

HIWASSEE UTILITIES COMMISSION

Financial Statements

June 30, 2013 and 2012

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Financial Statements

June 30, 2013 and 2012

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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 and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hiwassee Utilities Commission as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in the notes to the financial statements, the Board has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus (an amendment of GASB Statements No. 14 and No. 34)*; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and Statement No. 63, *Reporting Deferred Outflows, Deferred Inflows and Net Position*, which became effective for the year ended June 30, 2013.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise the Board's basic financial statements. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information schedules reported on pages 15 through 22 have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2014, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Arnett, Kirksey, Kimsey, Sullivan, Lay & Hall

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

January 3, 2014

HIWASSEE UTILITIES COMMISSION*Management's Discussion and Analysis**June 30, 2013 and 2012*

The Board of Hiwassee Utilities Commission

Management's Discussion and Analysis

June 30, 2013

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, 2013 and 2012.

Financial Statement Overview

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

Financial Highlights

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 2,167,304	\$ 2,180,460	\$ 1,754,231
Capital assets	14,787,087	15,282,379	15,891,530
Other assets	<u>1,008,445</u>	<u>1,029,972</u>	<u>1,051,497</u>
Total assets	17,962,836	18,492,811	18,697,258
Current liabilities	198,671	287,909	238,855
Non-current liabilities	<u>11,136,889</u>	<u>11,337,467</u>	<u>11,528,045</u>
Total liabilities	11,335,560	11,625,376	11,766,900
Invested in capital assets, net of related debt	3,455,198	3,759,912	4,183,485
Unrestricted	<u>3,172,078</u>	<u>3,107,523</u>	<u>2,746,873</u>
Total net position	6,627,276	6,867,435	6,930,358
Operating revenues	2,925,212	3,006,562	2,952,162
Operating expenses	<u>2,574,383</u>	<u>2,537,701</u>	<u>2,540,815</u>
Operating income	350,829	468,861	411,347
Interest income	6,125	9,696	13,092
Bond premium amortization	6,054	6,054	6,054
Interest expense	(540,340)	(547,534)	(554,140)

As indicated in the Financial Highlights, operating revenues for the current year versus the prior year decreased \$81,350 due to a customer rebate that was distributed during the year to Hiwassee's customers; this rebate totaled \$90,583 and amounted to 4% of each utility commission's commodity charges paid during the 2011-2012 fiscal year. It resulted from the Board approving to share its good fortune with its customers because of Hiwassee's boosted fiscal condition. Operating expenses for the current year versus the prior year increased \$36,683 due to the increased capacity necessary to provide water to its customers.

HIWASSEE UTILITIES COMMISSION

Management's Discussion and Analysis

June 30, 2013 and 2012

Assets

During the year ended June 30, 2013, eight assets were added that increased both capacity and efficiency. They include finishing the #1 Clearwell project, installing and completing the Motor Control Center/North VFD project, repairing and repainting the #1 Filter Room, purchasing and installing fluoride and second tanks, purchasing an expansion joint, installing a new Panasonic DVR security system, purchasing a polymer scale-indicator, and replacing conference room chairs. The #1 Clearwell project totaled \$65,371, the Motor Control Center project totaled \$125,360, the #1 Filter Room project totaled \$79,596, the fluoride and second tank installation totaled \$43,116, the expansion joint cost \$1,000, the installation of the DVR security system totaled \$5,846, the polymer scale-indicator cost \$5,236, and the new conference room chairs totaled \$2,580. Many assets were taken off the books during the year due to them no longer being owned or used by Hiwassee Utilities Commission. The total removed from Equipment & Fixtures was \$51,082, while the total removed from Plant (buildings, lines, pumps, etc.) was \$173,049. There are no large projects anticipated for the upcoming year.

