

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

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

JUNE 30, 2013 AND 2012

**HAYWOOD COUNTY UTILITY DISTRICT
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INTRODUCTORY SECTION

**HAYWOOD COUNTY UTILITY DISTRICT
DIRECTORY
June 30, 2013**

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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Certified Public Accountants
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Independent Auditor's Report

Board of Directors
Haywood County Utility District
Brownsville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Haywood County Utility District (the District), a component unit of Haywood County, Tennessee, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Town'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Haywood County Utility District, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 5-9 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section and the supplementary and other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary and other information, except that which has been marked unaudited, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary and other information, except that which has been marked unaudited, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and the supplementary and other information marked unaudited have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2013 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, 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 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 District's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
December 6, 2013

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, 2013 and 2012. 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 \$3,755,017 and exceeded liabilities in the amount of \$3,255,438 (i.e. net position). Total assets decreased by \$121,906 due primarily to current year depreciation expense.
- Net position decreased \$111,570 during the current year due to depreciation expense. Unrestricted net position decreased by \$999.
- During fiscal year 2013, the District delivered 40,125,400 gallons compared to 38,793,400 during the fiscal year 2012.
- Operating revenues were \$193,476, an increase over year 2012 in the amount of \$11,962 or 6.59%.
- Operating expenses were \$283,978, an increase over year 2012 in the amount of \$18,635 or 7.02%.
- The operating loss for the year was \$90,502 as compared to an \$83,829 operating loss during the 2012 fiscal year.
- Ratios of operating income (loss) to total operating revenue were (46.78%), (46.18%), and (29.98%), for 2013, 2012, and 2011, respectively.
- Capital assets decreased from \$3,550,682 in 2012 to 3,428,726 in 2013 due to current year depreciation expense.
- Debt obligation decreased from \$467,578 in 2012 to \$456,192 in 2013 due to current year principal payments.

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 and other 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 Supplementary and Other Information are made up of four sections: 1) the introductory section, 2) the financial section, 3) the supplementary and other 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 supplementary and other 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

The *Statement of Net Position* 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) with the differences reported as net position. As of June 30, 2013 and 2012, the District has no deferred inflows/outflows to report. 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 Position* presents the results of the business activities over the course of the fiscal year and information as to how net position changed during the year. All changes in net position 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 Position* and the *Statement of Revenues, Expenses, and Changes in Net Position* report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District, and the changes in the net position. Net position is one way to measure the financial health or financial position of the District. Over time, increases or decreases in the District's net position 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 position decreased by \$111,570 and decreased by \$104,818 for the fiscal years ended June 30, 2013 and 2012, respectively. The significant variance in the change in net position is due to the loss that resulted from operations. The analysis below focuses on the District's net position (Table 1) and changes in net position (Table 2) during the years.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 1A
CONDENSED STATEMENT OF NET POSITION

	June 30, 2013	June 30, 2012	Amount	Percent
Current and other assets	\$ 326,291	\$ 326,241	\$ 50	0.02%
Capital assets	3,428,726	3,550,682	(121,956)	-3.43%
Total assets	<u>\$ 3,755,017</u>	<u>\$ 3,876,923</u>	<u>\$ (121,906)</u>	-3.14%
Long-term liabilities	445,747	457,684	(11,937)	-2.61%
Other liabilities	53,832	52,231	1,601	3.07%
Total liabilities	<u>499,579</u>	<u>509,915</u>	<u>(10,336)</u>	-2.03%
Net investment in capital assets	2,972,534	3,083,105	(110,571)	-3.59%
Unrestricted	282,904	283,903	(999)	-0.35%
Total net position	<u>\$ 3,255,438</u>	<u>\$ 3,367,008</u>	<u>\$ (111,570)</u>	-3.31%

Table 1B
CONDENSED STATEMENT OF NET POSITION

	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	<u>\$ 3,876,923</u>	<u>\$ 3,984,791</u>	<u>\$ (107,868)</u>	-2.71%
Long-term liabilities	457,684	465,985	(8,301)	-1.78%
Other liabilities	52,231	46,980	5,251	11.18%
Total liabilities	<u>509,915</u>	<u>512,965</u>	<u>(3,050)</u>	-0.59%
Net investment in capital assets	3,083,105	3,212,925	(129,820)	-4.04%
Unrestricted	283,903	258,901	25,002	9.66%
Total net position	<u>\$ 3,367,008</u>	<u>\$ 3,471,826</u>	<u>\$ (104,818)</u>	-3.02%

The decrease in capital assets in the current year was due mostly to depreciation, as there were only one addition and no deletions to capital assets. The increase in current and other assets was due to an increase in cash. The overall decrease in net position in the current year was due to depreciation expense in excess of debt payments which decreased net investment in capital assets.

