

**HAYWOOD COUNTY UTILITY DISTRICT
(A COMPONENT UNIT OF HAYWOOD COUNTY, TENNESSEE)**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008

**HAYWOOD COUNTY UTILITY DISTRICT
(A COMPONENT UNIT OF HAYWOOD COUNTY, TENNESSEE)
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008**

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Introductory Section | |
| Directory | 1 |
| Financial Section | |
| Independent Auditor's Report | 2 |
| Management's Discussion and Analysis | 4 |
| Financial Statements: | |
| Statements of Net Assets | 9 |
| Statements of Revenues, Expenses, and Changes in Net Assets | 10 |
| Statements of Cash Flows | 12 |
| Notes to Financial Statements | 13 |
| Other Supplementary Information Section | |
| Schedule of Plant in Service | 19 |
| Schedule of Long-term Debt | 20 |
| Water Rates in Force | 21 |
| Schedule of Unaccounted for Water – Unaudited | 22 |
| Historical Information | 23 |
| Internal Control and Compliance Section | |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 24 |
| Summary of Findings and Recommendations | 26 |

INTRODUCTORY SECTION

**HAYWOOD COUNTY UTILITY DISTRICT
(A COMPONENT UNIT OF HAYWOOD COUNTY, TENNESSEE)
DIRECTORY
JUNE 30, 2009**

BOARD MEMBERS

Robert B. Kendrick
Phyllis Clark
Tommy Castellaw

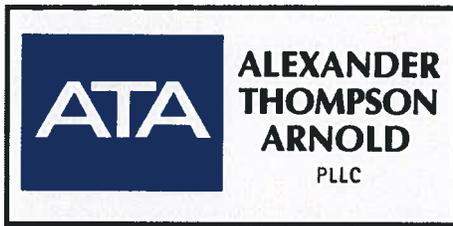
MANAGEMENT TEAM

Robert B. Kendrick, President
Stephen Carlton, Chief Accountant

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION



Certified Public Accountants

www.atacpa.net

227 Oil Well Road
Jackson, TN 38305

Telephone:(731) 427-8571
Fax: (731) 424-5701

Members of

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants

Independent Auditor's Report

Board of Directors
Haywood County Utility District
Brownsville, Tennessee

We have audited the accompanying financial statements of the Haywood County Utility District (the District), a component unit of Haywood County, Tennessee, as of and for the years ended June 30, 2009 and 2008, as listed in the Table of Contents. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Haywood County Utility District and do not purport to, and do not, present fairly the financial position of Haywood County, Tennessee, as of June 30, 2009 and 2008, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows thereof 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 November 23, 2009 on our consideration of the 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 management's discussion and analysis on pages 4 through 8 is not a required part of the accompanying financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Dyersburg, TN
Fulton, KY
Henderson, TN
Jackson, TN
Martin, TN

McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN
Union City, TN

Board of Directors
Haywood County Utility District
Brownsville, Tennessee

Our audits were conducted for the purpose of forming an opinion on the accompanying financial statements. The introductory section and accompanying financial information listed as other supplementary information in the table of contents includes supplementary information that are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary information, except that marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the accompanying financial statements and, in our opinion is fairly stated, in all material respects, in relation to the financial statements taken as a whole. The introductory section and supplementary information marked "unaudited" have not been subjected to the auditing procedures applied in the audits of the accompanying financial statements and, accordingly, we express no opinion on them.

Alexander Thompson Arnold P.C.C.
Certified Public Accountants
Jackson, Tennessee
November 23, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Haywood County Utility District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended June 30, 2009 and 2008. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

Management believes the District's financial condition is strong. The District is well within its more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets at year-end were \$4,138,615 and exceeded liabilities in the amount of \$3,613,881 (i.e. net assets). Total assets decreased by \$141,955 due primarily to current year depreciation expense.
- Net assets decreased \$68,419 during the current year due to depreciation expense. Unrestricted net assets increased by \$59,572.
- During fiscal year 2009, the District delivered 35,996,000 gallons compared to 35,416,000 during the fiscal year 2008.
- Operating revenues were \$169,735, an increase over year 2008 in the amount of \$16,926 or 11.08%.
- Operating expenses were \$214,721, an increase over year 2008 in the amount of \$12,804 or 6.34%.
- The operating loss for the year was \$44,986 as compared to a \$49,108 operating loss during the 2008 fiscal year.
- Ratios of operating income (loss) to total operating revenue were (27%), (32%), and (31%), for 2009, 2008, and 2007, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the 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 used in the District's strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements and Other Supplementary Information are made up of four sections: 1) the introductory section, 2) the financial section, 3) the other supplementary information section, 4) and the internal control and compliance section. The introductory section includes the District's directory. The financial section includes the MD&A, the independent auditor's report, and the financial statements with accompanying notes. The other supplementary information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

REQUIRED FINANCIAL STATEMENTS

A Proprietary Fund is used to account for the operations of the District, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements report information about the District, using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

The *Statement of Net Assets* includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the

used to determine whether the District has successfully recovered all of its costs. This statement also measures the District's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

The *Notes to the Financial Statements* provide required disclosures and other information that are essential to 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.