Debt

During the year ended June 30, 2013, 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 Utility Board, Calhoun-Charleston Utility District of McMinn and Bradley Counties, McMinn County and Riceville Utility District 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

Statement of Net Position

June 30, 2013 and 2012

	June 30, 2013	June 30, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,860,145	\$ 1,895,716
Accounts receivable (customers)	271,006	266,248
Other receivables	17,858	0
Prepaid insurance	18,295	18,496
Total Current Assets	<u>\$ 2,167,304</u>	<u>\$ 2,180,460</u>
Non-Current Assets:		
Capital Assets		
Land and easements	\$ 102,174	\$ 102,174
Other assets, net of accumulated depreciation	14,684,913	15,180,205
Total Capital Assets	<u>\$ 14,787,087</u>	<u>\$ 15,282,379</u>
Other Assets:		
Investments - restricted	\$ 600,000	\$ 600,000
Deposits	500	500
Debt issue costs (net of amortization)	170,570	176,272
Feasibility studies (net of amortization)	237,375	253,200
Total Other Assets	<u>\$ 1,008,445</u>	<u>\$ 1,029,972</u>
TOTAL ASSETS	<u><u>\$ 17,962,836</u></u>	<u><u>\$ 18,492,811</u></u>

	June 30, 2013	June 30, 2012
LIABILITIES AND NET POSITION		
Current Liabilities:		
Current maturities of long-term debt	\$ 195,000	\$ 185,000
Accounts payable	3,667	102,293
Other current liabilities	4	616
Total Current Liabilities	<u>\$ 198,671</u>	<u>\$ 287,909</u>
Non-Current Liabilities:		
Long-term debt, net of current maturities	\$ 11,136,889	\$ 11,337,467
Total Non-Current Liabilities	<u>\$ 11,136,889</u>	<u>\$ 11,337,467</u>
Net Position:		
Invested in capital assets, net of related debt	\$ 3,455,198	\$ 3,759,912
Unrestricted	3,172,078	3,107,523
Total Net Position	<u>\$ 6,627,276</u>	<u>\$ 6,867,435</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 17,962,836</u></u>	<u><u>\$ 18,492,811</u></u>

HIWASSEE UTILITIES COMMISSION*Statement of Revenues, Expenses and Changes in Net Position*

For the Years Ended June 30, 2013 and 2012

	For the Year Ending June 30, 2013	For the Year Ending June 30, 2012
Operating Revenues:		
Water revenue	\$ 2,925,212	\$ 3,006,562
Operating Expenses:		
Contracted plant operations	\$ 344,507	\$ 282,301
Contracted plant overhead	209,387	170,310
Electricity	606,959	611,244
Lab supplies, analysis and reports	7,393	9,089
Chemicals	161,983	168,191
Sampling	11,778	11,621
Sludge disposal	51,989	131,070
Security and safety	6,461	4,315
Telephone and communications	5,434	5,328
Longevity pay	6,006	4,807
Property insurance	20,783	22,409
Other fees, permits and professional services	27,177	29,284
Office supplies and small equipment	1,015	2,148
Commission expense	8,373	8,548
Salary - Office manager	30,030	29,146
Payroll taxes	2,362	2,404
Maintenance	290,170	278,456
Provision for depreciation and amortization	782,576	767,030
Total operating expenses	<u>\$ 2,574,383</u>	<u>\$ 2,537,701</u>
Operating Income	<u>\$ 350,829</u>	<u>\$ 468,861</u>
Other revenues (expenses)		
Interest expense	\$ (540,340)	\$ (547,534)
Interest income	6,125	9,696
Loss on disposal of assets	(62,827)	0
Bond premium amortization	6,054	6,054
Total other expenses	<u>\$ (590,988)</u>	<u>\$ (531,784)</u>
Change in net position	\$ (240,159)	\$ (62,923)
Net position, beginning of year	6,867,435	6,930,358
Net position, end of year	<u>\$ 6,627,276</u>	<u>\$ 6,867,435</u>

