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

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

JUNE 30, 2012 AND 2011

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

HAYWOOD COUNTY UTILITY DISTRICT
DIRECTORY
June 30, 2012

BOARD MEMBERS

Robert B Kendrick	President
Sarah Turner	Member
Tommy Castellaw	Member

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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Independent Auditor's Report

Board of Directors
Haywood County Utility District
Brownsville, Tennessee

We have audited the accompanying financial statements of the business-type activity and major fund of the Haywood County Utility District (the District), a component unit of Haywood County, Tennessee, as of and for the years ended June 30, 2012 and 2011, 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 previously present fairly, in all material respects, the respective financial position of the business-type activity and the major fund of the District as of June 30, 2012 and 2011, 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.

Dyersburg, TN
Henderson, TN
Jackson, TN
Martin, TN
McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN
Union City, TN

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements. The accompanying financial information listed as other supplementary information in the table of contents, except that which has been marked "unaudited," is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was 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 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 other supplementary information, except that which has been marked "unaudited" is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements. The introductory section and the other supplementary information marked "unaudited," are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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 it.

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, 2012 and 2011. 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 $3,876,923 and exceeded liabilities in the amount of $3,367,008 (i.e. net assets). Total assets decreased by $107,868 due primarily to current year depreciation expense.
- Net assets decreased $104,818 during the current year due to depreciation expense. Unrestricted net assets increased by $25,002.
- During fiscal year 2012, the District delivered 38,793,400 gallons compared to 38,905,800 during the fiscal year 2011.
- Operating revenues were $181,514, an increase over year 2011 in the amount of $5,201 or 2.95%.
- Operating expenses were $265,343, an increase over year 2011 in the amount of $36,178 or 15.79%.
- The operating loss for the year was $83,829 as compared to a $52,852 operating loss during the 2011 fiscal year.
- Ratios of operating income (loss) to total operating revenue were (46.18%), (29.98%), and (26.84%), for 2012, 2011, and 2010, 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 $104,818 and decreased by $73,973 for the fiscal years ended June 30, 2012 and 2011, 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 years.

Table 1A
CONDENSED STATEMENT OF NET ASSETS

	June 30, 2012	June 30, 2011	Amount	Percent
Current and other assets	$ 326,241	$ 296,393	$ 29,848	10.07%
Capital assets	3,550,682	3,688,398	(137,716)	-3.73%
Total assets	$ 3,876,923	$ 3,984,791	$ (107,868)	-2.71%
Long-term liabiilities	457,684	465,985	(8,301)	-1.78%
Other liabilities	52,231	46,980	5,251	11.18%
Total liabilities	509,915	512,965	(3,050)	-0.59%
Invested in capital assets, net of related debt	3,083,105	3,212,925	(129,820)	-4.04%
Unrestricted	283,903	258,901	25,002	9.66%
Total net assets	$ 3,367,008	$ 3,471,826	$ (104,818)	-3.02%

Table 1B
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	$ 3,984,791	$ 4,064,570	$ (79,779)	-1.96%
Long-term liabiilities	465,985	475,257	(9,272)	-1.95%
Other liabilities	46,980	43,514	3,466	7.97%
Total liabilities	512,965	518,771	(5,806)	-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	$ 3,471,826	$ 3,545,799	$ (73,973)	-2.09%

The decrease in capital assets in the current year was due mostly 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 (3.02%). 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 2010 and 2011, 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 2012 was greater than in 2011.

Table 2A

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

	June 30, 2012	June 30, 2011	Amount	Percent
Operating revenues	$ 181,514	$ 176,313	$ 5,201	2.95%
Non-operating revenues	1,805	2,160	(355)	-16.44%
Total revenues	183,319	178,473	4,846	2.72%
Cost of sales and services	85,760	69,455	16,305	23.48%
Operation and maintenance	844	1,477	(633)	-42.86%
Administrative and general	41,143	20,697	20,446	98.79%
Depreciation expense	137,596	137,536	60	0.04%
Interest expense	22,794	23,281	(487)	-2.09%
Total expenses	288,137	252,446	35,691	14.14%
Change in net assets	(104,818)	(73,973)	(30,845)	41.70%
Beginning net assets	3,471,826	3,545,799	(73,973)	-2.09%
Ending net assets	$ 3,367,008	$ 3,471,826	$ (104,818)	-3.02%

Table 2B

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	178,473	175,296	3,177	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	252,446	243,378	9,068	3.73%
Change in net assets	(73,973)	(68,082)	(5,891)	8.65%
Beginning net assets	3,545,799	3,613,881	(68,082)	-1.88%
Ending net assets	$ 3,471,826	$ 3,545,799	$ (73,973)	-2.09%

Operating revenues showed a 2.95% increase from 2011 to 2012 and a 1.84% increase from 2010 to 2011. This has been caused by an increase in the number of customers. Expenses increased 14.14% from 2011 to 2012 and 3.73% from 2010 to 2011. An increase in cost of sales and services of 57.01% 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 customers as rates have remained constant over this same period.

