

HIWASSEE UTILITIES COMMISSION

Financial Statements

June 30, 2012 and 2011

HIWASSEE UTILITIES COMMISSION

Financial Statements

June 30, 2012 and 2011

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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, 2012 and June 30, 2011 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, 2012 and 2011, 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 November 20, 2012, 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 in 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 Statement of Unaccounted for Water is the responsibility of the management and are derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling 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.

Arnett, Kirksey, Kimsey, Sullivan, Lay & Hall

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

November 20, 2012

HIWASSEE UTILITIES COMMISSION

Financial Statements

June 30, 2012 and 2011

The Board of Hiwassee Utilities Commission

Management's Discussion and Analysis

June 30, 2012

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, 2012 and 2011.

Financial Statement Overview

The Balance Sheets include the assets and liabilities of Hiwassee Utilities Commission that represent available resources & required obligations, with the difference reported as net position. The change in net position is a potential indicator of the improving or deteriorating financial position of Hiwassee Utilities Commission. The change in net position is a function of the revenues & expenses, which are recorded in the Statements of Revenues, Expenses, & Changes in Net Position. Revenues are recorded as they are earned & expenses are recorded when incurred (regardless of cash requirements). Cash activity for the period is presented in the Statements of Cash Flows & the activity is segmented between operating, investing, & financing activities. In addition, the Notes to the Financial Statements offer additional information to provide a full understanding of the financial activity & position of Hiwassee Utilities Commission.

Financial Highlights

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ 2,180,460	\$ 1,754,231	\$ 1,976,568
Capital assets	15,282,379	15,891,530	15,759,058
Other assets	<u>1,029,972</u>	<u>1,051,497</u>	<u>1,373,024</u>
Total assets	18,492,811	18,697,258	19,108,650
Current liabilities	287,909	238,855	341,021
Non-current liabilities	<u>11,337,467</u>	<u>11,528,045</u>	<u>11,713,624</u>
Total liabilities	11,625,376	11,766,900	12,054,645
Invested in capital assets, net of related debt	3,759,912	4,183,485	3,880,434
Unrestricted	<u>3,107,523</u>	<u>2,746,873</u>	<u>3,173,571</u>
Total net assets	6,867,435	6,930,358	7,054,005
Operating revenues	3,006,562	2,952,162	2,840,808
Operating expenses	<u>2,537,701</u>	<u>2,540,815</u>	<u>2,520,683</u>
Operating income	468,861	411,347	320,125
Interest income	9,696	13,092	22,546
Bond premium amortization	6,054	6,054	6,054
Interest expense	<u>(547,534)</u>	<u>(554,140)</u>	<u>(520,840)</u>

As indicated in the Financial Highlights, operating revenues for the current year versus the prior year increased \$54,400 due to the increased capacity provided by the water plant expansion. Operating expenses for the current year versus the prior year decreased \$3,114 due to the increased capacity necessary to provide water to its customers.

HIWASSEE UTILITIES COMMISSION

Financial Statements

June 30, 2012 and 2011

Assets

During the year ended June 30, 2012, six assets were added that increase both capacity and efficiency. They include finishing a Liquid Lime System installation, retooling the North VFD Pump system, upgrading the SCADA System, replacing the North HVAC unit, Retooling the Water Pressure Valve Body, and purchasing a color copier. The North VFD Pump project totaled \$58,503, the SCADA System upgrade totaled \$35,330, completing the Liquid Lime System totaled \$19,535, and Water Pressure Valve Body totaled \$2,959, while the cost of the color copier was \$6,150. In the upcoming year, project investments are budgeted to include a new Motor Control Center/Variable Frequency Drive project for the North System and repainting the Filter Room.

Debt

During the year ended June 30, 2012, no additional notes were entered into. Hiwassee Utilities Commission continues to pay off long-term liabilities per the amortization schedule for the Water Expansion Project. No additional principal is being paid.

Revenue

Cleveland Utilities is the major source of revenue for Hiwassee Utilities Commission. Cleveland Utilities, Athens, Calhoun/Charleston, and Riceville are under contract with Hiwassee Utilities Commission for a minimum commodity charge. If usage drops below the agreed level the minimum charge must be paid as per the schedule in the supplemental information to the Financial Statements.