FINANCIAL ANALYSIS

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the District's activities in a way that will help answer this question. These two statements report the net assets of the District, and the changes in the net assets. Net assets are one way to measure the financial health or financial position of the District. Over time, increases or decreases in the District's net assets is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The District's total net assets decreased by \$68,419 and increased by \$604,984 for the fiscal years ended June 30, 2009 and 2008, respectively. The significant variance in the change in net assets is due to there being capital contributions in 2008 and none in 2007. The analysis below focuses on the District's net assets (Table 1) and changes in net assets (Table 2) during the year.

Table 1A
CONDENSED STATEMENT OF NET ASSETS

| | June 30, 2009 | June 30, 2008 | Amount | Percent |
|--|---------------------|---------------------|---------------------|---------|
| Current and other assets | \$ 175,145 | \$ 180,967 | \$ (5,822) | -3.22% |
| Capital assets | 3,963,470 | 4,099,603 | (136,133) | -3.32% |
| Total assets | <u>\$ 4,138,615</u> | <u>\$ 4,280,570</u> | <u>\$ (141,955)</u> | -3.32% |
| Long-term liabilities | 484,317 | 492,860 | (8,543) | -1.73% |
| Other liabilities | 40,417 | 105,410 | (64,993) | -61.66% |
| Total liabilities | <u>524,734</u> | <u>598,270</u> | <u>(73,536)</u> | -12.29% |
| Invested in capital assets, net of related debt | 3,470,624 | 3,598,615 | (127,991) | -3.56% |
| Unrestricted | 143,257 | 83,685 | 59,572 | 71.19% |
| Total net assets | <u>\$ 3,613,881</u> | <u>\$ 3,682,300</u> | <u>\$ (68,419)</u> | -1.86% |

Table 1B
CONDENSED STATEMENT OF NET ASSETS

| | June 30, 2008 | June 30, 2007 | Amount | Percent |
|--|---------------------|---------------------|-------------------|---------------|
| Current and other assets | \$ 180,967 | \$ 145,684 | \$ 35,283 | 24.22% |
| Capital assets | 4,099,603 | 3,540,097 | 559,506 | 15.80% |
| Total assets | \$ 4,280,570 | \$ 3,685,781 | \$ 594,789 | 16.14% |
| Long-term liabilities | 492,860 | 565,752 | (72,892) | -12.88% |
| Other liabilities | 105,410 | 42,713 | 62,697 | 146.79% |
| Total liabilities | 598,270 | 608,465 | (10,195) | -1.68% |
| Invested in capital assets, net of related debt | 3,598,615 | 2,965,600 | 633,015 | 21.35% |
| Unrestricted | 83,685 | 111,716 | (28,031) | -25.09% |
| Total net assets | \$ 3,682,300 | \$ 3,077,316 | \$ 604,984 | 19.66% |

The increase in capital assets in the current year was funded entirely by capital contributions from the county. The increase in current and other assets was due to an increase in cash. The overall increase in net assets in the current year was due to an increase in investment in capital assets related to the capital contributions in which the District did not have in the prior year.

Changes in the District's net assets can be determined by reviewing the following condensed Statement of Revenues, Expenses and Changes in Net Assets for the years. As noted below there was a decrease in the change in net assets of (111.31%). This was mainly due to the fact that there were no capital contributions in 2009 and \$680,106 in 2008. Therefore, the change in net assets was significantly increased.

Table 2A
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

| | June 30, 2009 | June 30, 2008 | Amount | Percent |
|----------------------------|---------------------|---------------------|--------------------|---------------|
| Operating revenues | \$ 169,735 | \$ 152,809 | \$ 16,926 | 11.08% |
| Non-operating revenues | 1,014 | 1,731 | (717) | -41.42% |
| Total revenues | 170,749 | 154,540 | 16,209 | 10.49% |
| Cost of sales and services | 50,102 | 50,903 | (801) | -1.57% |
| Operation and maintenance | 489 | 1,336 | (847) | -63.40% |
| Administrative and general | 26,594 | 29,078 | (2,484) | -8.54% |
| Depreciation expense | 137,536 | 120,600 | 16,936 | 14.04% |
| Interest expense | 24,447 | 27,745 | (3,298) | -11.89% |
| Total expenses | 239,168 | 229,662 | 9,506 | 4.14% |
| Capital contributions | - | 680,106 | (680,106) | -100.00% |
| Change in net assets | (68,419) | 604,984 | (673,403) | -111.31% |
| Beginning net assets | 3,682,300 | 3,077,316 | 604,984 | 19.66% |
| Ending net assets | \$ 3,613,881 | \$ 3,682,300 | \$ (68,419) | -1.86% |

