

HIWASSEE UTILITIES COMMISSION

Financial Statements

June 30, 2009 and 2008

HIWASSEE UTILITIES COMMISSION

Financial Statements

June 30, 2009 and 2008

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2 - 3
FINANCIAL STATEMENTS	
Balance Sheets	4
Statements of Revenues, Expenses and Changes in Net Assets	5
Statements of Cash Flow	6
NOTES TO FINANCIAL STATEMENTS	7 - 10
SUPPLEMENTAL INFORMATION	
Schedule of Additions and Retirements to Utility Plant	11
Schedule of Insurance Coverage	12
Schedule of Utility Rates in Force	13
Schedule of Age of Accounts Receivable	14
Schedule of Officers	15
Schedule of Bond Principal and Interest Requirements	16
Schedule of Unaccounted for Water	17
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING	18-20

ARNETT, KIRKSEY, KIMSEY, SULLIVAN & LAY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

WEDGEWOOD OFFICE PARK
4395 N. OCOEE STREET
CLEVELAND, TENNESSEE 37312

RONALD E. ARNETT, CPA, CVA
WILLIAM B. KIRKSEY, CPA
BUDDY E. KIMSEY, CPA
VICKI PIERCE SULLIVAN, CPA
MARK A. LAY, CPA

TELEPHONE: (423) 476-5581
FACSIMILE: (423) 472-9893
EMAIL: cpa@akksll.com

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
TENNESSEE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
NATIONAL ASSOCIATION OF
CERTIFIED VALUATION ANALYSTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Hiwassee Utilities Commission
Charleston, Tennessee

We have audited the accompanying financial statements of Hiwassee Utilities Commission, as of June 30, 2009 and June 30, 2008 for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the management of Hiwassee Utilities Commission. 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. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hiwassee Utility Commission as of June 30, 2009 and 2008, and the results of its operations and 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 our report dated February 1, 2010 on our consideration of Hiwassee Utility Commission's internal control over financial reporting and our tests of its compliance with certain 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 management's discussion and analysis on pages 2 through 3 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The information on pages 11 through 17 is presented for purposes of additional analysis and is not a required part of the basic financial statements. All supplementary information, with the exception of the Schedule of Unaccounted for Water, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The Schedule of Unaccounted for Water has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.


ARNETT, KIRKSEY, KIMSEY, SULLIVAN & LAY, PLLC
Certified Public Accountants

February 1, 2010

HIWASSEE UTILITIES COMMISSION

Financial Statements

June 30, 2009 and 2008

The Board of Hiwassee Utilities Commission

Management's Discussion and Analysis

June 30, 2009

The Board of Hiwassee Utilities Commission (the "Board") has implemented Governmental Auditing Standards Board ("GASB") Statement No. 34, Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments, for the years ending June 30, 2009 and 2008.

Overview of the Financial Statements

The GASB issued Statement No. 34 in June, 1999. The objective of this statement was to set standards for the financial statements issued by all state and local government entities in the United States. By setting these standards, the Statement would enhance the understandability and usefulness of the external financial reports of state and local governments to the citizenry, legislative and oversight bodies, investors and creditors. The presentation in the statements this year include the following statements and reports and are designed to meet the requirements of GASB 34.

Management Discussion and Analysis

The purpose of MD&A is to provide an objective and easily readable analysis of the Board's financial activities based on currently known facts, decisions or conditions.

Balance Sheet

Assets and liabilities are presented with a distinction made between current and long-term assets and liabilities.

Statements of Revenues, Expenses and Changes in Net Assets

The statement provides the operating results of the Board, presented by various categories of operating and non-operating revenue and expenses.

Statement of Cash Flows

Using the direct method, sources and uses of cash from operating, financing and investing activities are shown.

Notes to the Financial Statements

The footnotes are provided to explain the information in the financial statements and provide more detailed data.