HIWASSEE UTILITIES COMMISSION

Balance Sheets

June 30, 2012 and 2011

	June 30, 2012	June 30, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,895,716	\$ 1,479,852
Accounts receivable (customers)	266,248	255,669
Prepaid insurance	18,496	18,710
Total Current Assets	<u>\$ 2,180,460</u>	<u>\$ 1,754,231</u>
Non-Current Assets:		
Capital Assets		
Land and easements	\$ 102,174	\$ 102,174
Other assets, net of accumulated depreciation	15,180,205	15,789,356
Total Capital Assets	<u>\$ 15,282,379</u>	<u>\$ 15,891,530</u>
Other Assets:		
Investments - restricted	\$ 600,000	\$ 600,000
Deposits	500	500
Debt issue costs (net of amortization)	176,272	181,973
Feasibility studies (net of amortization)	253,200	269,024
Total Other Assets	<u>\$ 1,029,972</u>	<u>\$ 1,051,497</u>
TOTAL ASSETS	<u>\$ 18,492,811</u>	<u>\$ 18,697,258</u>

	June 30, 2012	June 30, 2011
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current maturities of long-term debt	\$ 185,000	\$ 180,000
Accounts payable	102,293	58,264
Other current liabilities	616	592
Total current liabilities	<u>\$ 287,909</u>	<u>\$ 238,855</u>
Non-current Liabilities:		
Long-term debt, net of current maturities	\$ 11,337,467	\$ 11,528,045
Total non-current liabilities	<u>\$ 11,337,467</u>	<u>\$ 11,528,045</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 3,759,912	\$ 4,183,485
Unrestricted	3,107,523	2,746,873
Total net assets	<u>\$ 6,867,435</u>	<u>\$ 6,930,358</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,492,811</u>	<u>\$ 18,697,258</u>

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

For the Years Ended June 30, 2012 and 2011

	For the Year Ending June 30, 2012	For the Year Ending June 30, 2011
Operating Revenues:		
Water revenue	\$ 3,006,562	\$ 2,952,162
Operating Expenses:		
Contracted plant operations	\$ 282,301	\$ 319,033
Contracted plant overhead	170,310	192,326
Electricity	611,244	587,967
Lab supplies, analysis and reports	9,089	8,415
Chemicals	168,191	173,535
Sampling	11,621	19,715
Sludge disposal	131,070	62,952
Security and safety	4,315	4,685
Telephone and communications	5,328	3,943
Longevity pay	4,807	4,946
Property insurance	22,409	24,768
Other fees, permits and professional services	29,284	30,266
Office supplies and small equipment	2,148	3,309
Commission expense	8,548	8,527
Salary - Office manager	29,146	28,270
Payroll taxes	2,404	2,235
Maintenance	278,456	296,348
Provision for depreciation and amortization	767,030	769,577
Total operating expenses	<u>\$ 2,537,701</u>	<u>\$ 2,540,815</u>
Operating Income	<u>\$ 468,861</u>	<u>\$ 411,347</u>
Other revenues (expenses)		
Interest expense	\$ (547,534)	\$ (554,140)
Interest income	9,696	13,092
Bond premium amortization	6,054	6,054
Total other revenues (expenses)	<u>\$ (531,784)</u>	<u>\$ (534,994)</u>
Change in net assets	\$ (62,923)	\$ (123,647)
Net assets, beginning of year	6,930,358	7,054,005
Net assets, end of year	<u>\$ 6,867,435</u>	<u>\$ 6,930,358</u>