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Net Position for the years. As noted below there was a decrease in net position of (3.31%). 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 2011 and 2012, expenses exceeded revenues, causing the change in net position to remain negative. Expenses increased by a greater margin than did revenues; therefore, the negative change in net position in 2013 was greater than in 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 2A

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

	June 30, 2013	June 30, 2012	Amount	Percent
Operating revenues	\$ 193,476	\$ 181,514	\$ 11,962	6.59%
Non-operating revenues	1,511	1,805	(294)	-16.29%
Total revenues	194,987	183,319	11,668	6.36%
Cost of sales and services	94,038	85,760	8,278	9.65%
Operation and maintenance	1,970	844	1,126	133.41%
Administrative and general	50,374	41,143	9,231	22.44%
Depreciation expense	137,596	137,596	-	0.00%
Interest expense	22,579	22,794	(215)	-0.94%
Total expenses	306,557	288,137	18,420	6.39%
Change in net position	(111,570)	(104,818)	(6,752)	6.44%
Beginning net position	3,367,008	3,471,826	(104,818)	-3.02%
Ending net position	\$ 3,255,438	\$ 3,367,008	\$ (111,570)	-3.31%

Table 2B

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

	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 position	(104,818)	(73,973)	(30,845)	41.70%
Beginning net position	3,471,826	3,545,799	(73,973)	-2.09%
Ending net position	\$ 3,367,008	\$ 3,471,826	\$ (104,818)	-3.02%

Operating revenues showed a 6.59% increase from 2012 to 2013 and a 2.95% increase from 2011 to 2012. This has been caused by an increase in consumption during the year. Expenses increased 6.39% from 2012 to 2013 and 14.14% from 2011 to 2012. There was an increase in cost of sales and services of 35.39% 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 position showed a decrease of 6.23% over the three year period due primarily to operating losses incurred in 2011, 2012, and 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal years 2013 and 2012, the system had \$3,428,726 and 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 \$121,956 or 3.43% over last year.

The following tables summarize the District's capital assets, net of accumulated depreciation, and changes therein, for the years ended June 30, 2013 and 2012. These changes are presented in detail in Note 3C to the financial statements.

Table 3
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	June 30, 2013	June 30, 2012	Amount	Percent
Distribution plant	\$ 3,428,726	\$ 3,550,682	\$ (121,956)	-3.43%
Total capital assets	<u>\$ 3,428,726</u>	<u>\$ 3,550,682</u>	<u>\$ (121,956)</u>	<u>-3.43%</u>

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

Debt Administration

The District has outstanding General Obligation Bonds of \$456,192 as of June 30, 2013. Principal payments are due in the upcoming fiscal year in the amount of \$10,445 with interest payments totaling approximately \$22,080 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

As of July 1, 2013 the District increased rates to .475 per hundred gallons and customer charges to \$18 to cover expenses.

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 POSITION
For the Years Ended June 30, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents on deposit	\$ 308,585	\$ 305,254
Accounts receivable	<u>17,706</u>	<u>20,987</u>
Total current assets	<u>326,291</u>	<u>326,241</u>
Noncurrent assets:		
Capital assets:		
Distribution plant	5,033,065	5,017,425
Less: Accumulated depreciation	<u>(1,604,339)</u>	<u>(1,466,743)</u>
Total capital assets (net of accumulated depreciation)	<u>3,428,726</u>	<u>3,550,682</u>
Total assets	<u>3,755,017</u>	<u>3,876,923</u>
LIABILITIES		
Current liabilities:		
Accounts payable	13,459	15,335
Customer meter deposits	20,890	19,405
Accrued interest	9,038	7,598
Bonds payable - current portion	<u>10,445</u>	<u>9,893</u>
Total current liabilities	<u>53,832</u>	<u>52,231</u>
Noncurrent liabilities:		
Bonds payable	<u>445,747</u>	<u>457,684</u>
Total liabilities	<u>499,579</u>	<u>509,915</u>
NET POSITION		
Net investment in capital assets	2,972,534	3,083,105
Unrestricted	<u>282,904</u>	<u>283,903</u>
Total net position	<u>\$ 3,255,438</u>	<u>\$ 3,367,008</u>