HIWASSEE UTILITIES COMMISSION*Statement of Cash Flows*

For the Years Ended June 30, 2013 and 2012

	For the Year Ending June 30, 2013	For the Year Ending June 30, 2012
Cash flows from operating activities:		
Receipts from customers	\$ 2,920,454	\$ 2,995,983
Payments to suppliers for goods and services	(1,875,699)	(1,694,877)
Payments to employees for services	(33,004)	(31,526)
Net cash provided by operating activities	<u>\$ 1,011,751</u>	<u>\$ 1,269,580</u>
Cash flows from capital and related financing activities:		
Net of plant asset additions	\$ (328,107)	\$ (135,876)
Payment of principal on long-term debt	(185,000)	(180,000)
Payment of interest on long-term debt	(540,340)	(547,534)
Net cash used in capital and related financing activities	<u>\$ (1,053,447)</u>	<u>\$ (863,410)</u>
Cash flows from investing activities:		
Interest received	\$ 6,125	\$ 9,694
Net cash provided by investing activities	<u>\$ 6,125</u>	<u>\$ 9,694</u>
Net increase (decrease) in cash and cash equivalents	\$ (35,571)	\$ 415,864
Cash and cash equivalents, beginning of year	1,895,716	1,479,852
Cash and cash equivalents, end of year	<u>\$ 1,860,145</u>	<u>\$ 1,895,716</u>
Reconciliation of operating revenues to net cash provided by operating activities:		
Operating income	\$ 350,829	\$ 468,861
Adjustments to reconcile new operating revenues to net cash provided by operating activities:		
Depreciation	760,573	745,027
Amortization	22,003	22,003
Changes on operating assets and liabilities:		
Accounts receivable	(4,758)	(10,579)
Other receivables	(17,858)	0
Prepaid expenses	201	214
Accounts payable	(98,627)	44,030
Other current liabilities	(612)	24
Net cash provided by operating activities	<u>\$ 1,011,751</u>	<u>\$ 1,269,580</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 540,340	\$ 547,534

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2013 and 2012

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Hiwassee Utilities Commission was created on November 2, 1972, by agreement between the Bradley and McMinn Counties of 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. 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 Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

Hiwassee Utilities Commission is accounted for as an enterprise fund type using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Enterprise funds are used to account for operations that are financed and operated in a manner similar to a private business and where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Recently Adopted New Accounting Pronouncements

GASB Statement No. 61 amends Statements No. 14 and No. 34 and modifies certain requirements for inclusion of component units in the financial reporting entity to ensure that the reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. Statement No. 61 also clarifies the criteria for blending component units and presenting business-type component units. The adoption of GASB Statement No. 61 did not have any impact on Hiwassee Utilities Commission's financial statements.

GASB Statement No. 62 incorporates into GASB's literature the provisions in Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedures issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements. The option to use subsequent FASB guidance has been removed.

GASB Statement No. 63 amends the net asset reporting requirements in Statement No. 34 and other pronouncements. Under these new standards, financial statements include deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities, and will report *net position* instead of net assets. GASB Statement No. 63 requires the classification of net position into three components - invested in capital assets, net of related debt; restricted net position; and unrestricted net position. These classifications are defined as follows:

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2013 and 2012

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

- *Invested in capital assets, net of related debt* - This component of net position consists of capital assets, including restricted capital assets, net accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related 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. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted net position* - This component of the net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- *Unrestricted net position* - This component of net position consists of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of invested in capital assets, net of related debt, or the restricted component of net position.

Implementation of GASB Statement No. 63 had no effect on Hiwassee Utilities Commission's net position or changes in net position for the fiscal years ended June 30, 2013 and 2012.

Investments

Investments are stated at fair value except for certificates of deposit which are reported at cost which approximates market. State statutes authorize the Commission to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and pooled investment funds.

Inventories and Prepaid Items

Hiwassee Utilities Commission does not maintain any supplies or chemicals in excess of normal operating needs. Therefore no inventory is recorded as part of the financial statements. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Restricted Assets

Certain assets of the Commission are classified as restricted assets because their use is completely restricted by the Commission's charter. Certain resources set aside for the repayment of bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The restricted cash and cash equivalents are used to segregate resources accumulated for debt service payments over the next twelve months. The restricted investments account is used to report resources set aside to subsidize potential deficiencies from the Commission's operations that could adversely affect debt service payments.

Plant and Equipment

Expenditures for the water plant, intakes, pumping stations, water lines, and other fixed assets are recorded at historical cost. Depreciation is calculated by the straight-line method over an estimated period of 50 years for the plant and related equipment and an estimated 7-10 years for office fixtures and equipment. Under guidance of the National Council of Governmental Accounting (NCGA) Statement 2, the portion of depreciation which is prorated to the Economic Development Administration (EDA) grant proceeds is charged against the grant proceeds, rather than charged to income.