HIWASSEE UTILITIES COMMISSION

Statements of Cash Flow

For the Years Ended June 30, 2012 and 2011

	For the Year Ending June 30, 2012	For the Year Ending June 30, 2011
Cash flows from operating activities:		
Receipts from customers	\$ 2,995,983	\$ 2,834,421
Payments to suppliers for goods and services	(1,694,877)	(1,773,621)
Payments to employees for services	(31,526)	(29,941)
Net cash provided by operating activities	<u>\$ 1,269,580</u>	<u>\$ 1,030,859</u>
Cash flows from capital and related financing activities:		
Net of plant asset additions	\$ (135,876)	\$ (880,047)
Payment of principal on long-term debt	(180,000)	(165,000)
Payment of interest on long-term debt	(547,534)	(554,140)
Net cash used in capital and related financing activities	<u>\$ (863,410)</u>	<u>\$ (1,599,187)</u>
Cash flows from investing activities:		
Interest received	\$ 9,694	\$ 13,092
Investments	0	300,000
Net cash provided by investing activities	<u>\$ 9,694</u>	<u>\$ 313,092</u>
Net increase (decrease) in cash and cash equivalents	\$ 415,864	\$ (255,236)
Cash and cash equivalents, beginning of year	<u>1,479,852</u>	<u>1,735,088</u>
Cash and cash equivalents, end of year	<u>\$ 1,895,716</u>	<u>\$ 1,479,852</u>
Reconciliation of operating revenues to net cash provided by operating activities:		
Operating income	\$ 468,861	\$ 411,347
Adjustments to reconcile new operating revenues to net cash provided by operating activities:		
Depreciation	745,027	747,575
Amortization	22,003	22,002
Changes on operating assets and liabilities:		
Accounts receivable	(10,579)	(21,307)
Prepaid expenses	214	(11,592)
Accounts payable	44,029	(117,729)
Other current liabilities	24	564
Net cash provided by operating activities	<u>\$ 1,269,580</u>	<u>\$ 1,030,859</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 547,534	\$ 554,140

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2012 and 2011

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 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Utility has elected to apply all Financial Accounting Standards Board statements and interpretations that do not conflict with or contradict GASB pronouncements.

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 entities, 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 components - 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 component 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 component as the unspent proceeds.
- Restricted - This component of the net assets consists of restrictions placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or restrictions imposed by law through unconstitutional 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."

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.

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2012 and 2011

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

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:

	6/30/2012	6/30/2011
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	379,799	363,975
Net Feasibility Studies	\$ 253,200	\$ 269,024

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

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2012 and 2011

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

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2012 and November 20, 2012, 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, 2012 was as follows:

	6/30/2011 Beginning Balance	Increases	Decreases	6/30/2012 Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land and land rights	\$ 102,174	\$ 0	\$ 0	\$ 102,174
Total assets not being depreciated	<u>\$ 102,174</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 102,174</u>
Capital assets being depreciated:				
Buildings, lines, pumps & equipment	\$ 23,228,412	\$ 129,726	\$ (14,872)	\$ 23,343,266
Equipment & fixtures	276,380	6,150	0	282,530
Total capital assets being depreciated	<u>\$ 23,504,792</u>	<u>\$ 135,876</u>	<u>\$ (14,872)</u>	<u>\$ 23,625,796</u>
Less Accumulated depreciation for				
Buildings, lines, pumps & equipment	\$ (7,445,903)	\$ (742,409)	\$ 14,872	\$ (8,173,440)
Equipment & fixtures	(269,533)	(2,618)	0	(272,151)
Total accumulated depreciation	<u>\$ (7,715,436)</u>	<u>\$ (745,027)</u>	<u>\$ 14,872</u>	<u>\$ (8,445,591)</u>
Total capital assets being depreciated, net	<u>\$ 15,789,356</u>	<u>\$ (609,151)</u>	<u>\$ 0</u>	<u>\$ 15,180,205</u>

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2012 and 2011

Capital asset activity for the prior year ended June 30, 2011 was as follows:

	6/30/2010 Beginning Balance	Increases	Decreases	6/30/2011 Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land and land rights	\$ 102,174	\$ 0	\$ 0	\$ 102,174
Total assets not being depreciated	<u>\$ 102,174</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 102,174</u>
Capital assets being depreciated:				
Buildings, lines, pumps & equipment	\$ 22,348,365	\$ 880,047	\$ 0	\$ 23,228,412
Equipment & fixtures	276,380	0	0	276,380
Total capital assets being depreciated	<u>\$ 22,624,745</u>	<u>\$ 880,047</u>	<u>\$ 0</u>	<u>\$ 23,504,792</u>
Less Accumulated depreciation for				
Buildings, lines, pumps & equipment	\$ (6,706,413)	\$ (739,490)	\$ 0	\$ (7,445,903)
Equipment & fixtures	(261,448)	(8,085)	0	(269,533)
Total accumulated depreciation	<u>\$ (6,967,861)</u>	<u>\$ (747,575)</u>	<u>\$ 0</u>	<u>\$ (7,715,436)</u>
Total capital assets being depreciated, net	<u>\$ 15,656,884</u>	<u>\$ 132,472</u>	<u>\$ 0</u>	<u>\$ 15,789,356</u>