Net assets showed a decrease of 5.04% over the three year period due primarily to operating losses incurred in 2010, 2011, and 2012.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012, the system had $3,550,682 (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 $137,716 or 3.73% 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, 2012. These changes are presented in detail in Note 3C to the financial statements.

Table 3
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	June 30, 2012	June 30, 2011	Amount	Percent
Distribution plant	$ 3,550,682	$ 3,688,398	$ (137,716)	-3.73%
Total capital assets	$ 3,550,682	$ 3,688,398	$ (137,716)	-3.73%

	June 30, 2011	June 30, 2010	Amount	Percent
Distribution plant	$ 3,688,398	$ 3,825,934	$ (137,536)	-3.59%
Total capital assets	$ 3,688,398	$ 3,825,934	$ (137,536)	-3.59%

Debt Administration

The District has outstanding General Obligation Bonds of $467,578 as of June 30, 2012. Principal payments are due in the upcoming fiscal year in the amount of $9,893 with interest payments totaling approximately $22,632 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, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents on deposit	$ 305,254	$ 279,156
Accounts receivable	20,987	17,237
Total current assets	326,241	296,393
Noncurrent assets:		
Capital assets:		
Distribution plant	5,017,425	5,017,425
Less: Accumulated depreciation	(1,466,743)	(1,329,027)
Total capital assets (net of accumulated depreciation)	3,550,682	3,688,398
Total assets	3,876,923	3,984,791
LIABILITIES		
Current liabilities:		
Accounts payable	15,335	10,874
Customer meter deposits	19,405	17,145
Accrued interest	7,598	9,473
Bonds payable - current portion	9,893	9,488
Total current liabilities	52,231	46,980
Noncurrent liabilities:		
Bonds payable	457,684	465,985
Total liabilities	509,915	512,965
NET ASSETS		
Invested in capital assets, net of related debt	3,083,105	3,212,925
Unrestricted	283,903	258,901
Total net assets	**$ 3,367,008**	**$ 3,471,826**

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, 2012 and 2011

	2012	2011
Operating revenues:		
Charges for sales and services:		
Residential - North	$ 85,069	$ 84,034
Commercial - North	20,297	18,838
Residential - South	46,590	46,184
Commercial - South	12,435	10,831
Residential - East	11,513	13,147
Commercial - East	2,821	1,273
Bad debts	(195)	(1,025)
	178,530	173,282
Other operating revenues:		
Meter tapping fees	450	450
Penalties:		
North	1,380	1,340
South	922	957
East	226	280
Other	6	4
	2,984	3,031
Total operating revenues	181,514	176,313
Operating Expenses:		
Cost of sales and services:		
Power for pumping	6,864	6,180
Purchased water - North	37,089	37,824
Purchased water - South	34,619	18,345
Purchased water - East	7,188	7,106
	85,760	69,455
Operation and maintenance expense:		
Distribution system expense	844	1,477
Administrative and general expenses:		
Salaries and wages	22,382	8,304
Materials and supplies	120	1,721
Automobile expense	570	-
Meter reading	8,088	8,088
Office supplies	383	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, 2012 and 2011

	2012	2011
Operating Expenses (Cont.):		
Administrative and general expenses (Cont.):		
Telephone	$ 3,312	$ 1,691
Professional fees	4,605	-
Licenses and fees	663	647
Miscellaneous	120	
Director's fees	900	-
	41,143	20,697
Provision for depreciation	137,596	137,536
Total operating expenses	265,343	229,165
Total operating income (loss)	(83,829)	(52,852)
Nonoperating revenue (expenses):		
Interest income	1,805	2,160
Interest expense	(22,794)	(23,281)
Total nonoperating revenue (expenses)	(20,989)	(21,121)
Change in net assets	**(104,818)**	**(73,973)**
Total net assets - beginning	3,471,826	3,545,799
Total net assets - ending	$ 3,367,008	$ 3,471,826