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

HAYWOOD COUNTY UTILITY DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Charges for sales and services:		
Residential - North	\$ 84,854	\$ 85,069
Commercial - North	22,327	20,297
Residential - South	46,474	46,590
Commercial - South	19,602	12,435
Residential - East	11,013	11,513
Commercial - East	6,923	2,821
Bad debts	<u>(336)</u>	<u>(195)</u>
	<u>190,857</u>	<u>178,530</u>
Other operating revenues:		
Meter tapping fees	-	450
Penalties:		
North	1,299	1,380
South	1,019	922
East	293	226
Other	<u>8</u>	<u>6</u>
	<u>2,619</u>	<u>2,984</u>
Total operating revenues	<u>193,476</u>	<u>181,514</u>
Operating Expenses:		
Cost of sales and services:		
Power for pumping	6,024	6,864
Purchased water - North	40,904	37,089
Purchased water - South	39,596	34,619
Purchased water - East	<u>7,514</u>	<u>7,188</u>
	<u>94,038</u>	<u>85,760</u>
Operation and maintenance expense:		
Distribution system expense	<u>1,970</u>	<u>844</u>
Administrative and general expenses:		
Payments to BEA for salaries and wages	28,892	22,382
Materials and supplies	355	120
Automobile expense	900	570

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

HAYWOOD COUNTY UTILITY DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended June 30, 2013 and 2012

	2013	2012
Meter reading	\$ 8,088	\$ 8,088
Office supplies	-	383
Telephone	1,891	3,312
Professional fees	4,835	4,605
Licenses and fees	663	663
Training and meetings	1,150	-
Director's fees	3,600	900
	<u>50,374</u>	<u>41,143</u>
 Provision for depreciation	 <u>137,596</u>	 <u>137,596</u>
 Total operating expenses	 <u>283,978</u>	 <u>265,343</u>
 Total operating income (loss)	 <u>(90,502)</u>	 <u>(83,829)</u>
 Nonoperating revenue (expenses):		
Interest income	1,511	1,805
Interest expense	(22,579)	(22,794)
Total nonoperating revenue (expenses)	<u>-</u>	<u>-</u>
 Change in net position	 <u>(111,570)</u>	 <u>(104,818)</u>
 Total net position - beginning	 <u>3,367,008</u>	 <u>3,471,826</u>
 Total net position - ending	 <u>\$ 3,255,438</u>	 <u>\$ 3,367,008</u>

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,

	2013	2012
Cash flows from operating activities:		
Receipts from customers	\$ 196,757	\$ 177,764
Cash paid to suppliers for goods and services	(118,216)	(100,904)
Cash paid to employees for services	(30,042)	(22,382)
Customer deposits received	1,485	2,260
Net cash provided by (used in) operating activities	49,984	56,738
 Cash flows from investing activities:		
Interest income	1,511	1,805
 Cash flows from capital and related financing activities:		
Repayment of bonds	(11,385)	(7,776)
Construction and acquisition of capital assets	(15,640)	-
Interest paid	(21,139)	(24,669)
Net cash provided by (used in) financing activities:	(48,164)	(32,445)
 Increase (decrease) in cash and cash equivalents	3,331	26,098
 Cash and cash equivalents - beginning	305,254	279,156
 Cash and cash equivalents - ending	\$ 308,585	\$ 305,254
 Reconciliation of operating income to net cash provided (used) by operating activities:		
Net operating income (loss)	\$ (90,502)	\$ (83,829)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for depreciation	137,596	137,596
(Increase) decrease in current assets:		
Accounts receivable	3,281	(3,750)
Increase (decrease) in current liabilities:		
Accounts payable	(1,876)	4,461
Customers' deposits	1,485	2,260
Net cash provided by (used in) operating activities	\$ 49,984	\$ 56,738

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

**HAYWOOD COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012**

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, the three member Board is appointed by the County. 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 accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The District's financial statements are reported using the economic resources measurement focus and 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 District conform to applicable accounting principles generally accepted in the United States of America as defined by the Governmental accounting Standards Board (GASB).

