

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

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

JUNE 30, 2011 AND 2010

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

**HAYWOOD COUNTY UTILITY DISTRICT
DIRECTORY
June 30, 2011**

**BOARD MEMBERS
(Haywood County Commissioners)**

Kathy Chapman	Janice King
Allen King	Richard Jameson
Robert T. Green	Charles R. Wills
Brad Bishop	Jerry Smith
Wally Eubanks	John P. Goman, Jr.
Chris Lea	Becky Booth
Larry G. Stanley	Bob C. Hooper
Ronald Woods	Robert T. Campbell
Edwin S. Necaise	Leonard Jones, Jr.
Robert E. Thornton	Joe Stephens

MANAGEMENT TEAM

Mayor A. Franklin Smith, President
Stephen Carlton, Chief Accountant

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION



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AICPA Center for Public Company Audit Firms
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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, 2011 and 2010, 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.

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, 2011 and 2010, 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 January 31, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. 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 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information, except that marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and supplementary information marked "unaudited" have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Alexander Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
January 31, 2012

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, 2011 and 2010. 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 \$3,984,791 and exceeded liabilities in the amount of \$3,471,826 (i.e. net assets). Total assets decreased by \$79,779 due primarily to current year depreciation expense.
- Net assets decreased \$73,973 during the current year due to depreciation expense. Unrestricted net assets increased by \$54,737.
- During fiscal year 2011, the District delivered 38,905,800 gallons compared to 37,526,800 during the fiscal year 2010.
- Operating revenues were \$176,313, an increase over year 2010 in the amount of \$3,194 or 1.84%.
- Operating expenses were \$229,165, an increase over year 2010 in the amount of \$9,582 or 4.36%.
- The operating loss for the year was \$52,852 as compared to a \$46,464 operating loss during the 2010 fiscal year.
- Ratios of operating income (loss) to total operating revenue were (29.98%), (26.84%), and (26.50%), for 2011, 2010, and 2009, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 timing of the related cash flows. This statement measures the success of the District's operations and can be 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 \$73,973 and decreased by \$68,082 for the fiscal years ended June 30, 2011 and 2010, respectively. The significant variance in the change in net assets is due to the loss that resulted from operations. The analysis below focuses on the District's net assets (Table 1) and changes in net assets (Table 2) during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 1A
CONDENSED STATEMENT OF NET ASSETS

	June 30, 2011	June 30, 2010	Amount	Percent
Current and other assets	\$ 296,393	\$ 238,636	\$ 57,757	24.20%
Capital assets	3,688,398	3,825,934	(137,536)	-3.59%
Total assets	<u>3,984,791</u>	<u>4,064,570</u>	<u>(79,779)</u>	-1.96%
Long-term liabilities	465,985	475,257	(9,272)	-1.95%
Other liabilities	46,980	43,514	3,466	7.97%
Total liabilities	<u>512,965</u>	<u>518,771</u>	<u>(5,806)</u>	-1.12%
Invested in capital assets, net				
of related debt	3,212,925	3,341,635	(128,710)	-3.85%
Unrestricted	258,901	204,164	54,737	26.81%
Total net assets	<u>\$ 3,471,826</u>	<u>\$ 3,545,799</u>	<u>\$ (73,973)</u>	-2.09%

Table 1B
CONDENSED STATEMENT OF NET ASSETS

	June 30, 2010	June 30, 2009	Amount	Percent
Current and other assets	\$ 238,636	\$ 175,145	\$ 63,491	36.25%
Capital assets	3,825,934	3,963,470	(137,536)	-3.47%
Total assets	<u>4,064,570</u>	<u>4,138,615</u>	<u>(74,045)</u>	-1.79%
Long-term liabilities	475,257	484,317	(9,060)	-1.87%
Other liabilities	43,514	40,417	3,097	7.66%
Total liabilities	<u>518,771</u>	<u>524,734</u>	<u>(5,963)</u>	-1.14%
Invested in capital assets, net				
of related debt	3,341,635	3,470,624	(128,989)	-3.72%
Unrestricted	204,164	143,257	60,907	42.52%
Total net assets	<u>\$ 3,545,799</u>	<u>\$ 3,613,881</u>	<u>\$ (68,082)</u>	-1.88%

The decrease in capital assets in the current year was due entirely to depreciation, as there were no additions or deletions of fixed assets. The increase in current and other assets was due to an increase in cash. The overall decrease in net assets in the current year was due to depreciation expense and debt payments which decreased invested in capital assets, net of related debt.