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,

	2012	2011
Cash flows from operating activities:		
Receipts from customers	$ 177,764	$ 175,110
Cash paid to suppliers for goods and services	(100,904)	(81,648)
Cash paid to employees for services	(22,382)	(8,304)
Customer deposits received	2,260	1,720
Net cash provided by (used in) operating activities	56,738	86,878
Cash flows from investing activities:		
Interest income	1,805	2,160
Cash flows from capital and related financing activities:		
Repayment of bonds	(7,776)	(8,826)
Interest paid	(24,669)	(23,658)
Net cash provided by (used in) financing activities:	(32,445)	(32,484)
Increase (decrease) in cash and cash equivalents	**26,098**	**56,554**
Cash and cash equivalents - beginning	279,156	222,602
Cash and cash equivalents - ending	$ 305,254	$ 279,156
Reconciliation of operating income to net cash provided (used) by operating activities:		
Net operating income (loss)	$ (83,829)	$ (52,852)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for depreciation	137,596	137,536
(Increase) decrease in current assets:		
Accounts receivable	(3,750)	(1,203)
Increase (decrease) in current liabilities:		
Accounts payable	4,461	1,677
Customers' deposits	2,260	1,720
Net cash provided by (used in) operating activities	$ 56,738	$ 86,878

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

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.

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

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

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

Distribution plant	33 - 40 years

Compensated absences
The District does not have any employees or 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

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 and the state pooled investment fund. 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, 2012, the District had no risk exposure.

B. Receivables

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

	2012	2011
Billed services for utility customers	$ 20,987	$ 17,237

C. Capital Assets

Capital asset activity during the year was as follows:

Description	Balance at June 30, 2011	Additions	Disposals	Adjustments	Balance at June 30, 2012
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	1,329,027	137,596	-	120	1,466,743
Total capital assets, being depreciated, net	3,669,997	(137,596)	-	(120)	3,532,281
Total capital assets, net	$ 3,688,398	$ (137,596)	$ -	$ (120)	$ 3,550,682

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

Depreciation expense amounted to $137,596 and $137,536 for the fiscal years ended June 30, 2012 and 2011.

D. Long-term Debt

Long-term debt is made up of the following:

	June 30,	
General Obligation Bonds:	2012	2011
General Obligation Bonds, Series 1998 interest at 4.875% due serially through 2037	467,577	475,473
Total General Obligation Bonds	467,577	475,473
Total current portion of General Obligation Bonds	$ 9,893	$ 9,488
Total long-term portion of General Obligation Bonds	$ 457,684	$ 465,985

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, 2012 and 2011.

	Balance at June 30, 2011	Additions	Retirements	Balance at June 30, 2012	Due Within 1 year
General obligation bonds payable	$ 475,473	$ -	$ 7,896	$ 467,577	$ 9,893

	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

The scheduled annual requirements for long-term debt at June 30, 2012, are as follows:

Year Ending June 30,	Principal	Interest	Total
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	12,010	20,514	32,524
2018-2022	69,814	92,809	162,623
2023-2027	88,832	73,791	162,623
2028-2032	113,030	49,593	162,623
2033-Thereafter	141,092	18,805	159,897
	$ 467,577	$ 342,813	$ 810,390

E. Net Assets

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

	June 30, 2012	June 30, 2011
Invested in Capital assets, net of related liabilities		
Net property, plant, and equipment in services	$ 3,550,682	$ 3,688,398
Less: Debt as disclosed in Note 3D	(467,577)	(475,473)
	3,083,105	3,212,925
Unrestricted	283,903	258,901
Total net assets	$ 3,367,008	$ 3,471,826

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, 2012 and 2011, 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.

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, 2012

Year Ended	Series 1998	
June 30,	Principal	Interest
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	28,874	925
	$ 467,577	$ 342,813

See independent auditor's report.

HAYWOOD COUNTY UTILITY DISTRICT
WATER RATES IN FORCE
June 30, 2012

Residential Rate Schedule		
Customer charge - per delivery point per month	$	12.00
Water charge - cents per gallon		0.27500
Commercial Rate Schedule		
Customer charge - per delivery point per month	$	18.00
Water charge - cents per gallon		0.27500

See independent auditor's report.

HAYWOOD COUNTY UTILTITY DISTRICT
UNAUDITED WATER LOSS SCHEDULE - AWWA REPORTING MODEL
June 30, 2012

AWWA WLCC Free Water Audit Software: Reporting Worksheet

Copyright © 2010, American Water Works Association. All Rights Reserved WAS v5.0

Back to Instructions

? Click to access definition

Water Audit Report for: HAYWOOD COUNTY UTILITY DISTRICT
Reporting Year: 2012 | 7/2011 - 6/2012

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

<< Enter grading in column 'E'

WATER SUPPLIED

Volume from own sources:	n/a			Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	2			MG/Yr
Water imported:	10	56.354	MG/Yr	
Water exported:	n/a		MG/Yr	
WATER SUPPLIED:		56.354	MG/Yr	

AUTHORIZED CONSUMPTION

Click here: ? for help using option buttons below

				Pcnt:	Value:
Billed metered:	10	38.793	MG/Yr		
Billed unmetered:	n/a		MG/Yr		
Unbilled metered:	10	0.967	MG/Yr		
Unbilled unmetered:	8	0.025	MG/Yr		0.025
AUTHORIZED CONSUMPTION:		39.785	MG/Yr		