Table 2B
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

| | June 30, 2008 | June 30, 2007 | Amount | Percent |
|----------------------------|---------------------|---------------------|-------------------|---------|
| Operating revenues | \$ 152,809 | \$ 146,059 | \$ 6,750 | 4.62% |
| Non-operating revenues | 1,731 | 1,658 | 73 | 4.40% |
| Total revenues | <u>154,540</u> | <u>147,717</u> | <u>6,823</u> | 4.62% |
| Cost of sales and services | 50,903 | 45,663 | 5,240 | 11.48% |
| Operation and maintenance | 1,336 | - | 1,336 | 0.00% |
| Administrative and general | 29,078 | 25,766 | 3,312 | 12.85% |
| Depreciation expense | 120,600 | 120,559 | 41 | 0.03% |
| Interest expense | <u>27,745</u> | <u>28,146</u> | <u>(401)</u> | -1.42% |
| Total expenses | <u>229,662</u> | <u>220,134</u> | <u>9,528</u> | 4.33% |
| Capital contributions | <u>680,106</u> | <u>697,363</u> | <u>(17,257)</u> | -2.47% |
| Change in net assets | 604,984 | 624,946 | (19,962) | -3.19% |
| Beginning net assets | <u>3,077,316</u> | <u>2,452,370</u> | <u>624,946</u> | 25.48% |
| Ending net assets | <u>\$ 3,682,300</u> | <u>\$ 3,077,316</u> | <u>\$ 604,984</u> | 19.66% |

Operating revenues showed a 4.62% increase from 2007 to 2008 and a 11.08% increase from 2008 to 2009. This has been caused by an increase in the number of customers and usage. Expenses increased 4.33% from 2007 to 2008, and 4.14% from 2008 to 2009. An increase in depreciation expense of 14.08% over the three year period accounts for the largest portion of the increase in the expenses. Net assets showed an increase of 17.44% over the three year period due primarily to the capital contributions in 2008.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2009, the system had \$3,963,470 (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, land rights, distribution systems and their related equipment, and various types of equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as distribution plant. This investment represents an overall decrease (net of increases and decreases) of \$136,133 or 3.32% over last year.

The following tables summarize the District's capital assets, net of accumulated depreciation, and changes therein, for the year ended June 30, 2009. These changes are presented in detail in Note 3C to the financial statements.

Table 3A
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

| | June 30, 2009 | June 30, 2008 | Amount | Percent |
|----------------------|---------------------|---------------------|---------------------|---------|
| Distribution plant | \$ 3,963,470 | \$ 4,099,603 | \$ (136,133) | -3.32% |
| Total capital assets | <u>\$ 3,963,470</u> | <u>\$ 4,099,603</u> | <u>\$ (136,133)</u> | -3.32% |
| | June 30, 2008 | June 30, 2007 | Amount | Percent |
| Distribution plant | \$ 4,099,603 | \$ 3,540,097 | \$ 559,506 | 15.80% |
| Total capital assets | <u>\$ 4,099,603</u> | <u>\$ 3,540,097</u> | <u>\$ 559,506</u> | 15.80% |

Debt Administration

The District has outstanding General Obligation Bonds of \$492,846 as of June 30, 2009. Principal payments are due in the upcoming fiscal year in the amount of \$8,529 with interest payments totaling approximately \$23,929 also due. Details relating to the outstanding debt can be found in Note 3D. The District is well within its debt covenants and foresees no problems in the future relating to outstanding debt. The District also has no current plans to issue new debt or refund outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

At the present time the District does not know of any issues that will affect next year's budget and rates. However, the District periodically reevaluates rates and will adjust them accordingly.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the President of Haywood County Utility District, P.O. Box 424, Brownsville, TN 38012.

**HAYWOOD COUNTY UTILITY DISTRICT
STATEMENTS OF NET ASSETS**

| | JUNE 30, | |
|--|---------------------|---------------------|
| ASSETS | 2009 | 2008 |
| Current assets: | | |
| Cash and cash equivalents on deposit | \$ 160,077 | \$ 164,212 |
| Accounts receivable | 15,068 | 16,755 |
| Total current assets | 175,145 | 180,967 |
| Noncurrent assets: | | |
| Capital assets: | | |
| Distribution plant | 5,017,425 | 5,016,022 |
| Less: Accumulated depreciation | (1,053,955) | (916,419) |
| Total capital assets (net of accumulated depreciation) | 3,963,470 | 4,099,603 |
| Total assets | 4,138,615 | 4,280,570 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 7,829 | 74,144 |
| Customer meter deposits | 14,025 | 12,680 |
| Accrued interest | 10,034 | 10,458 |
| Bonds payable - current portion | 8,529 | 8,128 |
| Total current liabilities | 40,417 | 105,410 |
| Noncurrent liabilities: | | |
| Bonds payable | 484,317 | 492,860 |
| Total liabilities | 524,734 | 598,270 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 3,470,624 | 3,598,615 |
| Unrestricted | 143,257 | 83,685 |
| Total net assets | \$ 3,613,881 | \$ 3,682,300 |

The accompanying notes are an integral part of the financial statements.