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges for sales to customers for sales and service. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Assets, Liabilities, and Equity

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements, and the state's investment pool.

Accounts Receivable

Trade receivables result from unpaid billings for water service to customers. The billing and collections for the District are prepared and collected by Brownsville Energy Authority. Brownsville Energy Authority remits to the District the entire amount of the billings on a monthly basis. Therefore, an allowance for uncollectible accounts receivable is considered unnecessary at this time as the risk of loss is entirely with Brownsville Energy Authority.

HAYWOOD COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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.

Deferred Outflows/Inflows of Resources

During the year ended June 30, 2013, the District adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of the statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows or resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separated financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will no tbe recognized as an inflow of resources (revenue) until that time.

Net Position

Equity is classified as net position and displayed in the following two components:

- Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition,

**HAYWOOD COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012**

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 position that does not meet the description of the above categories.

Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Impact of Recently Issued Accounting Pronouncements

In December 2010, the GASB issued statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in non-governmental pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 had no impact on the District's financial statements.

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements, but has not implemented its effects on items currently reported as deferred assets or liabilities in the financial statements presented herein.

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

HAYWOOD COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2013, the District had no risk exposure.

B. Receivables

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

	2013	2012
Billed services for utility customers	\$ 17,706	\$ 20,987

C. Capital Assets

Capital asset activity during the year was as follows:

Description	Balance at June 30, 2012	Additions	Disposals	Adjustments	Balance at June 30, 2013
Capital assets, not being depreciated					
Distribution plant	\$ 18,401	\$ -	\$ -	\$ -	\$ 18,401
Capital assets, being depreciated					
Distribution plant	4,999,024	15,640	-	-	5,014,664
Less accumulated depreciation for:					
Distribution plant	1,466,743	137,596	-	-	1,604,339
Total capital assets, being depreciated, net	3,532,281	(121,956)	-	-	3,410,325
Total capital assets, net	\$ 3,550,682	\$ (121,956)	\$ -	\$ -	\$ 3,428,726
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

**HAYWOOD COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012**

Depreciation expense amounted to \$137,596 and \$137,596 for the fiscal years ended June 30, 2013 and 2012.

D. Long-term Debt

Long-term debt is made up of the following:

	June 30,	
	2013	2012
General Obligation Bonds:		
General Obligation Bonds, Series 1998 interest at 4.875% due serially through 2037	456,192	467,577
Total General Obligation Bonds	456,192	467,577
Total current portion of General Obligation Bonds	\$ 10,445	\$ 9,893
Total long-term portion of General Obligation Bonds	\$ 445,747	\$ 457,684

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, 2013 and 2012.

	Balance at June 30, 2012	Additions	Retirements	Balance at June 30, 2013	Due Within 1 year
General obligation bonds payable	\$ 467,577	\$ -	\$ 11,385	\$ 456,192	\$ 10,445
	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

The scheduled annual requirements for long-term debt at June 30, 2013, are as follows:

**HAYWOOD COUNTY UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012**

Year Ending June 30,	Principal	Interest	Total
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	92,810	162,624
2023-2027	88,832	73,793	162,625
2028-2032	113,030	49,594	162,624
2033-Thereafter	139,600	18,805	158,405
	<u>\$ 456,192</u>	<u>\$ 320,185</u>	<u>\$ 776,377</u>

E. Net Position

Net position represents the difference between assets and liabilities and deferred outflows/inflows of resources (if present). The net position amounts were as follows:

	June 30,	
	2013	2012
Net investment in capital assets		
Net property, plant, and equipment in services	\$ 3,428,726	\$ 3,550,682
Less: Debt as disclosed in Note 3D	(456,192)	(467,577)
	<u>2,972,534</u>	<u>3,083,105</u>
Unrestricted	282,904	283,903
Total net position	<u>\$ 3,255,438</u>	<u>\$ 3,367,008</u>

NOTE 4 - OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended June 30, 2013 and 2012, 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.