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 (2.09%). This was mainly due to the fact that both expenses and revenues increased; however, the increase in revenues could not compensate for total expenses. As was the case in 2009 and 2010, expenses exceeded revenues, causing the change in net assets to remain negative. Expenses increased by a greater margin than did revenues; therefore, the negative change in net assets in 2011 was greater than in 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 2A

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	June 30, 2011	June 30, 2010	Amount	Percent
Operating revenues	\$ 176,313	\$ 173,119	\$ 3,194	1.84%
Non-operating revenues	2,160	2,177	(17)	-0.78%
Total revenues	<u>178,473</u>	<u>175,296</u>	<u>3,177</u>	1.81%
Cost of sales and services	69,455	54,619	14,836	27.16%
Operation and maintenance	1,477	1,679	(202)	-12.03%
Administrative and general	20,697	25,749	(5,052)	-19.62%
Depreciation expense	137,536	137,536	-	0.00%
Interest expense	23,281	23,795	(514)	-2.16%
Total expenses	<u>252,446</u>	<u>243,378</u>	<u>9,068</u>	3.73%
Change in net assets	(73,973)	(68,082)	(5,891)	8.65%
Beginning net assets	<u>3,545,799</u>	<u>3,613,881</u>	<u>(68,082)</u>	-1.88%
Ending net assets	<u>\$ 3,471,826</u>	<u>\$ 3,545,799</u>	<u>\$ (73,973)</u>	-2.09%

Table 2B

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	June 30, 2010	June 30, 2009	Amount	Percent
Operating revenues	\$ 173,119	\$ 169,735	\$ 3,384	1.99%
Non-operating revenues	2,177	1,014	1,163	114.69%
Total revenues	<u>175,296</u>	<u>170,749</u>	<u>4,547</u>	2.66%
Cost of sales and services	54,619	50,102	4,517	9.02%
Operation and maintenance	1,679	489	1,190	243.35%
Administrative and general	25,749	26,594	(845)	-3.18%
Depreciation expense	137,536	137,536	-	0.00%
Interest expense	23,795	24,447	(652)	-2.67%
Total expenses	<u>243,378</u>	<u>239,168</u>	<u>4,210</u>	1.76%
Change in net assets	(68,082)	(68,419)	337	-0.49%
Beginning net assets	<u>3,613,881</u>	<u>3,682,300</u>	<u>(68,419)</u>	-1.86%
Ending net assets	<u>\$ 3,545,799</u>	<u>\$ 3,613,881</u>	<u>\$ (68,082)</u>	-1.88%

Operating revenues showed a 1.84% increase from 2010 to 2011 and a 1.99% increase from 2009 to 2010. This has been caused by an increase in the number of customers. Expenses increased 1.76% from 2009 to 2010 and 3.73% from 2010 to 2011. An increase in cost of sales and services of 38.63% over the three year period accounts for the largest portion of the increase in the expenses. While cost of sales and services increased due to rate changes from suppliers, these rate changes were not passed along to the customer as rates have remained constant over this same period. Net

MANAGEMENT'S DISCUSSION AND ANALYSIS

assets showed a decrease of 3.93% over the three year period due primarily to operating losses incurred in 2009, 2010, and 2011.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2011, the system had \$3,688,398 (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 \$137,536 or 3.59% 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, 2011. These changes are presented in detail in Note 3C to the financial statements.

Table 3
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	June 30, 2011	June 30, 2010	Amount	Percent
Distribution plant	\$ 3,688,398	\$ 3,825,934	\$ (137,536)	-3.59%
Total capital assets	<u>\$ 3,688,398</u>	<u>\$ 3,825,934</u>	<u>\$ (137,536)</u>	<u>-3.59%</u>
	June 30, 2010	June 30, 2009	Amount	Percent
Distribution plant	\$ 3,825,934	\$ 3,963,470	\$ (137,536)	-3.47%
Total capital assets	<u>\$ 3,825,934</u>	<u>\$ 3,963,470</u>	<u>\$ (137,536)</u>	<u>-3.47%</u>

Debt Administration

The District has outstanding General Obligation Bonds of \$475,473 as of June 30, 2011. Principal payments are due in the upcoming fiscal year in the amount of \$9,488 with interest payments totaling approximately \$23,037 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
For the Years Ended June 30, 2011 and 2010