Note 4 - NOTE PAYABLE

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

Fiscal Year Ending June 30,	2007 Water Expansion Project		
	Interest	Principal	Total Requirements
2013	\$ 540,300	\$ 185,000	\$ 725,300
2014	532,900	195,000	727,900
2015	525,100	205,000	730,100
2016-2019	2,015,025	900,000	2,915,025
2020-2024	2,287,425	1,355,000	3,642,425
2025-2029	1,957,750	1,675,000	3,632,750
2030-2034	1,506,250	2,130,000	3,636,250
2035-2039	918,000	2,720,000	3,638,000
2040-2042	201,750	1,985,000	2,186,750
	<u>\$ 10,484,500</u>	<u>\$ 11,350,000</u>	<u>\$ 21,834,500</u>

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2012 and 2011

Activity in Long-Term debt

	Beginning Balance	Additions	Reductions	Ending Balance
Note payable	\$ 11,530,000	\$ 0	\$ (180,000)	\$ 11,350,000
Deferred amount on advance refunding	(15,179)	0	475	(14,704)
Current maturities of long-term debt				(185,000)
Note premium	193,224	0	(6,053)	187,171
Total	<u>\$ 11,708,045</u>	<u>\$ 0</u>	<u>\$ (185,578)</u>	<u>\$ 11,337,467</u>

Note 5 - FEDERAL AND STATE INCOME TAXES

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

Note 6 - RISK MANAGEMENT

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

Note 7 - USE OF ESTIMATES

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

Note 8 - ECONOMIC DEPENDENCY - MAJOR CUSTOMER

Hiwassee Utilities Commission sells a substantial portion of its water to one customer. For years ending June 30, 2012 and 2011, sales to that customer totaled \$2,152,440 and \$2,098,879, respectively. At June 30, 2012 and 2011, amounts due from that customer included in trade accounts receivable was \$175,490 and \$173,085, 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, 2012.

HIWASSEE UTILITIES COMMISSION
Schedule of Additions and Retirements to Utility Plant
For the Year Ended June 30, 2012

	Balance June 30, 2011	Additions	Retirement	Balance June 30, 2012
Land and land rights	\$ 102,174	\$ 0	\$ 0	\$ 102,174
Buildings, lines, pumps and equipment	23,228,412	129,726	(14,872)	23,343,266
Fixtures and equipment	<u>276,380</u>	<u>6,150</u>	<u>0</u>	<u>282,530</u>
TOTAL	\$ 23,606,966	\$ 135,876	\$ (14,872)	\$ 23,727,970
Less: Accumulated Depreciation	<u>(7,715,436)</u>	<u>(745,027)</u>	<u>14,872</u>	<u>(8,445,591)</u>
Net	<u>\$ 15,891,530</u>	<u>\$ (609,151)</u>	<u>\$ 0</u>	<u>\$ 15,282,379</u>

HIWASSEE UTILITIES COMMISSION

Schedule of Insurance Coverage

For the Year Ended June 30, 2012

<u>Policy No.</u>	<u>Insurance Company</u>	<u>Period</u>	<u>Type of Policy</u>	<u>Premium Amount</u>	<u>Coverage</u>
S 2023672	Selective Insurance	4/20/12-4/20/13	Special Multi-Peril Policy (Commercial Package)	\$ 22,195	See breakdown of policy below
S 2023672	Selective Insurance	4/20/12-4/20/13	Automotive/Equipment	\$ 2,500 included in above	\$ 1,149,000 limit on real and personal property - \$500 deductible
S 2023672	Selective Insurance	4/20/12-4/20/13	General Liability Ins.	\$ 3,587 included in above	\$ 1,000,000 aggregate limit - \$1,000,000 professional activity and advertising injury limit. Bodily injury and property limit \$1,000,000
S 2023672	Selective Insurance	4/20/12-4/20/13	Commercial Crime	\$ 424 included in above	\$ 250 deductible computer fraud-\$25,000 limit. \$50,000 limit for employee theft, forgery, alteration, robbery, burglary,
S 2023672	Selective Insurance	4/20/12-4/20/13	Inland Marine	\$ 2,500 included in above	Contractor's equip.- actual cost of \$10,000 deductible
S 2023672	Selective Insurance	4/20/12-4/20/13	Commercial Auto	\$ 183 included in above	Commercial auto (business or truckers)
S 2023672	Selective Insurance	4/20/12-4/20/13	Flood and Earthquake	\$ 2,589 included in above	\$ 5,000,000 occurrence and aggregate limit \$10,000 deductible

