HIWASSEE UTILITIES COMMISSION

Financial Statements

June 30, 2010 and 2009

CONTENTS

	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 - 11
SUPPLEMENTAL INFORMATION	
Schedule of Additions and Retirements to Utility Plant	12
Schedule of Insurance Coverage	13
Schedule of Utility Rates in Force	14
Schedule of Age of Accounts Receivable	15
Schedule of Officers	16
Schedule of Bond Principal and Interest Requirements	17
Schedule of Unaccounted for Water	18
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING	19-21

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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, 2010 and June 30, 2009 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 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 audits 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 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, 2010 and 2009, 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 December 21, 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 and grant agreements. 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 is assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 2 through 3 be presented to supplement the basic financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The information on pages 12 through 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

Arnett, Kirksey, Kimsey, Sullivan & Lay

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

December 21, 2010

The Board of Hiwassee Utilities Commission

Management's Discussion and Analysis

June 30, 2010

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, 2010 and 2009.

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.

Financial Highlights

	2010	2009
Current assets	**$ 1,976,568**	$ 1,520,432
Capital assets	**15,759,058**	16,443,308
Other assets	**1,373,024**	1,394,550
Total assets	**19,108,650**	19,358,290
Current liabilities	**341,021**	247,967
Non-current liabilities	**11,713,624**	11,884,203
Total liabilities	**12,054,645**	12,132,170
Invested in capital assets, net of related debt	**3,880,434**	4,404,105
Unrestricted	**3,173,571**	2,822,015
Total net assets	**7,054,005**	7,226,120
Operating revenues	**2,840,808**	2,366,168
Operating expenses	**2,520,683**	2,165,475
Operating income	**320,125**	200,693
Interest income	**22,546**	321,252
Bond premium amortization	**6,054**	3,532
Interest expense	**(520,840)**	(380,836)

* Operating revenues for the current year versus the prior year increased $474,640 due to the increased capacity provided by the water plant expansion.

* Operating expenses for the current year versus the prior year increased $355,209 due to the additional resources necessary to provide water to its customers.

HIWASSEE UTILITIES COMMISSION

Balance Sheets

June 30, 2010 and 2009

	June 30, 2010	June 30, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,735,088	$ 1,206,426
Accounts receivable (customers)	234,362	232,563
Receivable - Cleveland Utilities	0	79,171
Prepaid insurance	7,118	2,272
Total Current Assets	$ 1,976,568	$ 1,520,432
Non-Current Assets:		
Capital Assets		
Land and easements	$ 102,174	$ 102,174
Other assets, net of accumulated depreciation	15,656,884	16,341,134
Total Capital Assets	$ 15,759,058	$ 16,443,308
Other Assets:		
Investments - restricted	$ 900,000	$ 900,000
Deposits	500	500
Debt issue costs (net of amortization)	187,675	193,376
Feasibility studies (net of amortization)	284,849	300,674
Total Other Assets	$ 1,373,024	$ 1,394,550
TOTAL ASSETS	$ 19,108,650	$ 19,358,290

	June 30, 2010	June 30, 2009
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current maturities of long-term debt	$ 165,000	$ 155,000
Accounts payable	175,993	53,365
Interest payable	0	39,500
Other current liabilities	28	102
Total current liabilities	$ 341,021	$ 247,967
Non-current liabilities:		
Long-term debt, net of current maturities	$ 11,713,624	$ 11,884,203
Total non-current liabilities	$ 11,713,624	$ 11,884,203
Net Assets:		
Invested in capital assets, net of related debt	$ 3,880,434	$ 4,404,105
Unrestricted	3,173,571	2,822,015
Total net assets	$ 7,054,005	$ 7,226,120
Total liabilities and net assets	$ 19,108,650	$ 19,358,290