ASSETS	2011	2010
Current assets:		
Cash and cash equivalents on deposit	\$ 279,156	\$ 222,602
Accounts receivable	17,237	16,034
Total current assets	296,393	238,636
Noncurrent assets:		
Capital assets:		
Distribution plant	5,017,425	5,017,425
Less: Accumulated depreciation	(1,329,027)	(1,191,491)
Total capital assets (net of accumulated depreciation)	3,688,398	3,825,934
Total assets	3,984,791	4,064,570
 LIABILITIES		
Current liabilities:		
Accounts payable	10,874	9,197
Customer meter deposits	17,145	15,425
Accrued interest	9,473	9,850
Bonds payable - current portion	9,488	9,042
Total current liabilities	46,980	43,514
Noncurrent liabilities:		
Bonds payable	465,985	475,257
Total liabilities	512,965	518,771
 NET ASSETS		
Invested in capital assets, net of related debt	3,212,925	3,341,635
Unrestricted	258,901	204,164
Total net assets	\$ 3,471,826	\$ 3,545,799

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, 2011 and 2010

	2011	2010
Operating revenues:		
Charges for sales and services:		
Residential - North	\$ 84,034	\$ 81,678
Commercial - North	18,838	22,457
Residential - South	46,184	44,387
Commercial - South	10,831	9,890
Residential - East	13,147	10,666
Commercial - East	1,273	1,105
Bad debts	<u>(1,025)</u>	<u>(452)</u>
	<u>173,282</u>	<u>169,731</u>
 Other operating revenues:		
Meter tapping fees	450	900
Penalties:		
North	1,340	1,270
South	957	1,028
East	280	186
Other	<u>4</u>	<u>4</u>
	<u>3,031</u>	<u>3,388</u>
 Total operating revenues	<u>176,313</u>	<u>173,119</u>
 Operating Expenses:		
Cost of sales and services:		
Power for pumping	6,180	5,005
Purchased water - North	37,824	34,570
Purchased water - South	18,345	11,303
Purchased water - East	<u>7,106</u>	<u>3,741</u>
	<u>69,455</u>	<u>54,619</u>
 Operation and maintenance expense:		
Distribution system expense	<u>1,477</u>	<u>1,679</u>
 Administrative and general expenses:		
Salaries and wages	8,304	8,304
Materials and supplies	1,721	655
Automobile expense	-	881
Meter reading	8,088	8,088
Office supplies	246	-

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, 2011 and 2010

	2011	2010
Operating Expenses (Cont.):		
Administrative and general expenses (Cont.):		
Telephone	\$ 1,691	\$ 1,559
Professional fees	-	4,259
Licenses and fees	647	803
Director's fees	-	1,200
	20,697	25,749
 Provision for depreciation	 137,536	 137,536
 Total operating expenses	 229,165	 219,583
 Total operating income (loss)	 (52,852)	 (46,464)
 Nonoperating revenue (expenses):		
Interest income	2,160	2,177
Interest expense	(23,281)	(23,795)
Total nonoperating revenue (expenses)	(21,121)	(21,618)
 Change in net assets	 (73,973)	 (68,082)
 Total net assets - beginning	 3,545,799	 3,613,881
 Total net assets - ending	 \$ 3,471,826	 \$ 3,545,799

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,

	2011	2010
Cash flows from operating activities:		
Receipts from customers	\$ 175,110	\$ 172,153
Cash paid to suppliers for goods and services	(81,648)	(71,175)
Cash paid to employees for services	(8,304)	(9,504)
Customer deposits received	1,720	1,400
Net cash provided by (used in) operating activities	86,878	92,874
 Cash flows from investing activities:		
Interest income	2,160	2,177
 Cash flows from capital and related financing activities:		
Repayment of bonds	(8,826)	(8,547)
Interest paid	(23,658)	(23,979)
Net cash provided by (used in) financing activities:	(32,484)	(32,526)
 Increase (decrease) in cash and cash equivalents	56,554	62,525
 Cash and cash equivalents - beginning	222,602	160,077
 Cash and cash equivalents - ending	\$ 279,156	\$ 222,602
 Reconciliation of operating income to net cash provided (used) by operating activities:		
Net operating income (loss)	\$ (52,852)	\$ (46,464)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for depreciation	137,536	137,536
(Increase) decrease in current assets:		
Accounts receivable	(1,203)	(966)
Increase (decrease) in current liabilities:		
Accounts payable	1,677	1,368
Customers' deposits	1,720	1,400
Net cash provided by (used in) operating activities	\$ 86,878	\$ 92,874

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

**HAYWOOD COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010**

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, as of fiscal year 2010, the Haywood County Board of Commissioners serves as the governing body over the District. Accordingly, 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 Brownsville Energy Authority. Brownsville Energy Authority 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 Brownsville Energy Authority.

HAYWOOD COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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
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Compensated absences

The District does not have any employees on staff. The District pays a set monthly fee to Brownsville Energy Authority 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.