HIWASSEE UTILITIES COMMISSION*Financial Statements**June 30, 2009 and 2008***Financial Highlights**

	<u>Year Ending</u> <u>6/30/09</u>	<u>Year Ending</u> <u>6/30/08</u>
Current assets	\$ 1,520,432	\$ 1,466,451
Capital assets	16,443,308	12,733,225
Other assets	<u>1,394,550</u>	<u>1,216,999</u>
Total assets	19,358,290	15,416,675
Current liabilities	247,967	674,873
Non-current liabilities	<u>11,884,203</u>	<u>7,660,323</u>
Total liabilities	12,132,170	8,335,196
Invested in capital assets, net of related debt	4,404,105	4,922,902
Unrestricted	<u>2,822,015</u>	<u>2,158,577</u>
Total net assets	7,226,120	7,081,479
Operating revenues	2,366,168	1,802,462
Operating expenses	<u>2,165,475</u>	<u>1,592,219</u>
Operating income	200,693	210,243
Interest income	321,252	73,331
Bond premium amortization	3,532	2,240
Interest expense	380,836	88,055

* Operating revenues for the current year versus the prior year increased \$563,706 due to the increased capacity provided by the water plant expansion.

* Operating expenses for the current year versus the prior year increased \$573,256 due to the additional resources necessary to bring the water expansion plant on-line.

HIWASSEE UTILITIES COMMISSION

Balance Sheets

June 30, 2009 and 2008

	June 30, 2009	June 30, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,206,426	\$ 1,294,386
Accounts receivable (customers)	232,563	163,220
Receivable - Cleveland Utilities	79,171	0
Prepaid insurance	2,272	8,845
Total Current Assets	<u>\$ 1,520,432</u>	<u>\$ 1,466,451</u>
Non-Current Assets:		
Capital Assets		
Land and easements	\$ 102,174	\$ 102,174
Construction in progress	0	7,186,318
Other assets, net of accumulated depreciation	16,341,134	5,444,733
Total Capital Assets	<u>\$ 16,443,308</u>	<u>\$ 12,733,225</u>
Other Assets:		
Investments - restricted	\$ 900,000	\$ 900,000
Deposits	500	500
Debt issue costs (net of amortization)	193,376	0
Feasibility studies (net of amortization)	300,674	316,499
Total Other Assets	<u>\$ 1,394,550</u>	<u>\$ 1,216,999</u>
TOTAL ASSETS	<u><u>\$ 19,358,290</u></u>	<u><u>\$ 15,416,675</u></u>

	June 30, 2009	June 30, 2008
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current maturities of long-term debt	\$ 155,000	\$ 150,000
Accounts payable	53,365	524,845
Interest payable	39,500	0
Other current liabilities	102	28
Total current liabilities	<u>\$ 247,967</u>	<u>\$ 674,873</u>
Non-current liabilities:		
Long-term debt, net of current maturities	\$ 11,884,203	\$ 7,660,323
Total non-current liabilities	<u>\$ 11,884,203</u>	<u>\$ 7,660,323</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 4,404,105	\$ 4,922,902
Unrestricted	2,822,015	2,158,577
Total net assets	<u>\$ 7,226,120</u>	<u>\$ 7,081,479</u>
Total liabilities and net assets	<u><u>\$ 19,358,290</u></u>	<u><u>\$ 15,416,675</u></u>

HIWASSEE UTILITIES COMMISSION*Statements of Revenues, Expenses and Changes in Net Assets*

June 30, 2009 and 2008

	For the Year Ending June 30, 2009	For the Year Ending June 30, 2008
Operating Revenues:		
Water revenue	\$ 2,366,168	\$ 1,802,462
Operating Expenses:		
Contracted plant operations	\$ 326,575	\$ 322,002
Contracted plant overhead	191,956	189,556
Electricity	502,477	356,053
Lab supplies, analysis and reports	15,353	8,580
Chemicals	133,178	81,330
Sampling	13,870	19,304
Sludge disposal	70,274	27,566
Security and safety	9,041	5,882
Telephone and communications	12,000	16,691
Longevity pay	4,049	4,989
Property insurance	23,099	10,562
Other fees, permits and professional services	17,652	15,922
Office supplies and small equipment	3,480	7,524
Commission expense	8,455	8,271
Salary - Office manager	25,750	26,029
Payroll taxes	2,079	2,067
Maintenance	239,503	182,048
Provision for depreciation and amortization	566,684	307,843
Total operating expenses	<u>\$ 2,165,475</u>	<u>\$ 1,592,219</u>
Operating Income	<u>\$ 200,693</u>	<u>\$ 210,243</u>
Other revenues (expenses)		
Interest expense	\$ (380,836)	\$ (88,055)
Interest income	321,252	73,331
Bond premium amortization	3,532	2,240
Total other revenues (expenses)	<u>\$ (56,052)</u>	<u>\$ (12,484)</u>
Change in net assets	\$ 144,641	\$ 197,759
Net assets, beginning of year	7,081,479	6,883,720
Net assets, end of year	<u><u>\$ 7,226,120</u></u>	<u><u>\$ 7,081,479</u></u>