**HAYWOOD COUNTY UTILITY DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

| | FOR THE YEARS ENDED JUNE 30, | |
|--------------------------------------|------------------------------|-----------------------|
| | 2009 | 2008 |
| Operating revenues: | | |
| Charges for sales and services: | | |
| Residential - North | \$ 81,328 | \$ 71,958 |
| Commercial - North | 17,171 | 14,116 |
| Residential - South | 44,785 | 45,391 |
| Commercial - South | 10,369 | 7,982 |
| Residential - East | 10,327 | 10,331 |
| Commercial - East | 907 | 603 |
| | <u>164,887</u> | <u>150,381</u> |
| Other operating revenues: | | |
| Meter tapping fees | - | 450 |
| Penalties: | | |
| North | 1,518 | 928 |
| South | 1,064 | 879 |
| East | 199 | 169 |
| Other | 2,067 | 2 |
| | <u>4,848</u> | <u>2,428</u> |
| Total operating revenues | <u>169,735</u> | <u>152,809</u> |
| Operating Expenses: | | |
| Cost of sales and services: | | |
| Power for pumping | 4,471 | 4,724 |
| Purchased water - North | 31,026 | 28,928 |
| Purchased water - South | 11,663 | 14,382 |
| Purchased water - East | 2,942 | 2,869 |
| | <u>50,102</u> | <u>50,903</u> |
| Operation and maintenance expense: | | |
| Distribution system expense | 489 | 1,336 |
| Administrative and general expenses: | | |
| Salaries and wages | 8,304 | 8,304 |
| Materials and supplies | 35 | 449 |
| Automobile expense | 1,575 | 1,605 |
| Meter reading | 8,088 | 8,088 |
| Office supplies | 68 | 58 |

**HAYWOOD COUNTY UTILITY DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

| | FOR THE YEARS ENDED JUNE 30, | |
|---|------------------------------|-------------------------|
| | 2009 | 2008 |
| Operating Expenses Cont.): | | |
| Administrative and general expenses (Cont.): | | |
| Telephone | \$ 1,528 | \$ 1,511 |
| Professional fees | 4,059 | 3,300 |
| Licenses and fees | 537 | 413 |
| Director's fees | 2,400 | 2,400 |
| Miscellaneous | - | 2,950 |
| | 26,594 | 29,078 |
| Provision for depreciation | 137,536 | 120,600 |
| Total operating expenses | 214,721 | 201,917 |
| Total operating income (loss) | (44,986) | (49,108) |
| Nonoperating revenue (expenses): | | |
| Interest income | 1,014 | 1,731 |
| Interest expense | (24,447) | (27,745) |
| Total nonoperating revenue (expenses) | (23,433) | (26,014) |
| Net income (loss) before contributed capital | (68,419) | (75,122) |
| Contributed capital: | | |
| Contributed capital - county | - | 680,106 |
| Change in net assets | (68,419) | 604,984 |
| Total net assets - beginning | 3,682,300 | 3,077,316 |
| Total net assets - ending | \$ 3,613,881 | \$ 3,682,300 |

The accompanying notes are an integral part of the financial statements.

**HAYWOOD COUNTY UTILITY DISTRICT
STATEMENTS OF CASH FLOWS**

| | FOR THE YEARS ENDED JUNE 30, | |
|--|------------------------------|-------------------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Receipts from customers | \$ 171,422 | \$ 152,009 |
| Cash paid to suppliers for goods and services | (132,796) | (7,348) |
| Cash paid to employees for services | (10,704) | (10,704) |
| Customer deposits received | 4,235 | 1,800 |
| Customer deposits refunded | (2,890) | - |
| Net cash provided by (used in) operating activities | 29,267 | 135,757 |
| Cash flows from investing activities: | | |
| Interest income | 1,014 | 1,731 |
| Cash flows from capital and related financing activities: | | |
| Repayment of bonds | (8,142) | (73,509) |
| Construction and acquisition of plant | (1,403) | - |
| Interest paid | (24,871) | (29,496) |
| Net cash provided by (used in) financing activities: | (34,416) | (103,005) |
| Increase (decrease) in cash and cash equivalents | (4,135) | 34,483 |
| Cash and cash equivalents - beginning | 164,212 | 129,729 |
| Cash and cash equivalents - ending | \$ 160,077 | \$ 164,212 |
| Reconciliation of operating income to net cash provided (used) by operating activities: | | |
| Net operating income (loss) | \$ (44,986) | \$ (49,108) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Provision for depreciation | 137,536 | 120,600 |
| (Increase) decrease in current assets: | | |
| Accounts receivable | 1,687 | (800) |
| Increase (decrease) in current liabilities: | | |
| Accounts payable | (66,315) | 63,265 |
| Customers' deposits | 1,345 | 1,800 |
| Net cash provided by (used in) operating activities | \$ 29,267 | \$ 135,757 |
| Noncash capital activities: | | |
| Contributions of capital assets from county | \$ - | \$ 680,106 |

The accompanying notes are an integral part of the financial statements.