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

HAYWOOD COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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, 2011, the District had no risk exposure.

B. Receivables

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

	2011	2010
Billed services for utility customers	\$ 17,237	\$ 15,584
Tap fees due from Brownsville Energy Authority	-	450
Billed services for utility customers	\$ 17,237	\$ 16,034

C. Capital Assets

Capital asset activity during the year was as follows:

Description	Balance at June 30, 2010	Additions	Disposals	Balance at June 30, 2011
Capital assets, not being depreciated				
Distribution plant	\$ 18,401	\$ -	\$ -	\$ 18,401
Capital assets, being depreciated				
Distribution plant	4,999,024	-	-	4,999,024
Less accumulated depreciation for:				
Distribution plant	1,191,491	137,536	-	1,329,027
Total capital assets, being depreciated, net	3,807,533	(137,536)	-	3,669,997
Total capital assets, net	\$ 3,825,934	\$ (137,536)	\$ -	\$ 3,688,398

**HAYWOOD COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010**

Description	Balance at June 30, 2009	Additions	Disposals	Balance at June 30, 2010
Capital assets, not being depreciated				
Distribution plant	\$ 18,401	\$ -	\$ -	\$ 18,401
Capital assets, being depreciated				
Distribution plant	4,999,024	-	-	4,999,024
Less accumulated depreciation for:				
Distribution plant	1,053,955	137,536	-	1,191,491
Total capital assets, being depreciated, net	3,945,069	(137,536)	-	3,807,533
Total capital assets, net	<u>\$ 3,963,470</u>	<u>\$ (137,536)</u>	<u>\$ -</u>	<u>\$ 3,825,934</u>

Depreciation expense amounted to \$137,536 for the fiscal years ended June 30, 2011 and 2010.

D. Long-term Debt

Long-term debt is made up of the following:

	June 30,	
	2011	2010
General Obligation Bonds:		
General Obligation Bonds, Series 1998 interest at 4.875% due serially through 2037	475,473	484,299
Total General Obligation Bonds	475,473	484,299
Total current portion of General Obligation Bonds	<u>\$ 9,488</u>	<u>\$ 9,042</u>
Total long-term portion of General Obligation Bonds	<u>\$ 465,985</u>	<u>\$ 475,257</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 the General Obligation Bonds, Series 1998 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.

The following is a summary of long-term debt transactions for the years ended June 30, 2011 and 2010.

HAYWOOD COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

	Balance at June 30, 2010	Additions	Retirements	Balance at June 30, 2011	Due Within 1 year
General obligation bonds payable	\$ 484,299	\$ -	\$ 8,826	\$ 475,473	\$ 9,488

	Balance at June 30, 2009	Additions	Retirements	Balance at June 30, 2010	Due Within 1 year
General obligation bonds payable	\$ 492,846	\$ -	\$ 8,547	\$ 484,299	\$ 9,042

The scheduled annual requirements for long-term debt at June 30, 2011, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	9,488	23,037	32,525
2013	9,893	22,632	32,525
2014	10,445	22,080	32,525
2015	10,960	21,565	32,525
2016	11,501	21,024	32,525
2017-2021	66,476	96,147	162,623
2021-2025	84,654	77,968	162,622
2026-2031	107,715	54,908	162,623
2032-Thereafter	164,341	26,489	190,830
	<u>\$ 475,473</u>	<u>\$ 365,850</u>	<u>\$ 841,323</u>

E. Net Assets

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

	June 30,	
	2011	2010
Invested in Capital assets, net of related liabilities		
Net property, plant, and equipment in services	\$ 3,688,398	\$ 3,825,934
Less: Debt as disclosed in Note 3D	(475,473)	(484,299)
	<u>3,212,925</u>	<u>3,341,635</u>
Unrestricted	258,901	204,164
Total net assets	<u>\$ 3,471,826</u>	<u>\$ 3,545,799</u>

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, 2011 and 2010, the District did not purchase any insurance. The District contracts with Brownsville Energy Authority 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.

HAYWOOD COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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 LONG-TERM DEBT
June 30, 2011

Year Ended June 30,	Series 1998	
	Principal	Interest
2012	9,488	23,037
2013	9,893	22,632
2014	10,445	22,080
2015	10,960	21,565
2016	11,501	21,024
2017	12,010	20,514
2018	12,661	19,864
2019	13,286	19,239
2020	13,941	18,584
2021	14,578	17,946
2022	15,348	17,176
2023	16,106	16,419
2024	16,901	15,624
2025	17,692	14,832
2026	18,607	13,917
2027	19,526	12,999
2028	20,489	12,036
2029	21,468	11,056
2030	22,559	9,965
2031	23,673	8,852
2032	24,841	7,684
2033	26,047	6,477
2034	27,352	5,173
2035	28,701	3,823
2036	30,118	2,407
2037	27,282	925
	<u>\$ 475,473</u>	<u>\$ 365,850</u>

See independent auditor's report.