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2013 and 2012

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

Revenue Recognition

Revenues are recognized based on billings to customers on monthly water usage cycles. The utility distinguishes operating revenues from non-operating items. Operating revenues generally result from charges to customers for their use of water. Operating expenses include the cost of sales, administrative expenses, maintenance and repairs, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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:

	<u>6/30/2013</u>	<u>6/30/2012</u>
Bradley-McMinn 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	395,624	379,799
Net Feasibility Studies	<u>\$ 237,375</u>	<u>\$ 253,200</u>

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

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2013 and January 3, 2014, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

HIWASSEE UTILITIES COMMISSION*Notes to Financial Statements**June 30, 2013 and 2012***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, 2013 was as follows:

	6/30/2012 Beginning Balance	Increases	Decreases	6/30/2013 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 and equipment	\$ 23,343,266	\$ 319,681	\$ (173,049)	\$ 23,489,898
Equipment and fixtures	282,530	8,426	(51,082)	239,874
Total capital assets being depreciated	<u>\$ 23,625,796</u>	<u>\$ 328,107</u>	<u>\$ (224,131)</u>	<u>\$ 23,729,772</u>
Less Accumulated depreciation for				
Buildings, lines, pumps and equipment	\$ (8,173,440)	\$ (758,176)	\$ 110,222	\$ (8,821,394)
Equipment and fixtures	(272,151)	(2,396)	51,082	(223,465)
Total accumulated depreciation	<u>\$ (8,445,591)</u>	<u>\$ (760,572)</u>	<u>\$ 161,304</u>	<u>\$ (9,044,859)</u>
Total capital assets being depreciated, net	<u>\$ 15,180,205</u>	<u>\$ (432,465)</u>	<u>\$ (62,827)</u>	<u>\$ 14,684,913</u>

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2013 and 2012

Note 3 - CAPITAL ASSETS - (Continued)

Capital asset activity for the prior 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 and equipment	\$ 23,228,412	\$ 129,726	\$ (14,872)	\$ 23,343,266
Equipment and 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 and equipment	\$ (7,445,903)	\$ (742,409)	\$ 14,872	\$ (8,173,440)
Equipment and 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>

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
2014	\$ 532,900	\$ 195,000	\$ 727,900
2015	525,100	205,000	730,100
2016	516,900	210,000	726,900
2017-2019	1,498,125	690,000	2,188,125
2020-2024	2,287,425	1,355,000	3,642,425
2025-2029	1,957,750	1,675,000	3,632,750
2030-2034	1,506,250	2,130,000	3,636,250
2035-2039	918,000	2,720,000	3,638,000
2040-2042	201,750	1,985,000	2,186,750
	<u>\$ 9,944,200</u>	<u>\$ 11,165,000</u>	<u>\$ 21,109,200</u>

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2013 and 2012

Note 4 - NOTE PAYABLE - (Continued)

Activity in Long-term debt for the year ended June 30, 2013 was as follows:

	6/30/2012 Beginning Balance	Additions	Reductions	6/30/2013 Ending Balance	Due within One Year
Note payable	\$ 11,350,000	\$ 0	\$ (185,000)	\$ 11,165,000	\$ 195,000
Deferred amount on advance refunding	(14,704)	0	476	(14,228)	
Note premium	187,171	0	(6,054)	181,117	
Total	<u>\$ 11,522,467</u>	<u>\$ 0</u>	<u>\$ (190,578)</u>	<u>\$ 11,331,889</u>	<u>\$ 195,000</u>

Activity in Long-term debt for the prior year ended June 30, 2012 was as follows:

	6/30/2011 Beginning Balance	Additions	Reductions	6/30/2012 Ending Balance	Due within One Year
Note payable	\$ 11,530,000	\$ 0	\$ (180,000)	\$ 11,350,000	\$ 185,000
Deferred amount on advance refunding	(15,179)	0	475	(14,704)	
Note premium	193,224	0	(6,053)	187,171	
Total	<u>\$ 11,708,045</u>	<u>\$ 0</u>	<u>\$ (185,578)</u>	<u>\$ 11,522,467</u>	<u>\$ 185,000</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 - RECLASSIFICATION

Certain items have been reclassified in order to present more clearly the financial statements at June 30, 2013.