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

HIWASSEE UTILITIES COMMISSION

Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2010 and 2009

	For the Year Ending June 30, 2010	For the Year Ending June 30, 2009
Operating Revenues:		
Water revenue	$ 2,840,808	$ 2,366,168
Operating Expenses:		
Contracted plant operations	$ 334,607	$ 326,575
Contracted plant overhead	201,637	191,956
Electricity	502,276	502,477
Lab supplies, analysis and reports	10,629	15,353
Chemicals	183,387	133,178
Sampling	8,195	13,870
Sludge disposal	104,383	70,274
Security and safety	6,125	9,041
Telephone and communications	9,727	12,000
Longevity pay	4,978	4,049
Property insurance	26,573	23,099
Other fees, permits and professional services	89,157	17,652
Office supplies and small equipment	5,362	3,480
Commission expense	9,531	8,455
Salary - Office manager	24,050	25,750
Payroll taxes	1,921	2,079
Maintenance	246,849	239,503
Provision for depreciation and amortization	751,296	566,684
Total operating expenses	$ 2,520,683	$ 2,165,475
Operating Income	$ 320,125	$ 200,693
Other revenues (expenses)		
Interest expense	$ (520,840)	$ (380,836)
Interest income	22,546	321,252
Bond premium amortization	6,054	3,532
Total other revenues (expenses)	$ (492,240)	$ (56,052)
Change in net assets	$ (172,115)	$ 144,641
Net assets, beginning of year	7,226,120	7,081,479
Net assets, end of year	$ 7,054,005	$ 7,226,120

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

HIWASSEE UTILITIES COMMISSION

Statements of Cash Flow

For the Years Ended June 30, 2010 and 2009

	For the Year Ending June 30, 2010	For the Year Ending June 30, 2009
Cash flows from operating activities:		
Receipts from customers	$ 2,963,436	$ 2,217,653
Payments to suppliers for goods and services	(1,750,060)	(1,996,368)
Payments to employees for services	(26,048)	(27,755)
Net cash provided by operating activities	$ 1,187,328	$ 193,530
Cash flows from capital and related financing activities:		
Net of plant asset additions	$ (45,044)	$ (4,273,467)
Proceeds from issuance of long-term debt	0	4,308,540
Payment of principal on long-term debt	(155,000)	(150,000)
Payment of interest on long-term debt	(480,693)	(380,836)
Debt issue costs	0	(196,702)
Deferred charge	(475)	(277)
Note premium	0	90,000
Net cash used in capital and related financing activities	$ (681,212)	$ (602,742)
Cash flows from investing activities:		
Interest received	$ 22,546	$ 321,252
Net cash provided by investing activities	$ 22,546	$ 321,252
Net increase (decrease) in cash and cash equivalents	$ 528,662	$ (87,960)
Cash and cash equivalents, beginning of year	1,206,426	1,294,386
Cash and cash equivalents, end of year	$ 1,735,088	$ 1,206,426
Reconciliation of operating revenues to net cash provided by operating activities:		
Operating income	$ 320,125	$ 200,693
Adjustments to reconcile new operating revenues to net cash provided by operating activities:		
Depreciation	729,294	547,255
Amortization	22,002	19,429
Changes on operating assets and liabilities:		
Accounts receivable	(1,799)	(148,515)
Prepaid expenses	(4,846)	6,573
Accounts payable	122,628	(471,479)
Interest payable	0	39,500
Other current liabilities	(76)	74
Net cash provided by operating activities	$ 1,187,328	$ 193,530
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 560,340	$ 341,336

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

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.

Under Governmental Accounting Standards Board ("GASB") Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the Board has elected to apply all Financial Accounting Standards Board ("FASB") Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements, to the Board's accounting and financial reporting.

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
Hiwassee Utilities Commission follows the provisions of Statement No. 34 (Statement 34) of the Government Accounting Standards Board Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Statement 34 established standards for external financial reporting for all state and local governmental entites, which includes a statements of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three componets - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt - This componet of net assets consists of capital assets, including restricted capital assets, net accumulating depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the 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 is included in the same net assets componet as the unspent proceeds.