HAYWOOD COUNTY UTILITY DISTRICT
WATER RATES IN FORCE
June 30, 2011

Residential Rate Schedule

Customer charge - per delivery point per month	\$ 12.00
Water charge - cents per gallon	0.00250

Commercial Rate Schedule

Customer charge - per delivery point per month	\$ 18.00
Water charge - cents per gallon	0.00250

See independent auditor's report.

HAYWOOD COUNTY UTILITY DISTRICT
SCHEDULE OF UNACCOUNTED FOR WATER - UNAUDITED
 June 30, 2011

(All amounts in gallons)

A	Water Treated and Purchased:		
B	Water pumped (potable)	0	
C	Water purchased	<u>47,090,400</u>	
D	Total Water Treated and Purchased (Sum Lines B and C)		47,090,400
E	Accounted for Water:		
F	Water Sold	38,905,800	
G	Metered for Consumption (in house usage)	0	
H	Fire Department(s) Usage	0	
I	Flushing	1,241,463	
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>40,147,263</u>
O	Unaccounted for Water (Line D minus Line N)		<u>6,943,137</u>
P	Percent Unaccounted for Water (Line O divided by Line D times 100)		14.74%
Q	Other (explain)	See Below	

Explain Other:

None

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.

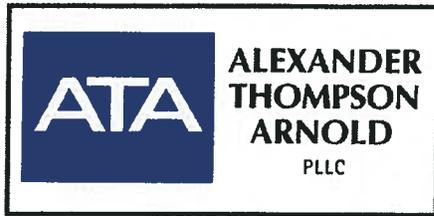
See independent auditor's report.

HAYWOOD COUNTY UTILITY DISTRICT
HISTORICAL INFORMATION
For the Fiscal Years Ended June 30,

	2011	2010	2009	2008	2007	2006	2005
Revenue							
Residential	\$ 143,365	\$ 136,731	\$ 136,440	\$ 127,680	\$ 122,447	\$ 116,366	\$ 103,228
Commercial	30,942	33,452	28,447	22,701	21,662	20,359	17,837
Other operating	3,031	2,936	4,848	2,428	1,950	5,873	5,873
Interest and other revenue	2,160	2,177	1,014	1,731	1,658	918	360
	<u>179,498</u>	<u>175,296</u>	<u>170,749</u>	<u>154,540</u>	<u>147,717</u>	<u>143,516</u>	<u>127,298</u>
Expense							
Cost of sales and services	69,455	54,619	50,102	50,903	45,663	42,497	41,127
Operation and maintenance	1,477	1,679	489	1,336	-	-	-
Administrative and general	20,697	25,749	26,594	29,078	25,766	24,817	27,446
Depreciation	137,536	137,536	137,536	120,600	120,559	111,841	103,093
Interest and other expenses	23,281	23,795	24,447	27,745	28,146	30,175	28,943
	<u>252,446</u>	<u>243,378</u>	<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	(72,948)	(68,082)	(68,419)	(75,122)	(72,417)	(65,814)	(73,311)
Contributed capital	-	-	-	680,106	-	697,363	-
Net income (loss)	<u>\$ (72,948)</u>	<u>\$ (68,082)</u>	<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>\$ 5,017,425</u>	<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>\$ 475,473</u>	<u>\$ 484,299</u>	<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>389,058</u>	<u>375,268</u>	<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>41,140</u>	<u>40,060</u>	<u>35,480</u>	<u>36,580</u>	<u>33,720</u>	<u>35,690</u>	<u>30,080</u>
Number of customers	<u>520</u>	<u>513</u>	<u>509</u>	<u>498</u>	<u>462</u>	<u>461</u>	<u>425</u>
Line loss	<u>15%</u>	<u>8%</u>	<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



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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
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 year ended June 30, 2011, and have issued our report thereon dated January 31, 2012. 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

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

A 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 District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 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
January 31, 2012

HAYWOOD COUNTY UTILITY DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
June 30, 2011 and 2010

Current Year Findings:

09-01 Net Loss (Material 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 \$178,473 while total expenses were \$252,446, resulting in a negative change in net assets of \$73,973. Before depreciation expense the change was a positive \$63,563.

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 2012 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:

09-01 Net Loss (Material Non-compliance) – Repeated