rates in Force

June 30, 2008

Customers Billed:

Water only	1,107
Water and sewer	214
Total all customers	1,321

Water loss:	Percentage	Gallons
Sold	54,758,740	66.71%
Leaks and flushing	12,551,720	15.29%
Lost	14,779,540	18.00%
Total pumped	82,090,000	100.00%

Utility Rates in Force:

Residential Rate	Water	Sewer
First 2,000 gallons - minimum charge	$ 19.89	$ 8.48
Each additional 1,000 gallons	6.00	3.83
(plus applicable sales tax on water)		

Commercial Water Rate	Water	Sewer
First 2,000 gallons - minimum charge	$ 22.23	$ 12.29
Each additional 1,000 gallons	7.72	7.53
(plus applicable sales tax)		

Meter Service Fees	
1 inch Basic 2000 gallons	$ 31.59
2 inch Basic 2000 gallons	60.84
4 inch Basic 2000 gallons	90.09
6 inch Basic 2000 gallons	119.34

Water Tap Fee (basic)	$ 600.00
Sewer Tap Fee (basic)	$ 500.00
Reconnect Fee	$ 50.00

Service Charge (non-refundable)	Home/Business	Renter/Lease
	$ 50.00	$ 60.00

There is an additional service charge in the amount of $5 per room, for motels, nursing homes, hospitals, bed and breakfast and any businesses that have a private bath in each individual room.

Returned Check Fee	$ 20.00
Late Payment Fee	5% of Water Bill

COPPER BASIN UTILITY DISTRICT

Schedule of Cash
June 30, 2008

Unrestricted	Interest Rate	Balance
Peoples Bank of East Tennessee:		
Operating account	1.00%	$ 50,017
Revenue account	1.80%	214,590
Total unrestricted cash		$ 264,607
Restricted		
Peoples Bank of East Tennessee:		
Revenue account	1.00%	$ 6,596
Total restricted cash		

COPPER BASIN UTILITY DISTRICT

Schedule of Expenditures of Federal Awards
Year Ended June 30,2008

CFDA No.	Description	Balance 6/30/07	Cash Receipts	Expenditures	Repaid to Federal Government	Balance 6/30/08
Loans						
	U. S. Department of Agriculture					
	Water and Waste Disposal Systems					
10.760	for Rural Communities	$ 688,288	-	-	9,489	678,799

HG&A ASSOCIATES, P.C.
Certified Public 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
Copper Basin Utility District
Turtletown, Tennessee

We have audited the financial statements of the Copper Basin Utility District (the "District") a component unit of Polk County, Tennessee as of and for the year ended June 30, 2008, and have issued our report thereon dated January 27, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the 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*.

This report is intended solely for the information and use of management, the Board of Commissioners, federal awarding agencies, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

HG&A Associates, P.C.

January 27, 2009

COPPER BASIN UTILITY DISTRICT

Disposition of Prior Year Deficiencies in Internal Control
Year Ended June 30, 2008

CASH RECEIPTS RECORDS (07-01)

Deficiency

The documentation supporting the daily receipt/deposit records were not sufficient to assure funds received were appropriately recorded and deposited in compliance with the State of Tennessee 3-day deposit law.

Auditors' Recommendation

We recommended that management provide a more detailed daily cash receipt record to allow for a proper reconciliation actual receipts and deposits to the bank to comply with the 3-day deposit laws in the State of Tennessee.

Status

The District implemented the recommendations for receipt/deposit recognition in this audit period.

INADEQUATE COLLATERALIZATION OF DEPOSITS (07-02)

Deficiency

The District maintains its bank accounts with one financial institution. The balances held by the bank were not collateralized appropriately for the amount held in excess of FDIC coverage.

Auditors' Recommendation

We recommended the District take steps to properly collateralize its deposits to be in compliance with the Tennessee Code Annotated Section 9-4-105, whereby the market value of collateral assets equals 105% of deposits in excess of federally insured amounts.

Status

The District discussed the problem with a representative of the bank and the finding was corrected.