**HAYWOOD COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Haywood County Utility District (the District) was incorporated pursuant to a decree of the County Court of Haywood County, Tennessee dated July 17, 1997 and pursuant to Section 7-82-101 of the Tennessee Code Annotated (TCA) also known as "The Utility District Law of 1937". The District is considered a component unit of Haywood County, Tennessee, (the County) because the three member Board of Commissioners is appointed by the County. The County also must approve all bond issues of the District. The District was constructed through grants received through the County and is held accountable to the County.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounting policies of the System conform to applicable generally accepted accounting principles as defined in the pronouncements of the *Governmental Accounting Standards Board (GASB)*, *Financial Accounting Standards Board (FASB)*, *Statements and Interpretations*, *Accounting Principle Board (APB) Opinions*, and *Accounting Research Bulletins (ARBs)*, issued on or before November 30, 1989. As allowed by GASB, the District has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges for sales to customers for sales and service. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Assets, Liabilities, and Equity

Deposits and Investments

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

State statutes authorize the District to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

Accounts Receivable

Trade receivables result from unpaid billings for water service to customers. The billing and collections for the District are prepared and collected by the City of Brownsville Utilities Board. The City of Brownsville Utilities Board remits to the District the entire amount of the billings on a monthly basis. Therefore, an allowance for uncollectible accounts receivable is considered unnecessary at this time as the risk of loss is entirely with the City of Brownsville Utilities Board.

**HAYWOOD COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Assets, Liabilities, and Equity (Cont.)

Capital Assets

Capital assets, which include property, plant, equipment, and construction in process, are defined by the District as assets with an initial, individual cost of more than \$100 (amount not rounded) and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the District are depreciated using the straight line method over the following useful lives:

| | |
|--------------------|---------------|
| Distribution plant | 33 - 40 years |
|--------------------|---------------|

Compensated Absences

The District does not have any employees on staff. The District pays a set monthly fee to the City of Brownsville Utilities Board for the use of their employees. Therefore, no compensated absences are recorded.

Long-term Obligations

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Net Assets

Equity is classified as net assets and displayed in the following two components:

- Invested in Capital Assets, net of related debt - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.
- Unrestricted - All other net assets that do not meet the description of the above categories.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The District does not adopt a formal budget.

**HAYWOOD COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 3 - DETAILED NOTES

A. Deposits and Investments

Custodial Credit Risk

The District's policies limit deposits and investments to those instruments allowed by applicable state laws and described below. State statute requires that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the District's agent in the District's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the District to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2009, the District had no risk exposure.

B. Receivables

Receivables as of the fiscal year ends were made up of the following:

| | 2009 | 2008 |
|---|-----------|------------|
| Billed services for utility customers | \$ 15,068 | \$ 16,305 |
| Tap fees due from Brownsville Utilities | <u>-</u> | <u>450</u> |
| Billed services for utility customers | \$ 15,068 | \$ 16,755 |

C. Capital Assets

Capital asset activity during the year was as follows:

| Description | Balance at June 30, 2008 | Additions | Disposals | Balance at June 30, 2009 |
|--|-----------------------------|---------------------|-------------|-----------------------------|
| Capital assets, not being depreciated | | | | |
| Distribution plant | <u>\$ 18,401</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 18,401</u> |
| Capital assets, being depreciated | | | | |
| Distribution plant | <u>4,997,621</u> | <u>1,403</u> | <u>-</u> | <u>4,999,024</u> |
| Less accumulated depreciation for: | | | | |
| Distribution plant | 916,419 | 137,536 | - | 1,053,955 |
| Total capital assets, being depreciated, net | <u>4,081,202</u> | <u>(136,133)</u> | <u>-</u> | <u>3,945,069</u> |
| Total capital assets, net | <u>\$ 4,099,603</u> | <u>\$ (136,133)</u> | <u>\$ -</u> | <u>\$ 3,963,470</u> |

**HAYWOOD COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 3 – DETAILED NOTES (Cont.)

C. Capital Assets (Cont.)

| <u>Description</u> | <u>Balance at June 30, 2007</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance at June 30, 2008</u> |
|--|-------------------------------------|-------------------|------------------|-------------------------------------|
| Capital assets, not being depreciated | | | | |
| Distribution plant | \$ 18,401 | \$ - | \$ - | \$ 18,401 |
| Capital assets, being depreciated | | | | |
| Distribution plant | 4,317,515 | 680,106 | - | 4,997,621 |
| Less accumulated depreciation for: | | | | |
| Distribution plant | 795,819 | 120,600 | - | 916,419 |
| Total capital assets, being depreciated, net | <u>3,521,696</u> | <u>559,506</u> | <u>-</u> | <u>4,081,202</u> |
| Total capital assets, net | <u>\$ 3,540,097</u> | <u>\$ 559,506</u> | <u>\$ -</u> | <u>\$ 4,099,603</u> |

Depreciation expense amounted to \$137,536 for the fiscal year ended June 30, 2009 and \$120,600 for the fiscal year ended June 30, 2008.