- Restricted - This componet of the net assets consists of restrictions placed on net asset use through external constraints imposed by creditors (such as through debt convenants), grantors, contributors, or laws or regulations of other governments or restrictions improsed by law through unconsisitutional provisions or enabling legislation.

- Unrestricted net assets - The component of unrestricted net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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.

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

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.

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:

	6/30/2010	6/30/2009
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	348,150	332,325
Net Feasibility Studies	$ 284,849	$ 300,674

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

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, 2010 and December 21, 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.

Note 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

Business-type activities:	6/30/2009 Beginning Balance	Increases	Decreases	6/30/2010 Ending Balance
Capital assets not being depreciated:				
Land and land rights	$ 102,174	$ 0	$ 0	$ 102,174
Total assets not being depreciated	$ 102,174	$ 0	$ 0	$ 102,174
Capital assets being depreciated:				
Buildings, lines, pumps & equipment	$ 22,303,321	$ 45,044	$ 0	$ 22,348,365
Equipment & fixtures	276,380	0	0	276,380
Total capital assets being depreciated	$ 22,579,701	$ 45,044	$ 0	$ 22,624,745
Less Accumulated depreciation for				
Buildings, lines, pumps & equipment	$ (5,987,614)	$ (718,799)	$ 0	$ (6,706,413)
Equipment & fixtures	(250,953)	(10,495)	0	(261,448)
Total accumulated depreciation	$ (6,238,567)	$ (729,294)	$ 0	$ (6,967,861)
Total capital assets being depreciated, net	$ 16,341,134	$ (684,250)	$ 0	$ 15,656,884

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 are being used to finance the costs of plant expansion; of the issuance of $12,000,000, which includes the previous balance of debt on the old bond. The loan matures June 30, 2042. Payments of interest are due every June and December.

	2007 Water Expansion Project		
Fiscal Year Ending June 30,	Interest	Principal	Total Requirements
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
	$ 11,586,100	$ 11,695,000	$ 23,281,100

Activity in Long-Term debt

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note payable	$ 11,850,000	$ 0	$ (155,000)	$ 11,695,000	$ 165,000
Deferred amount on advance refunding	(16,129)	0	475	(15,654)	
Note premium	205,332	0	(6,054)	199,278	
Total	$ 12,039,203	$ 0	$ (160,579)	$ 11,878,624	

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, 2010 and 2009, sales to that customer totaled $2,053,981 and $1,662,272, respectively. At June 30, 2010 and 2009, amounts due from that customer included in trade accounts receivable was $168,543 and $165,388, 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, 2010.

HIWASSEE UTILITIES COMMISSION
Schedule of Additions and Retirements to Utility Plant
For the Year Ended June 30, 2010

	Balance June 30, 2009	Additions	Retirement	Balance June 30, 2010
Land and land rights	$ 102,174	$ 0	$ 0	$ 102,174
Buildings, lines, pumps and equipment	22,303,321	45,044	0	22,348,365
Fixtures and equipment	276,380	0	0	276,380
TOTAL	$ 22,681,875	$ 45,044	$ 0	$ 22,726,919
Less: Accumulated Depreciation	(6,238,567)	(729,294)	0	(6,967,861)
Net	$ 16,443,308	$ (684,250)	$ 0	$ 15,759,058

HIWASSEE UTILITIES COMMISSION
Schedule of Insurance Coverage
For the Year Ended June 30, 2010