HIWASSEE UTILITIES COMMISSION*Statements of Cash Flow*

June 30, 2009 and 2008

	For the Year Ending June 30, 2009	For the Year Ending June 30, 2008
Cash flows from operating activities:		
Receipts from customers	\$ 2,217,653	\$ 1,839,424
Payments to suppliers for goods and services	(1,996,368)	(731,668)
Payments to employees for services	(27,755)	(28,104)
Net cash provided by operating activities	<u>\$ 193,530</u>	<u>\$ 1,079,652</u>
Cash flows from capital and related financing activities:		
Net of plant asset additions/retirements	\$ (4,257,339)	\$ (7,227,009)
Proceeds from issuance of long-term debt	4,308,540	7,691,460
Payment of principal on long-term debt	(150,000)	(1,104,000)
Payment of interest on long-term debt	(380,836)	(88,055)
Debt issue costs	(196,702)	0
Deferred charge	(277)	0
Note premium	90,000	121,104
Net cash used in capital and related financing activities	<u>\$ (586,614)</u>	<u>\$ (606,500)</u>
Cash flows from investing activities:		
Interest received	\$ 305,124	\$ 73,329
Net cash provided by investing activities	<u>\$ 305,124</u>	<u>\$ 73,329</u>
Net increase (decrease) in cash and cash equivalents	\$ (87,960)	\$ 546,481
Cash and cash equivalents, beginning of year	1,294,386	747,905
Cash and cash equivalents, end of year	<u>\$ 1,206,426</u>	<u>\$ 1,294,386</u>
Reconciliation of operating revenues to net cash provided by operating activities		
Operating income	\$ 200,693	\$ 210,243
Adjustments to reconcile new operating revenues to net cash provided by operating activities:		
Depreciation	547,255	292,018
Amortization	19,429	15,825
Changes on operating assets and liabilities:		
Accounts receivable	(148,515)	36,962
Prepaid expenses	6,573	(53)
Accounts payable	(471,479)	524,665
Interest payable	39,500	0
Other current liabilities	74	(8)
Net cash provided by operating activities	<u>\$ 193,530</u>	<u>\$ 1,079,652</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 341,336	\$ 88,055

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2009 and 2008

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Hiwassee Utilities Commission was created on November 2, 1972 by agreement between Bradley and McMinn Counties, Tennessee. The Counties jointly own and operate the Commission which is responsible for providing urban type public facilities and for the collection and disposition of the revenues from such facilities. Currently, the Commission provides water on a contract and demand basis to five (5) customers within Bradley and McMinn Counties.

Hiwassee Utilities Commission complies with Generally Accepted Accounting Principles (GAAP) and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. As a proprietary fund, the Commission applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

Reporting Entity

Hiwassee Utilities Commission, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, for reporting entity purposes, is a joint venture between the above mentioned Counties. The Commissioners are composed of both the Bradley County Utilities Commissioners and the McMinn County Utilities Board members. The Counties' equity interest consists of property located in and titled to the appropriate County. The Counties are also guarantors on the bond issue (see Note 4) so there exists a potential for a future financial burden.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

Hiwassee Utilities Commission maintains its accounting records on the accrual basis. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

Cash and Cash Equivalents

The Commission's cash and cash equivalents are considered to be demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments are stated at fair value except for certificates of deposit which are reported at cost which approximates market. State statutes authorize the Commission to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and pooled investment funds.