D. Long-term Debt

Long-term debt is made up of the following:

| | <u>June 30,</u> | |
|---|-------------------|-------------------|
| | <u>2009</u> | <u>2008</u> |
| General Obligation Bonds: | | |
| General Obligation Bonds, Series 1998 interest at 4.875% due serially through 2037 | <u>492,846</u> | <u>500,988</u> |
| Total General Obligation Bonds | <u>492,846</u> | <u>500,988</u> |
| Total current portion of General Obligation Bonds | <u>\$ 8,529</u> | <u>\$ 8,128</u> |
| Total long-term portion of General Obligation Bonds | <u>\$ 484,317</u> | <u>\$ 492,860</u> |

In the year ended June 30, 1998, Haywood County issued \$560,000 of General Obligation Bonds, Series 1998 to the Rural Utility Services for the construction of the District's water distribution system. In the year ended June 30, 1999, Haywood County issued \$72,300 of General Obligation Bonds, Series 1999 to the Rural Utility Services for additional construction of the District's water distribution system. The 1999 General Obligation Bond was paid off in full by the County as of June 30, 2008. Although these two bonds are in the name of the County and the County is ultimately responsible for the debt repayment, the District has agreed to and is repaying the debt.

**HAYWOOD COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 3 – DETAILED NOTES (Cont.)

D. Long-term Debt (Cont.)

The following is a summary of long-term debt transactions for the years ended June 30, 2009 and 2008.

| | <u>Balance at June 30, 2007</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance at June 30, 2008</u> | <u>Due Within 1 year</u> |
|----------------------------------|-------------------------------------|------------------|--------------------|-------------------------------------|------------------------------|
| General obligation bonds payable | \$ 500,988 | \$ - | \$ 8,142 | \$ 492,846 | \$ 8,529 |

| | <u>Balance at June 30, 2007</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance at June 30, 2007</u> | <u>Due Within 1 year</u> |
|----------------------------------|-------------------------------------|------------------|--------------------|-------------------------------------|------------------------------|
| General obligation bonds payable | \$ 574,497 | \$ - | \$ 73,509 | \$ 500,988 | \$ 8,128 |

The scheduled annual requirements for long-term debt at June 30, 2009, are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|-------------------|-------------------|-------------------|
| 2010 | \$ 8,529 | \$ 23,929 | \$ 32,458 |
| 2011 | 8,949 | 23,508 | 32,457 |
| 2012 | 9,391 | 23,066 | 32,457 |
| 2013 | 9,854 | 22,603 | 32,457 |
| 2014 | 10,341 | 22,117 | 32,458 |
| 2015-2019 | 59,879 | 102,408 | 162,287 |
| 2020-2024 | 76,186 | 86,104 | 162,290 |
| 2025-2029 | 96,930 | 65,359 | 162,289 |
| 2030-2034 | 123,325 | 38,959 | 162,284 |
| 2035-2037 | 89,462 | 7,797 | 97,259 |
| | <u>\$ 492,846</u> | <u>\$ 415,850</u> | <u>\$ 908,696</u> |

E. Net Assets

Net assets represent the difference between assets and liabilities. The net assets amounts were as follows:

| | <u>June 30,</u> | |
|--|---------------------|---------------------|
| | 2009 | 2008 |
| Invested in Capital assets, net of related liabilities | | |
| Net property, plant and equipment in services | \$ 3,963,470 | \$ 4,099,603 |
| Less: Debt as disclosed in Note 3 | (492,846) | (500,988) |
| | <u>3,470,624</u> | <u>3,598,615</u> |
| Unrestricted | 143,257 | 83,685 |
| Total net assets | <u>\$ 3,613,881</u> | <u>\$ 3,682,300</u> |

**HAYWOOD COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 4 - OTHER INFORMATION

A. 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. During the years ended June 30, 2009 and 2008, the District did not purchase any insurance. The District contracts with the City of Brownsville Utilities Board for services necessary to operate and maintain the District. No settled claims have been incurred in any of the above mentioned risk categories during the past three years and there has been no significant reduction in the coverage provided.

B. Credit Risk

The District provides water services for residents and commercial customers in a portion of Haywood County, Tennessee.