HIWASSEE UTILITIES COMMISSION

*Schedule of Utility Rates in Force
For the Year Ended June 30, 2012*

<u>Customer</u>	<u>Contract Demand Gallons/Day</u>	<u>Contract Quantity Gallons/Day</u>	<u>Demand Charge/ MG</u>	<u>Commodity Charge/ MG</u>
Athens	2,300,000	1,265,000	0.1500	0.9648
Cleveland	9,700,000	5,335,000	0.1500	0.9648
Riceville	500,000	275,000	0.1500	0.9648
McMinn County	500,000	0	0.1500	0
Charleston- Calhoun	500,000	275,000	0.1500	0.9648

HIWASSEE UTILITIES COMMISSION*Schedule of Age of Accounts Receivable**June 30, 2012*

<u>Customer</u>	<u>Days</u>				<u>Total</u>
	<u>0-30</u>	<u>31-60</u>	<u>61-90</u>	<u>91+</u>	
Athens	\$ 52,816	\$ 0	\$ 0	\$ 0	\$ 52,816
Charleston-Calhoun	22,043	0	0	0	22,043
Cleveland	175,490	0	0	0	175,490
McMinn	2,325	0	0	2,325	4,650
Riceville	11,249	0	0	0	11,249
TOTALS	<u>\$ 263,923</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 266,248</u>

HIWASSEE UTILITIES COMMISSION

Schedule of Officers

June 30, 2012

Chairman

Doug Harrod

Vice-Chairman

Joe Edwards

Treasurer

Joe Allen

HIWASSEE UTILITIES COMMISSION*Schedule of Bond Principal and Interest Requirements**June 30, 2012*

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>2007 Water Expansion Project</u>		
	<u>Interest</u>	<u>Principal</u>	<u>Total</u> <u>Requirements</u>
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	<u>\$ 10,484,500</u>	<u>\$ 11,350,000</u>	<u>\$ 21,834,500</u>

HIWASSEE UTILITIES COMMISSION

Schedule of Unaccounted for Water

June 30, 2012

(All amounts in gallons)

A Water Treated and Purchased:		
B	Water Pumped (potable)	2,400,963,000
C	Water Purchased	0
D	Total Water Treated and Purchased (Sum Lines B and C)	2,400,963,000
E Accounted for Water:		
F	Water Sold	2,339,559,770
G	Metered for Consumption (in house usage)	81,903,330
H	Fire Department(s) Usage	0
I	Flushing	1,360,000
J	Tank Cleaning/Filling	0
K	Street Cleaning	0
L	Bulk Sales	0
M	Water Bill Adjustments	0
N	Total Accounted for Water (Sum Lines B and C)	2,422,823,100
O	Unaccounted for Water (Line D minus Line N)	(21,860,100)
P	Percent Unaccounted for Water (Line O divided by Line D time 100)	-0.91%
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 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, 2012, and have issued our report thereon dated November 20, 2012. 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

Management of Hiwassee Utilities Commission is responsible for establishing and maintaining effective 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 our designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hiwassee Utilities Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's 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 2012-1. 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 & Hall
ARNETT, KIRKSEY, KIMSEY, SULLIVAN, LAY & HALL, PLLC
Certified Public Accountants

November 20, 2012

HIWASSEE UTILITIES COMMISSION

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

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 2012-1

CONDITION: Lack of segregation of duties due to the fact that the Commission has only one employee.

CRITERIA: Duties should be segregated in order to improve internal control.

EFFECT: Lack of segregation of duties increases the risk of erroneous and inappropriate actions.

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 RESPONSE: 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 2012-1