Inventories and Prepaid Items

Hiwassee Utilities Commission does not maintain any supplies or chemicals in excess of normal operating needs. Therefore no inventory is recorded as part of the financial statements. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Restricted Assets

Certain assets of the Commission are classified as restricted assets because their use is completely restricted by the Commission's charter.

Certain resources set aside for the repayment of bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The restricted cash and cash equivalents are used to segregate resources accumulated for debt service payments over the next twelve months. The restricted investments account is used to report resources set aside to subsidize potential deficiencies from the Commission's operations that could adversely affect debt service payments.

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2009 and 2008

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Plant and Equipment

Expenditures for the water plant, intakes, pumping stations, water lines, and other fixed assets are recorded at historical cost. Depreciation is calculated by the straight-line method over an estimated period of 50 years for the plant and related equipment and an estimated 7-10 years for office fixtures and equipment. Under guidance of the National Council of Governmental Accounting (NCGA) Statement 2, the portion of depreciation which is prorated to the EDA grant proceeds is charged against the grant proceeds, rather than charged to income.

Compensated Absences

The commission has not recorded any liability for compensated absences as the employee is not required to work a standard 40-hour week.

Feasibility Studies

Prior to commencing construction, studies were made for the feasibility of different services to be provided by Hiwassee Utilities Commission. Expenditures for the individual studies are as follows:

	6/30/2009	6/30/2008
Bradley-McMinn 201 Study	\$ 326,635	\$ 326,635
Athens Sewer System Evaluation Survey	113,640	113,640
Cleveland Sewer System Evaluation Survey - Phase I	159,298	159,298
Cleveland Sewer System Evaluation Survey - Phase II	4,207	4,207
Candies Creek Sewer System Evaluation Survey - Phase I	15,313	15,313
Candies Creek Sewer System Evaluation Survey - Phase II	13,906	13,906
Total Feasibility Studies	\$ 632,999	\$ 632,999
Less amortization	332,325	316,500
Net Feasibility Studies	<u>\$ 300,674</u>	<u>\$ 316,499</u>

Feasibility studies are being written off over a 40 year period using the straight-line method of amortization.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2009 and February 1, 2010, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Note 2 - CASH AND CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less are treated as cash equivalents. Funds with longer maturity dates are recorded as investments. All amounts are collateralized and covered under FDIC limits.

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2009 and 2008

Note 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 was as follows:

	6/30/08			6/30/09		
	Ending Balance	Increases	Decreases	Ending Balance		
Business-type activities:						
Capital assets not being depreciated:						
Construction in Progress	\$ 7,186,318	\$ 0	\$ (7,186,318)	\$ 0		
Land and land rights	102,174	0	0	102,174		
Total assets not being depreciated	<u>\$ 7,288,492</u>	<u>\$ 0</u>	<u>\$ (7,186,318)</u>	<u>\$ 102,174</u>		
Capital assets being depreciated:						
Buildings, lines, pumps & equipment	\$ 10,864,891	\$ 11,438,430	\$ 0	\$ 22,303,321		
Equipment & fixtures	271,154	5,226	0	276,380		
Total capital assets being depreciated	<u>\$ 11,136,045</u>	<u>\$ 11,443,656</u>	<u>\$ 0</u>	<u>\$ 22,579,701</u>		
Less Accumulated depreciation for						
Buildings, lines, pumps & equipment	\$ (5,451,047)	\$ (536,567)	\$ 0	\$ (5,987,614)		
Equipment & fixtures	(240,265)	(10,688)	0	(250,953)		
Total accumulated depreciation	<u>\$ (5,691,312)</u>	<u>\$ (547,255)</u>	<u>\$ 0</u>	<u>\$ (6,238,567)</u>		
Total capital assets being depreciated, net	<u>\$ 5,444,733</u>	<u>\$ 10,896,401</u>	<u>\$ 0</u>	<u>\$ 16,341,134</u>		

Note 4 - NOTE PAYABLE

On October 31, 2007, The Public Building Authority of Blount County, Tennessee, issued \$12,000,000 in aggregate principal amount of Local Government Public Improvement Bonds, fixed rate for the purpose of a making a loan to Hiwassee Utilities Commission. The proceeds of this loan were used to finance the costs of plant expansion; of the issuance of \$12,000,000, all funds had been drawn as of June 30, 2009. The loan matures June 30, 2042. Payments of interest are due every June and December.