Use buttons to select percentage of water supplied OR value

WATER LOSSES (Water Supplied - Authorized Consumption) 16.569 MG/Yr

Apparent Losses

				Pcnt:	Value:
Unauthorized consumption:		0.141	MG/Yr	0.25%	

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies:	10	0.100	MG/Yr	0.25%	
Systematic data handling errors:	10	0.100	MG/Yr		
Apparent Losses:		0.341			

Choose this option to enter a percentage of billed metered consumption. This is NOT a default value

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: 16.228 MG/Yr

WATER LOSSES: 16.569 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 17.561 MG/Yr

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	10	93.0	miles
Number of active AND inactive service connections:	10	532	
Connection density:		6	conn./mile main
Average length of customer service line:	10	0.0	ft (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	10	65.0	psi

COST DATA

Total annual cost of operating water system:	10	$209,255	$/Year
Customer retail unit cost (applied to Apparent Losses):	10	$178.25	$/1000 gallons (US)
Variable production cost (applied to Real Losses):	10	$78.90	$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	31.2%
Non-revenue water as percent by cost of operating system:	29.7%
Annual cost of Apparent Losses:	$60,700
Annual cost of Real Losses:	$1,280

Operational Efficiency Indicators

Apparent Losses per service connection per day:	1.75	gallons/connection/day
Real Losses per service connection per day*:	N/A	gallons/connection/day
Real Losses per length of main per day*:	478.08	gallons/mile/day
Real Losses per service connection per day per psi pressure:		gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):	13.83	million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	16.23	million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]:	1.17	

* only the most applicable of these two indicators will be calculated

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 97 out of 100 ***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

1: Unauthorized consumption
2: Unbilled unmetered
3: Volume from own sources

For more information, click here to see the Grading Matrix worksheet

See independent auditor's report

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

	2012	2011	2010	2009	2008	2007	2006	2005
Revenue								
Residential	$ 142,977	$ 142,340	$ 136,731	$ 136,440	$ 127,680	$ 122,447	$ 116,366	$ 103,228
Commercial	35,553	30,942	33,452	28,447	22,701	21,662	20,359	17,837
Other operating	2,984	3,031	2,936	4,848	2,428	1,950	5,873	5,873
Interest and other revenue	1,805	2,160	2,177	1,014	1,731	1,658	918	360
	183,319	178,473	175,296	170,749	154,540	147,717	143,516	127,298
Expense								
Cost of sales and services	85,760	69,455	54,619	50,102	50,903	45,663	42,497	41,127
Operation and maintenance	844	1,477	1,679	489	1,336	-	-	-
Administrative and general	41,143	20,697	25,749	26,594	29,078	25,766	24,817	27,446
Depreciation	137,596	137,536	137,536	137,536	120,600	120,559	111,841	103,093
Interest and other expenses	22,794	23,281	23,795	24,447	27,745	28,146	30,175	28,943
	288,137	252,446	243,378	239,168	229,662	220,134	209,330	200,609
Net income (loss) before contributed capital	###########	(73,973)	(68,082)	(68,419)	(75,122)	(72,417)	(65,814)	(73,311)
Contributed capital	-	-	-	-	680,106	-	697,363	-
Net income (loss)	$ (104,818)	$ (73,973)	$ (68,082)	$ (68,419)	$ 604,984	$ (72,417)	$ 631,549	$ (73,311)
Financial								
Plant in service (at original cost)	$ 5,017,425	$ 5,017,425	$ 5,017,425	$ 5,017,425	$ 5,016,022	$ 4,335,916	$ 4,335,916	$ 3,638,796
Bonds outstanding	$ 467,577	$ 475,473	$ 484,299	$ 492,846	$ 500,988	$ 574,497	$ 582,831	$ 590,775
Consumption - gallons (in hundreds of gallons)	387,934	389,058	375,268	359,960	354,160	342,780	327,240	303,050
Peak gallons consumed (in hundreds of gallons)	45,106	41,140	40,060	35,480	36,580	33,720	35,690	30,080
Number of customers	532	520	513	509	498	462	461	425
Line loss	29%	15%	8%	8%	17%	3%	6%	15%

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

ALEXANDER THOMPSON ARNOLD PLLC

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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, 2012, 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 previously.

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

Dyersburg, TN
Henderson, TN
Jackson, TN
Martin, TN
McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN
Union City, TN

reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and recommendations as item 09-01.

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

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, 2012 and 2011

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 $183,319 while total expenses were $288,137, resulting in a negative change in net assets of $104,818. Before depreciation expense the change was a positive $32,778.

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 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