Policy No.	Insurance Company	Period	Type of Policy	Premium Amount	Coverage
CPP 4310511	Utica National Insurance Group	4/20/10-4/20/11	Special Multi-Peril Policy (Commercial Package)	$ 15,216	See breakdown of policy below
CPP 4310511	Utica National Insurance Group	4/20/10-4/20/11	Automotive/Equipment Insurance	$ 10,429 included in above	$ 18,178,253 blanket limit on real and personal property - $10,000 deductible
CPP 4310511	Utica National Insurance Group	4/20/10-4/20/11	General Liability Ins.	$ 1,910 included in above	$ 3,000,000 aggregate limit - $1,000,000 professional acitivity damage to rented premises, and personal & advert. limits - $10,000 medical exp. Limit
CPP 4310511	Utica National Insurance Group	4/20/10-4/20/11	Crime	$ 462 included in above	$ 50,000 employee, forgery or theft - $25 deductible; $25,000 computer fraud- $250 deductible
CPP 4310511	Utica National Insurance Group	4/20/10-4/20/11	Inland Marine	$ 2,217 included in above	Small tools & equip.- $25,000 not to excee $2,500 per item - $5(deductible; Contractor's equip.- actual cost of equp.- $10,000 deductible
CPP 4310511	Utica National Insurance Group	4/20/10-4/20/11	Commercial Auto	$ 198	Commercial auto (business or truckers
CULP 4310513	Utica National Insurance Group	4/20/10-4/20/11	Commercial Excess	$ 863	$ 1,000,000 each occurrence

HIWASSEE UTILITIES COMMISSION
Schedule of Utility Rates in Force
For the Year Ended June 30, 2010

Customer	Contract Demand Gallons/Day	Contract Quantity Gallons/Day	Demand Charge/ MG	Commodity Charge/ MG
Athens	2,300,000	12,650,000	0.1500	0.9405
Cleveland	9,700,000	5,335,000	0.1500	0.9405
Riceville	500,000	275,000	0.1500	0.9405
McMinn County	500,000	0	0.1500	0
Charleston-Calhoun	500,000	275,000	0.1500	0.9405

HIWASSEE UTILITIES COMMISSION
Schedule of Age of Accounts Receivable
June 30, 2010

Customer	Days 0-30	31-60	61-90	91+	Total
Athens	$ 47,076	$ 0	$	$ 0	$ 47,076
Charleston-Calhoun	10,343	0		0	10,343
Cleveland	168,543	0		0	168,543
Riceville	8,400	0		0	8,400
TOTALS	$ 234,362	$ 0	$	$ 0	$ 234,362

HIWASSEE UTILITIES COMMISSION
Schedule of Officers
June 30, 2010

Chairman	Joe Edwards
Vice-Chairman	Doug Harrod
Treasurer	Bill Izzard

HIWASSEE UTILITIES COMMISSION
Schedule of Bond Principal and Interest Requirements
June 30, 2010

Fiscal Year Ending June 30,	2007 Water Expansion Project		
	Interest	Principal	Total Requirements
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	$ 11,586,100	$ 11,695,000	$ 23,281,100

HIWASSEE UTILITIES COMMISSION
Schedule of Unaccounted for Water
June 30, 2010

(All amounts in gallons)

A	**Water Treated and Purchased:**		
B	Water Pumped (potable)	2,338,680,000	
C	Water Purchased	0	
D	**Total Water Treated and Purchased (Sum Lines B and C)**		2,338,680,000
E	**Accounted for Water:**		
F	Water Sold	2,300,210,674	
G	Metered for Consumption (in house usage)	93,276,620	
H	Fire Department(s) Usage	0	
I	Flushing	1,603,000	
J	Tank Cleaning/Filling	0	
K	Street Cleaning	0	
L	Bulk Sales	0	
M	Water Bill Adjustments	(8,785,185)	
N	**Total Accounted for Water (Sum Lines B and C)**		2,386,305,109
O	**Unaccounted for Water (Line D minus Line N)**		(47,625,109)
P	**Percent Unaccounted for Water (Line O divided by Line D time 100)**		-2.04%
Q	**Other (explain)**	See Below	

Explain Other: 0

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.

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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, 2010, and have issued our report thereon dated December 21, 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 designating our audit 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 Hiwassee Utilities Commission's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, described in 2010 -1. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

December 21, 2010

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 2010-1

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 2010-1