Fiscal Year Ending June 30,	2007 Water Expansion Project		
	Interest	Principal	Total Requirements
2010	\$ 560,300	\$ 155,000	\$ 715,300
2011	554,100	165,000	719,100
2012	547,500	180,000	727,500
2013	540,300	185,000	725,300
2014	532,900	195,000	727,900
2015-2019	2,540,125	1,105,000	3,645,125
2020-2024	2,287,425	1,355,000	3,642,425
2025-2029	1,957,750	1,675,000	3,632,750
2030-2034	1,506,250	2,130,000	3,636,250
2035-2039	918,000	2,720,000	3,638,000
2040-2042	201,750	1,985,000	2,186,750
	<u>\$ 12,146,400</u>	<u>\$ 11,850,000</u>	<u>\$ 23,996,400</u>

HIWASSEE UTILITIES COMMISSION*Notes to Financial Statements**June 30, 2009 and 2008***Note 4 · NOTE PAYABLE - (Continued)**

Activity in Long-Term debt

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note payable	\$ 7,691,460	\$ 4,308,540	\$ (150,000)	\$ 11,850,000	\$ 155,000
Less:					
Current maturities	(150,000)	(155,000)	150,000	(155,000)	
Deferred amount on advance refunding	0	(16,406)	277	(16,129)	
Note premium	118,863	90,001	(3,532)	205,332	
Total	<u>\$ 7,660,323</u>	<u>\$ 4,227,135</u>	<u>\$ (3,255)</u>	<u>\$ 11,884,203</u>	

Note 5 · FEDERAL AND STATE INCOME TAXES

Hiwassee Utilities Commission is exempt from all federal and state income taxes.

Note 6 · RISK MANAGEMENT

It is the policy of Hiwassee Utilities Commission to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker's compensation, employee health and accident and environmental. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Note 7 · USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were used.

Note 8 · ECONOMIC DEPENDENCY - MAJOR CUSTOMER

Hiwassee Utilities Commission sells a substantial portion of its water to one customer. For years ending June 30, 2009 and 2008, sales to that customer totaled \$1,662,272 and \$1,136,670, respectively. At June 30, 2009 and 2008, amounts due from that customer included in trade accounts receivable was \$165,388 and \$90,098, respectively. The Cleveland Utilities Board contracted with Hiwassee Utilities Commission (HUC) June 22, 2006, under which the Water Division agreed to purchase an annual quantity of water equal to an average of 2,466,667 gallons of water per day. The contract language called for this minimum requirement to adjust to 5,335,000 gallons per day on July 1, 2008, due to improvements and an expansion to the HUC plant.

Note 9 · RECLASSIFICATION

Certain items have been reclassified in order to present more clearly the financial statements at June 30, 2009.

HIWASSEE UTILITIES COMMISSION*Schedule of Additions and Retirements to Utility Plant**For the Year Ended June 30, 2009*

	<u>June 30, 2008</u> Balance	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2009</u> Balance
Land and land rights	\$ 102,174	\$ 0	\$ 0	\$ 102,174
Construction in progress	7,186,318	0	(7,186,318)	0
Buildings, lines, pumps and equipment	10,864,891	11,438,430	0	22,303,321
Fixtures and equipment	<u>271,154</u>	<u>5,226</u>	<u>0</u>	<u>276,380</u>
TOTAL	\$ 18,424,537	\$ 11,443,656	\$ (7,186,318)	\$ 22,681,875
Less: Accumulated Depreciation	<u>(5,691,312)</u>	<u>(547,255)</u>	<u>0</u>	<u>(6,238,567)</u>
Net	<u>\$ 12,733,225</u>	<u>\$ 10,896,401</u>	<u>\$ (7,186,318)</u>	<u>\$ 16,443,308</u>