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2013 and 2012

Note 9 - ECONOMIC DEPENDENCY - MAJOR CUSTOMER

Hiwassee Utilities Commission sells a substantial portion of its water to one customer. For years ending June 30, 2013 and 2012, sales to that customer totaled \$2,186,741 and \$2,152,440, respectively. At June 30, 2013 and 2012, amounts due from that customer included in trade accounts receivable was \$179,438 and \$175,490, 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.

HIWASSEE UTILITIES COMMISSION

*Schedule of Additions and Retirements to Utility Plant
For the Year Ended June 30, 2013*

	Balance June 30, 2012	Additions	Retirement	Balance June 30, 2013
Land and land rights	\$ 102,174	\$ 0	\$ 0	\$ 102,174
Buildings, lines, pumps and equipment	23,343,266	319,681	(173,049)	23,489,898
Fixtures and equipment	<u>282,530</u>	<u>8,426</u>	<u>(51,082)</u>	<u>239,874</u>
TOTAL	\$ 23,727,970	\$ 328,107	\$ (224,131)	\$ 23,831,946
Less: Accumulated depreciation	<u>(8,445,591)</u>	<u>(760,572)</u>	<u>161,304</u>	<u>(9,044,859)</u>
Net	<u>\$ 15,282,379</u>	<u>\$ (432,465)</u>	<u>\$ (62,827)</u>	<u>\$ 14,787,087</u>

HIWASSEE UTILITIES COMMISSION

Schedule of Insurance Coverage

For the Year Ended June 30, 2013

Policy No.	Insurance Company	Period	Type of Policy	Premium Amount	Coverage
S 2023672	Selective Insurance	4/20/13-4/20/14	Special Multi-Peril Policy (Commercial Package)	\$ 21,954	See breakdown of policy below
S 2023672	Selective Insurance	4/20/13-4/20/14	Automotive/Equipment	\$ 2,500 included in above	\$ 1,149,000 limit on real and personal property; \$500 deductible
S 2023672	Selective Insurance	4/20/13-4/20/14	General Liability Ins.	\$ 1,133 included in above	\$ 1,000,000 aggregate limit; \$1,000,000 professional activity and advertising injury limit; \$1,000,000 bodily injury and property limit
S 2023672	Selective Insurance	4/20/13-4/20/14	Commercial Crime	\$ 394 included in above	\$ 250 deductible; \$25,000 computer fraud limit; \$50,000 limit for employee theft, forgery, alteration, robbery, burglary
S 2023672	Selective Insurance	4/20/13-4/20/14	Inland Marine	\$ 2,500 included in above	Contractor's equip.- actual cost of \$10,000 deductible
S 2023672	Selective Insurance	4/20/13-4/20/14	Commercial Auto	\$ 194 included in above	Commercial auto (business or truckers)
S 2023672	Selective Insurance	4/20/13-4/20/14	Flood and Earthquake	\$ 3,055 included in above	\$ 10,000,000 occurrence and aggregate limit; \$10,000 deductible

HIWASSEE UTILITIES COMMISSION

*Schedule of Utility Rates in Force
For the Year Ended June 30, 2013*

<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	0.9896
Cleveland	9,700,000	5,335,000	0.1500	0.9896
Riceville	500,000	275,000	0.1500	0.9896
McMinn County	500,000	0	0.1500	0
Calhoun- Charleston	500,000	275,000	0.1500	0.9896

HIWASSEE UTILITIES COMMISSION

Schedule of Age of Accounts Receivable

June 30, 2013

<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	\$ 47,859	\$ 0	\$ 0	\$ 0	\$ 47,859
Calhoun-Charleston	20,963	10,101	0	0	31,064
Cleveland	179,438	0	0	0	179,438
McMinn	2,325	0	0	0	2,325
Riceville	10,320	0	0	0	10,320
TOTALS	<u>\$ 260,905</u>	<u>\$ 10,101</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 271,006</u>

HIWASSEE UTILITIES COMMISSION

Schedule of Officers

June 30, 2013

Chairman	Doug Harrod
Vice-Chairman	Joe Edwards
Treasurer	Joe Allen
Secretary	Sam Bettis

HIWASSEE UTILITIES COMMISSION*Schedule of Bond Principal and Interest Requirements**June 30, 2013*

<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>
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>\$ 9,944,200</u>	<u>\$ 11,165,000</u>	<u>\$ 21,109,200</u>