OTHER SUPPLEMENTARY INFORMATION SECTION

HAYWOOD COUNTY UTILITY DISTRICT
SCHEDULE OF PLANT IN SERVICE
 JUNE 30, 2009

| | Assets | | | Accumulated Depreciation | | | | | |
|---------------------------|---------------------|-----------------|-------------|--------------------------|-----------------------|-------------------|-------------------|-------------|---------------------|
| | Balance 7/1/08 | Additions | Retirements | Balance 6/30/09 | Depreciation Rates | Balance 7/1/08 | Additions | Retirements | Balance 6/30/09 |
| Distribution plant | | | | | | | | | |
| Land and easements | \$ 18,401 | \$ - | \$ - | \$ 18,401 | | \$ - | \$ - | \$ - | \$ - |
| Water mains | 4,857,003 | 1,403 | - | 4,858,406 | 2.50 - 3.00 | 874,390 | 133,297 | - | 1,007,687 |
| Water tanks | 136,374 | - | - | 136,374 | 3.00 | 41,326 | 4,133 | - | 45,459 |
| Water meters | 4,244 | - | - | 4,244 | 2.50 | 703 | 106 | - | 809 |
| | <u>\$ 5,016,022</u> | <u>\$ 1,403</u> | <u>\$ -</u> | <u>\$ 5,017,425</u> | | <u>\$ 916,419</u> | <u>\$ 137,536</u> | <u>\$ -</u> | <u>\$ 1,053,955</u> |

See independent auditor's report.

HAYWOOD COUNTY UTILITY DISTRICT
SCHEDULE OF LONG-TERM DEBT
JUNE 30, 2009

| Year Ended June 30, | Series 1998 | |
|------------------------|-------------------|-------------------|
| | Principal | Interest |
| 2010 | \$ 8,529 | \$ 23,929 |
| 2011 | 8,949 | 23,508 |
| 2012 | 9,391 | 23,066 |
| 2013 | 9,854 | 22,603 |
| 2014 | 10,341 | 22,117 |
| 2015 | 10,851 | 21,607 |
| 2016 | 11,386 | 21,071 |
| 2017 | 11,948 | 20,509 |
| 2018 | 12,538 | 19,920 |
| 2019 | 13,156 | 19,301 |
| 2020 | 13,806 | 18,652 |
| 2021 | 14,487 | 17,971 |
| 2022 | 15,202 | 17,256 |
| 2023 | 15,952 | 16,506 |
| 2024 | 16,739 | 15,719 |
| 2025 | 17,565 | 14,893 |
| 2026 | 18,432 | 14,026 |
| 2027 | 19,341 | 13,117 |
| 2028 | 20,295 | 12,162 |
| 2029 | 21,297 | 11,161 |
| 2030 | 22,348 | 10,110 |
| 2031 | 23,451 | 9,001 |
| 2032 | 24,608 | 7,850 |
| 2033 | 25,822 | 6,636 |
| 2034 | 27,096 | 5,362 |
| 2035 | 28,433 | 4,025 |
| 2036 | 29,836 | 2,622 |
| 2037 | 31,193 | 1,150 |
| | <u>\$ 492,846</u> | <u>\$ 415,850</u> |

**HAYWOOD COUNTY UTILITY DISTRICT
WATER RATES IN FORCE - UNAUDITED
JUNE 30, 2009**

| | | |
|--|----|-------|
| Residential Rate Schedule | | |
| Customer charge - per delivery point per month | \$ | 12.00 |
| Water charge - cents per gallon | | 0.250 |
| Commercial Rate Schedule | | |
| Customer charge - per delivery point per month | \$ | 18.00 |
| Water charge - cents per gallon | | 0.250 |

**HAYWOOD COUNTY UTILITY DISTRICT
SCHEDULE OF UNACCOUNTED FOR WATER - UNAUDITED
JUNE 30, 2009**

(All amounts in gallons)

| | | | |
|----------|---|-------------------|-------------------|
| A | Water Treated and Purchased: | | |
| B | Water pumped (potable) | 0 | |
| C | Water purchased | <u>40,113,600</u> | |
| D | Total Water Treated and Purchased (Sum Lines B and C) | | 40,113,600 |
| E | Accounted for Water: | | |
| F | Water Sold | 35,996,000 | |
| G | Metered for Consumption (in house usage) | 0 | |
| H | Fire Department(s) Usage | 33,800 | |
| I | Flushing | 819,947 | |
| J | Tank Cleaning/Filling | 0 | |
| K | Street Cleaning | 0 | |
| L | Bulk Sales | 0 | |
| M | Water Bill Adjustments/Plus or (Minus) | <u>0</u> | |
| N | Total Accounted for Water (Sum Lines F thru M) | | <u>36,849,747</u> |
| O | Unaccounted for Water (Lines D minus Line N) | | <u>3,263,853</u> |
| P | Percent Unaccounted for Water (Line O divided by Line D times 100) | | 8.14% |
| Q | Other (explain) | See Below | |

Explain Other:

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 line item is not applicable, a "0" is shown.