HIWASSEE UTILITIES COMMISSION

Schedule of Insurance in Force

For the Year Ended June 30, 2009

<u>Policy No.</u>	<u>Insurance Company</u>	<u>Period</u>	<u>Type of Policy</u>	<u>Premium Amount</u>	<u>Coverage</u>
9151941-2	American Alternative Insurance	4/20/09-4/20/10	Special Multi-Peril Policy (Commercial Package)	\$23,781	See breakdown of policy below
9151491-2	American Alternative Insurance	4/20/09-4/20/10	Automotive/Equipment Insurance	\$15,481 - included in above	\$18,373,553 blanket limit on real and personal property - \$10,000 deductible
9151491-2	American Alternative Insurance	4/20/09-4/20/10	General Liability Ins.	\$2,228 - included in above	\$3,000,000 aggregate limit - \$1,000,000 professional activity, damage to rented premises, and personal & advert. limits - \$10,000 medical exp. limit
9151491-2	American Alternative Insurance	4/20/09-4/20/10	Crime	\$314 - included in above	\$50,000 employee, forgery or theft - \$250 deductible; \$25,000 computer fraud - \$250 deductible
9151491-2	American Alternative Insurance	4/20/09-4/20/10	Inland Marine	\$4,460 - included in above	Small tools & equip. - \$25,000 not to exceed \$2,500 per item - \$500 deductible; Contractor's equip. - actual cost of equip. - \$10,000 deductible
9151491-2	American Alternative Insurance	4/20/09-4/20/10	Management Liability	\$1,298 - included in above	\$3,000,000 aggregate limit - \$1,000,000 coverage for each "Wrongful Act" and \$5,000 coverage for each "Injunctive Relief"; \$2,500 deductible for each "Wrongful Act"
8051451-03	American Alternative Insurance	4/20/09-4/20/10	Commercial Auto	\$250	Commercial auto (business or truckers)
9250564-2	American Alternative Insurance	4/20/09-4/20/10	Commercial Excess	\$976	\$1,000,000 each occurrence

HIWASSEE UTILITIES COMMISSION*Schedule of Utility Rates in Force**For the Year Ended June 30, 2009*

<u>Customer</u>	<u>Contract Demand Gallons/Day</u>	<u>Contract Quantity Gallons/Day</u>	<u>Demand Charge/ MG</u>	<u>Commodity Charge/ MG</u>
Athens	2,300,000	1,265,000	0.1500	0.8934
Cleveland	9,700,000	5,335,000	0.1500	0.8934
Riceville	500,000	275,000	0.1500	0.8934
McMinn County	500,000	0	0.1500	0
Charleston- Calhoun	500,000	275,000	0.1500	0.8934

HIWASSEE UTILITIES COMMISSION

Schedule of Age of Accounts Receivable

June 30, 2009

<u>Customer</u>	<u>Days</u>				<u>Total</u>
	<u>0-30</u>	<u>31-60</u>	<u>61-90</u>	<u>91+</u>	
Athens	\$ 49,450	\$ 0	\$ 0	\$ 0	\$ 49,450
Charleston-Calhoun	8,317	0	0	0	8,317
Cleveland	165,388	0	0	0	165,388
Riceville	9,408	0	0	0	9,408
TOTALS	<u>\$ 232,563</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 232,563</u>

HIWASSEE UTILITIES COMMISSION

Schedule of Officers

June 30, 2009

Chairman

Joe Edwards

Vice-Chairman

Doug Harrod

Treasurer

Bill Izzard

Secretary

Bill Brakebill

HIWASSEE UTILITIES COMMISSION
Schedule of Bond Principal and Interest Requirements
 June 30, 2009