SUPPLEMENTARY AND OTHER INFORMATION SECTION

HAYWOOD COUNTY UTILITY DISTRICT
SCHEDULE OF LONG-TERM DEBT
June 30, 2013

Year Ended	Series 1998	
	June 30,	Interest
	Principal	
2014	10,445	22,080
2015	10,960	21,565
2016	11,501	21,024
2017	12,010	20,514
2018	12,661	19,864
2019	13,286	19,239
2020	13,941	18,584
2021	14,578	17,946
2022	15,348	17,176
2023	16,106	16,419
2024	16,901	15,624
2025	17,692	14,832
2026	18,607	13,917
2027	19,526	12,999
2028	20,489	12,036
2029	21,468	11,056
2030	22,559	9,965
2031	23,673	8,852
2032	24,841	7,684
2033	26,047	6,477
2034	27,352	5,173
2035	28,701	3,823
2036	30,118	2,407
2037	27,382	925
	\$ 456,192	\$ 320,181

See independent auditor's report.

**HAYWOOD COUNTY UTILITY DISTRICT
WATER RATES IN FORCE
June 30, 2013**

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 UTILITY DISTRICT
SCHEDULE OF UNACCOUNTED FOR WATER - UNAUDITED
June 30, 2013**

AWWA WLCC Free Water Audit Software: Reporting Worksheet

Water Audit Report for: **HAYWOOD COUNTY UTILITY DISTRICT**
Reporting Year: **2013** **2012 - 6/20**

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

WATER SUPPLIED		<< Enter grading in column 'E'	
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	62.867	MG/Yr
Water exported:	n/a		MG/Yr
WATER SUPPLIED:		62.867	MG/Yr

AUTHORIZED CONSUMPTION				Pcnt: Value:	
Billed metered:	10	40.126	MG/Yr		
Billed unmetered:	n/a		MG/Yr		
Unbilled metered:	10	0.835	MG/Yr		
Unbilled unmetered:	8	0.025	MG/Yr	1.25%	0.025
AUTHORIZED CONSUMPTION:		40.986	MG/Yr		24061

WATER LOSSES (Water Supplied - Authorized Consumption) **21.881** MG/Yr

Apparent Losses				Pcnt: Value:	
Unauthorized consumption:		0.157	MG/Yr	0.25%	
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed					
Customer metering inaccuracies:	10	0.103	MG/Yr	0.25%	
Systematic data handling errors:	10	0.100	MG/Yr		
Apparent Losses:		0.360			

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:		21.521	MG/Yr
WATER LOSSES:		21.881	MG/Yr

NON-REVENUE WATER		NON-REVENUE WATER:	
= Total Water Loss + Unbilled Metered + Unbilled Unmetered		22.741	MG/Yr

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
Average operating pressure:	10	65.0	psi

COST DATA			
Total annual cost of operating water system:	10	\$218,880	\$/Year
Customer retail unit cost (applied to Apparent Losses):	10	\$191.19	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	10	\$0.09	\$/Million gallons

PERFORMANCE INDICATORS			
Financial Indicators			
Non-revenue water as percent by volume of Water Supplied:		36.2%	
Non-revenue water as percent by cost of operating system:		31.4%	
Annual cost of Apparent Losses:		\$68,795	
Annual cost of Real Losses:		\$2	

Operational Efficiency Indicators			
Apparent Losses per service connection per day:		1.85	gallons/connection/day
Real Losses per service connection per day*:		N/A	gallons/connection/day
Real Losses per length of main per day*:		634.00	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):		21.52	million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]:		1.56	