AWWA WLCC Free Water Audit Software: Reporting Worksheet

Water Audit Report for: Hiwassee Utilities Commission
 Reporting Year: 2013 7/2012 - 6/2013

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

WATER SUPPLIED << Enter grading in column 'E'

Volume from own sources:	9	2,377.026	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	8	0.000	under-registered MG/Yr
Water imported:	n/a	0.000	MG/Yr
Water exported:	n/a	0.000	MG/Yr
WATER SUPPLIED:		2,377.026	MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	9	2,292.219	MG/Yr
Billed unmetered:	n/a	0.000	MG/Yr
Unbilled metered:	9	65.959	MG/Yr
Unbilled unmetered:	9	0.001	MG/Yr
AUTHORIZED CONSUMPTION:		2,358.179	MG/Yr

Pcnt: Value: 0.001

WATER LOSSES (Water Supplied - Authorized Consumption) 18.847 MG/Yr

Apparent Losses

Unauthorized consumption:	8	0.001	MG/Yr
Customer metering inaccuracies:	8	5.910	MG/Yr
Systematic data handling errors:	7	5.910	MG/Yr
Apparent Losses:		11.821	

Pcnt: Value: 0.001

0.25%

Real Losses (Current Annual Real Losses or CARL)
 Real Losses = Water Losses - Apparent Losses: 7.026 MG/Yr

WATER LOSSES: 18.847 MG/Yr

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

NON-REVENUE WATER

NON-REVENUE WATER: 84.807 MG/Yr

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	7	17.0	miles
Number of active AND inactive service connections:	10	5	
Connection density:		0	conn./mile main
Average length of customer service line:	10	0.0	ft
Average operating pressure:	10	140.0	psi

COST DATA

Total annual cost of operating water system:	10	\$2,777,442	\$/Year
Customer retail unit cost (applied to Apparent Losses):	10	\$1.32	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	10	\$1,168.45	\$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	<input type="text"/> 3.6%
Non-revenue water as percent by cost of operating system:	<input type="text"/> 3.6%
Annual cost of Apparent Losses:	<input type="text"/> \$15,604
Annual cost of Real Losses:	<input type="text"/> \$8,209

Operational Efficiency Indicators

Apparent Losses per service connection per day:	<input type="text"/> 6477.38	gallons/connection/day
Real Losses per service connection per day*:	<input type="text"/> N/A	gallons/connection/day
Real Losses per length of main per day*:	<input type="text"/> 1,132.28	gallons/mile/day
Real Losses per service connection per day per psi pressure:	<input type="text"/>	gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):	<input type="text"/> Not Valid	

*** UARL cannot be calculated as either average pressure, number of connections or length of mains is too small: SEE UARL DEFINITION ***

From Above, Real Losses = Current Annual Real Losses (CARL): 7.03

Infrastructure Leakage Index (ILI) [CARL/UARL]:

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

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 90 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: Volume from own sources
- 2: Customer metering inaccuracies
- 3: Systematic data handling errors

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		2,400,963,000
	(Sum Lines B and C)		
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		2,422,823,100
	(Sum Lines B and C)		
O	Unaccounted for Water		(21,860,100)
	(Line D minus Line N)		
P	Percent Unaccounted for Water		-0.91%
	(Line O divided by Line D time 100)		
Q	Other (explain)	See Below	
	Explain Other:	<input type="text" value="0"/>	

All amounts included in this schedule are supported by documentation on file at the water system.
If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

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INDEPENDENT AUDITORS' 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*

To the Board of Directors of the
Hiwassee Utilities Commission
Charleston, Tennessee

We have audited, in accordance with the 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, the financial statements of Hiwassee Utilities Commission as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Hiwassee Utilities Commission's basic financial statements, and have issued our report thereon dated January 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hiwassee Utilities Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hiwassee Utilities Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Hiwassee Utilities Commission's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. Nevertheless, we identified certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control, described in 2013-1.

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*.

Hiwassee Utilities Commission's Response to Findings

The Hiwassee Utilities Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Hiwassee Utilities Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arnett, Kirksey, Kimsey, Sullivan, Lay + Hall

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

January 3, 2014

HIWASSEE UTILITIES COMMISSION

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2013

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 2013-1

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 2013-1