Fiscal Year Ending June 30,	2007 Water Expansion Project		
	Interest	Principal	Total Requirements
2010	\$ 560,300	\$ 155,000	\$ 715,300
2011	554,100	165,000	719,100
2012	547,500	180,000	727,500
2013	540,300	185,000	725,300
2014	532,900	195,000	727,900
2015	525,100	205,000	730,100
2016	516,900	210,000	726,900
2017	508,500	220,000	728,500
2018	499,700	230,000	729,700
2019	489,925	240,000	729,925
2020	479,725	250,000	729,725
2021	469,100	260,000	729,100
2022	458,050	270,000	728,050
2023	446,575	280,000	726,575
2024	433,975	295,000	728,975
2025	420,700	305,000	725,700
2026	406,975	320,000	726,975
2027	392,575	335,000	727,575
2028	377,500	350,000	727,500
2029	360,000	365,000	725,000
2030	341,750	385,000	726,750
2031	322,500	405,000	727,500
2032	302,250	425,000	727,250
2033	281,000	445,000	726,000
2034	258,750	470,000	728,750
2035	235,250	490,000	725,250
2036	210,750	515,000	725,750
2037	185,000	545,000	730,000
2038	157,750	570,000	727,750
2039	129,250	600,000	729,250
2040	99,250	630,000	729,250
2041	67,750	660,000	727,750
2042	34,750	695,000	729,750
Total	\$ 12,146,400	\$ 11,850,000	\$ 23,996,400

HIWASSEE UTILITIES COMMISSION

Schedule of Unaccounted for Water

June 30, 2009

(All amounts in gallons)

A	Water Treated and Purchased:		
B	Water Pumped (potable)	2,042,289,500	
C	Water Purchased	0	
D	Total Water Treated and Purchased (Sum Lines B and C)		2,042,289,500
E	Accounted for Water:		
F	Water Sold	1,916,044,270	
G	Metered for Consumption (in house usage)	65,426,200	
H	Fire Department(s) Usage	0	
I	Flushing	210,000	
J	Tank Cleaning/Filling	0	
K	Street Cleaning	0	
L	Bulk Sales	0	
M	Water Bill Adjustments	0	
N	Total Accounted for Water (Sum Lines F thru M)		1,981,680,470
O	Unaccounted for Water (Line D minus Line N)		60,609,030
P	Percent Unaccounted for Water (Line O divided by Line D times 100)		2.968%
Q	Other (explain)	n/a	

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

ARNETT, KIRKSEY, KIMSEY, SULLIVAN & LAY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

WEDGEWOOD OFFICE PARK
4395 N. OCOEE STREET
CLEVELAND, TENNESSEE 37312

RONALD E. ARNETT, CPA, CVA
WILLIAM B. KIRKSEY, CPA
BUDDY E. KIMSEY, CPA
VICKI PIERCE SULLIVAN, CPA
MARK A. LAY, CPA

TELEPHONE: (423) 476-5581
FACSIMILE: (423) 472-9893
EMAIL: cpa@akksll.com

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
TENNESSEE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
NATIONAL ASSOCIATION OF
CERTIFIED VALUATION ANALYSTS

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 Directors
Hiwassee Utilities Commission
Charleston, Tennessee

We have audited the financial statements of Hiwassee Utilities Commission as of and for the year ended June 30, 2009, and have issued our report thereon dated February 1, 2010. 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 Hiwassee Utilities Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hiwassee Utilities Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hiwassee Utilities Commission'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 Hiwassee Utilities Commission'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 Hiwassee Utilities Commission's financial statements that is more than inconsequential will not be prevented or detected by the Hiwassee Utilities Commission'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 Hiwassee Utilities Commission's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material misstatements. We consider the control deficiency, 2009-1, described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting, but not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hiwassee Utilities Commission'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.

The Hiwassee Utilities Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Hiwassee Utilities Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and the use of the Board of Directors and management of Hiwassee Utilities Commission and the Department of Audit of the State of Tennessee Division of County Audit and is not intended to be and should not be used by anyone other than these specified parties.


ARNETT, KIRKSEY, KIMSEY, SULLIVAN & LAY, PLLC
Certified Public Accountants

February 1, 2010

HIWASSEE UTILITIES COMMISSION

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Hiwassee Utilities Commission.
2. One significant deficiency was disclosed during the audit of the financial statements.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY 2009-1

FINDING: Lack of Segregation of Duties

Due to the fact that the Commission has only one employee, there exists a lack of segregation of duties.

RECOMMENDATION:

It is unlikely that additional employees will be hired, so the Board should continue to review the business operations in a timely manner.

MANAGEMENT COMMENTS:

The Commission understands the situation and will continue to monitor results from the operations on a monthly basis.

C. SUMMARY OF PRIOR AUDIT FINDINGS

1. There continues to be a lack of segregation of duties, reported this year again as 2009-1.