**HAYWOOD COUNTY UTILITY DISTRICT
HISTORICAL INFORMATION**

FOR THE YEARS ENDED JUNE 30,

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Revenue | | | | | |
| Residential | \$ 136,440 | \$ 127,680 | \$ 122,447 | \$ 116,366 | \$ 103,228 |
| Commercial | 28,447 | 22,701 | 21,662 | 20,359 | 17,837 |
| Other operating | 4,848 | 2,428 | 1,950 | 5,873 | 5,873 |
| Interest and other revenue | 1,014 | 1,731 | 1,658 | 918 | 360 |
| | <u>170,749</u> | <u>154,540</u> | <u>147,717</u> | <u>143,516</u> | <u>127,298</u> |
| Expense | | | | | |
| Operation and maintenance | 50,102 | 50,903 | 45,663 | 42,497 | 41,127 |
| Cost of sales and services | 489 | 1,336 | - | - | - |
| Administrative and general | 26,594 | 29,078 | 25,766 | 24,817 | 27,446 |
| Depreciation | 137,536 | 120,600 | 120,559 | 111,841 | 103,093 |
| Interest and other expenses | 24,447 | 27,745 | 28,146 | 30,175 | 28,943 |
| | <u>239,168</u> | <u>229,662</u> | <u>220,134</u> | <u>209,330</u> | <u>200,609</u> |
| Net income (loss) before contributed capital | (68,419) | (75,122) | (72,417) | (65,814) | (73,311) |
| Contributed capital | - | 680,106 | - | 697,363 | - |
| Net income (loss) | <u>\$ (68,419)</u> | <u>\$ 604,984</u> | <u>\$ (72,417)</u> | <u>\$ 631,549</u> | <u>\$ (73,311)</u> |
| Financial | | | | | |
| Plant in service (at original cost) | <u>\$ 5,017,425</u> | <u>\$ 5,016,022</u> | <u>\$ 4,335,916</u> | <u>\$ 4,335,916</u> | <u>\$ 3,638,796</u> |
| Bonds outstanding | <u>\$ 492,846</u> | <u>\$ 500,988</u> | <u>\$ 574,497</u> | <u>\$ 582,831</u> | <u>\$ 590,775</u> |
| Consumption - gallons (in hundreds of gallons) | <u>359,960</u> | <u>354,160</u> | <u>342,780</u> | <u>327,240</u> | <u>303,050</u> |
| Peak gallons consumed (in hundreds of gallons) | <u>35,480</u> | <u>36,580</u> | <u>33,720</u> | <u>35,690</u> | <u>30,080</u> |
| Number of customers | <u>509</u> | <u>498</u> | <u>462</u> | <u>461</u> | <u>425</u> |
| Line loss | <u>8%</u> | <u>17%</u> | <u>3%</u> | <u>6%</u> | <u>15%</u> |

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION



Certified Public Accountants

www.atacpa.net

227 Oil Well Road
Jackson, TN 38305

Telephone: (731) 427-8571
Fax: (731) 424-5701

Members of

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of 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 Directors
Haywood County Utility District
Brownsville, Tennessee

We have audited the financial statements of the Haywood County Utility District (the District), a component unit of Haywood County, Tennessee, as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated November 23, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 districts ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of the District's financial statements that 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 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 weaknesses. We identified no deficiencies in internal control over financial reporting that we consider to be a significant deficiency.

Compliance and Other Matters

As 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 an

- 24 -

Dyersburg, TN
Fulton, KY
Henderson, TN
Jackson, TN
Martin, TN

McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN
Union City, TN

instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 09-01.

The District's response to the finding identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's response, and, accordingly, we express no opinion on them.

This report is intended solely for the information of the Board of Directors, management, and the Comptroller of the Treasury, State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Alexander Thompson Arnold PLLC

Certified Public Accountants

Jackson, Tennessee

November 23, 2009

**HAYWOOD COUNTY UTILITY DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2009 and 2008**

Current Year Findings:

09-01 Net Loss (Immaterial Non-compliance)

Condition: It was noted during the audit that the District operated at a deficit during the fiscal year. Total revenues for the District were \$170,749 while total expenses were \$239,168, resulting in a negative change in net assets of \$68,419. Before depreciation expense the change was a positive \$69,117.

Criteria: This is a violation of Tennessee Code Annotated 7-34-114 which states "the governing body of a municipality issuing bonds pursuant to this chapter shall prescribe and collect reasonable rates, fees or charges for the services, facilities and commodities of such public works, and shall revise such rates, fees or charges from time to time whenever necessary so that such public works shall be and always self-supporting."

Effect: Sustained losses over a period of time could significantly deteriorate the District's financial condition.

Recommendation: We recommend that the Utility examine its operations and determine if it is need of increasing rates or decreasing expenses to eliminate this net loss. While the District's asset and equity accounts are strong, a continual net loss can drastically reduce these accounts to unsafe levels.

Response: The District examined the need for increasing rates during the fiscal year 2010 budget process. The City Board decided to postpone additional rate increases due to the District having a positive cash flow before depreciation expense. The District will continue to evaluate rate changes on a year-to-year basis.

Prior Year Findings:

There are no prior year findings.