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

WATER AUDIT DATA VALIDITY SCORE:
***** YOUR SCORE IS: 97 out of 100 *****

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

- 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

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

	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenue									
Residential	\$ 142,005	\$ 142,977	\$ 142,340	\$ 136,731	\$ 136,440	\$ 127,680	\$ 122,447	\$ 116,366	\$ 103,228
Commercial	48,852	35,553	30,942	33,452	28,447	22,701	21,662	20,359	17,837
Other operating	2,619	2,984	3,031	2,936	4,848	2,428	1,950	5,873	5,873
Interest and other revenue	1,511	1,805	2,160	2,177	1,014	1,731	1,658	918	360
	<u>194,987</u>	<u>183,319</u>	<u>178,473</u>	<u>175,296</u>	<u>170,749</u>	<u>154,540</u>	<u>147,717</u>	<u>143,516</u>	<u>127,298</u>
Expense									
Cost of sales and services	94,038	85,760	69,455	54,619	50,102	50,903	45,663	42,497	41,127
Operation and maintenance	1,970	844	1,477	1,679	489	1,336	-	-	-
Administrative and general	50,374	41,143	20,697	25,749	26,594	29,078	25,766	24,817	27,446
Depreciation	137,596	137,596	137,536	137,536	137,536	120,600	120,559	111,841	103,093
Interest and other expenses	22,579	22,794	23,281	23,795	24,447	27,745	28,146	30,175	28,943
	<u>306,557</u>	<u>288,137</u>	<u>252,446</u>	<u>243,378</u>	<u>239,168</u>	<u>229,662</u>	<u>220,134</u>	<u>209,330</u>	<u>200,609</u>
Net income (loss) before contributed capital	(111,570)	(104,818)	(73,973)	(68,082)	(68,419)	(75,122)	(72,417)	(65,814)	(73,311)
Contributed capital	-	-	-	-	-	680,106	-	697,363	-
Net income (loss)	<u>\$ (111,570)</u>	<u>\$ (104,818)</u>	<u>\$ (73,973)</u>	<u>\$ (68,082)</u>	<u>\$ (68,419)</u>	<u>\$ 604,984</u>	<u>\$ (72,417)</u>	<u>\$ 631,549</u>	<u>\$ (73,311)</u>
Financial									
Plant in service (at original cost)	\$ 5,033,065	\$ 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	\$ 456,192	\$ 467,577	\$ 475,473	\$ 484,299	\$ 492,846	\$ 500,988	\$ 574,497	\$ 582,831	\$ 590,775
Consumption - gallons (in hundreds of gallons)	<u>401,254</u>	<u>387,934</u>	<u>389,058</u>	<u>375,268</u>	<u>359,960</u>	<u>354,160</u>	<u>342,780</u>	<u>327,240</u>	<u>303,050</u>
Peak gallons consumed (in hundreds of gallons)	<u>51,232</u>	<u>45,106</u>	<u>41,140</u>	<u>40,060</u>	<u>35,480</u>	<u>36,580</u>	<u>33,720</u>	<u>35,690</u>	<u>30,080</u>
Number of customers	<u>525</u>	<u>532</u>	<u>520</u>	<u>513</u>	<u>509</u>	<u>498</u>	<u>462</u>	<u>461</u>	<u>425</u>
Line loss	<u>35%</u>	<u>29%</u>	<u>15%</u>	<u>8%</u>	<u>8%</u>	<u>17%</u>	<u>3%</u>	<u>6%</u>	<u>15%</u>

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

American Society of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



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Independent Auditor's 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, 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 Haywood County Utility District, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 6, 2013.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Summary of Findings and Recommendations as items 09-01 and 13-01.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The District'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 result of that testing, and not to provide an opinion on the effectiveness of the entity's 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.


Jackson, Tennessee
December 6, 2013

HAYWOOD COUNTY UTILITY DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
June 30, 2013 and 2012

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 \$194,987 while total expenses were \$306,557, resulting in a negative change in net position of \$111,570. Before depreciation expense the change was a positive \$26,026.

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 District 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 increased rates effective July 1, 2013 to keep from operating at a net loss.

13-01 Three Day Deposit Violation (Non-compliance)

Condition: It was noted during the audit that the District failed to make timely deposits in four of the six cash receipts tested. The deposits were for checks from Brownsville Energy Authority to compensate Haywood County Utility District for that month's billing collections.

Criteria: This is a violation of Tennessee Code Annotated 5-8-207 which states "every county official handling public funds shall be required to maintain an official bank account in a bank or banks within this state, and shall, within three days after receipt by such county official of any public funds, deposit the funds to the credit of such county official's official bank account, or bank accounts."

Effect: Not making timely deposits could result in fraud or potential lost funds.

Recommendation: We recommend that the District follow the three day deposit requirement going forward.

Response: The District acknowledged the issue and will make the appropriate changes to meet the three day deposit requirement going forward.

Prior Year Findings:

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