

HIWASSEE UTILITIES COMMISSION

Financial Statements

June 30, 2014 and 2013

HIWASSEE UTILITIES COMMISSION

Financial Statements

June 30, 2014 and 2013

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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, 2014 and 2013, 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.

Auditors' 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 auditors' 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 auditors consider 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, 2014 and 2013, 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. Also, as described in the notes to the financial statements, the Board has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which became effective in the fiscal year ended June 30, 2014.

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 7, 2015, 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 7, 2015

HIWASSEE UTILITIES COMMISSION*Management's Discussion and Analysis**June 30, 2014 and 2013*

The Board of Hiwassee Utilities Commission

Management's Discussion and Analysis

June 30, 2014

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, 2014 and 2013.

Financial Statement Overview

The Statements of Net Position include the assets, liabilities and deferred inflows/outflows 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 Statements 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 Statements 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>2014</u>	<u>2013</u>	<u>2012</u>
Current assets	\$ 2,633,769	\$ 2,167,304	\$ 2,180,460
Capital assets	14,029,435	14,787,087	15,282,379
Other assets	<u>822,050</u>	<u>837,875</u>	<u>853,700</u>
Total assets	17,485,254	17,792,266	18,316,539
Deferred outflows of resources	13,751	14,227	14,703
Current liabilities	327,638	198,671	287,909
Non-current liabilities	<u>10,940,062</u>	<u>11,151,116</u>	<u>11,352,170</u>
Total liabilities	11,267,700	11,349,787	11,640,079
Net investment in capital assets	2,898,124	3,455,198	3,759,912
Unrestricted	<u>3,333,181</u>	<u>3,001,508</u>	<u>2,931,251</u>
Total net position	6,231,305	6,456,706	6,691,163
Operating revenues	3,104,540	2,925,212	3,006,562
Operating expenses	<u>2,752,919</u>	<u>2,568,681</u>	<u>2,531,999</u>
Operating income	351,621	356,531	474,563
Interest income	6,560	6,125	9,696
Bond premium amortization	6,055	6,054	6,054
Interest expense	(532,898)	(540,340)	(547,534)

As indicated in the Financial Highlights, operating revenues for the current year versus the prior year increased \$179,328 due to the increased capacity provided by water plant expansion and a customer rebate totaling \$90,583 that was distributed during the prior year to Hiwassee's customers, thus reducing prior year revenue. Operating expenses for the current year versus the prior year increased \$184,238 due to the increased capacity necessary to provide water to its customers.

HIWASSEE UTILITIES COMMISSION

Management's Discussion and Analysis

June 30, 2014 and 2013

Assets

During the year ended June 30, 2014, twelve assets were added that increased both capacity and efficiency. They include purchasing several isolation valves, purchasing and installing one large valve, obtaining a plant meter, purchasing a breaker cabinet for the Motor Control Center project (Phase 3), and replacing the electric line and power supply to the lagoon. The eight isolation valves totaled \$6,096 (or approximately \$762 each), the large valve totaled \$4,398, the plant meter totaled \$6,292, the breaker cabinet for the Motor Control Center project (Phase 3) totaled \$33,907, and the electric line and power supply for the lagoon totaled \$27,744. Many assets were taken off the books during the year due to them no longer being owned or used in service by Hiwassee Utilities Commission. The total removed from Equipment and Fixtures was \$174,902, while the total removed from Plant (buildings, lines, pumps, etc.) was \$509,788. There are no large projects anticipated for the upcoming year.

Debt

During the year ended June 30, 2014, no additional notes were undertaken. 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

Statements of Net Position

June 30, 2014 and 2013

	June 30, 2014	June 30, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,348,366	\$ 1,860,145
Accounts receivable (customers)	265,861	271,006
Other receivables	0	17,858
Prepaid insurance	19,542	18,295
Total Current Assets	<u>\$ 2,633,769</u>	<u>\$ 2,167,304</u>
Non-Current Assets:		
Capital Assets		
Land and easements	\$ 102,174	\$ 102,174
Other assets, net of accumulated depreciation	13,927,261	14,684,913
Total Capital Assets	<u>\$ 14,029,435</u>	<u>\$ 14,787,087</u>
Other Assets:		
Investments - restricted	\$ 600,000	\$ 600,000
Deposits	500	500
Feasibility studies, net of amortization	221,550	237,375
Total Other Assets	<u>\$ 822,050</u>	<u>\$ 837,875</u>
TOTAL ASSETS	<u>\$ 17,485,254</u>	<u>\$ 17,792,266</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	\$ 13,751	\$ 14,227
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 13,751</u>	<u>\$ 14,227</u>

	June 30, 2014	June 30, 2013
LIABILITIES		
Current Liabilities:		
Current maturities of long-term debt	\$ 205,000	\$ 195,000
Accounts payable	121,941	3,667
Other current liabilities	697	4
Total Current Liabilities	<u>\$ 327,638</u>	<u>\$ 198,671</u>
Non-Current Liabilities:		
Long-term debt, net of current maturities	\$ 10,940,062	\$ 11,151,116
Total Non-Current Liabilities	<u>\$ 10,940,062</u>	<u>\$ 11,151,116</u>
TOTAL LIABILITIES	<u>\$ 11,267,700</u>	<u>\$ 11,349,787</u>
NET POSITION		
Net investment in capital assets	\$ 2,898,124	\$ 3,455,198
Unrestricted	3,333,181	3,001,508
TOTAL NET POSITION	<u>\$ 6,231,305</u>	<u>\$ 6,456,706</u>

HIWASSEE UTILITIES COMMISSION

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013

	For the Year Ending June 30, 2014	For the Year Ending June 30, 2013
Operating Revenues:		
Water revenue	\$ 3,104,540	\$ 2,925,212
Operating Expenses:		
Contracted plant operations	\$ 370,747	\$ 344,507
Contracted plant overhead	224,801	209,387
Electricity	576,388	606,959
Lab supplies, analysis and reports	13,862	7,393
Chemicals	165,262	161,983
Sampling	10,675	11,778
Sludge disposal	144,266	51,989
Security and safety	5,316	6,461
Telephone and communications	6,844	5,434
Longevity pay	6,953	6,006
Property insurance	20,341	20,783
Other fees, permits and professional services	28,377	27,177
Office supplies and small equipment	2,503	1,015
Commission expense	8,419	8,373
Salary - Office manager	31,590	30,030
Payroll taxes	2,430	2,362
Maintenance	338,492	290,170
Provision for depreciation and amortization	795,653	776,874
Total operating expenses	<u>\$ 2,752,919</u>	<u>\$ 2,568,681</u>
Operating Income	<u>\$ 351,621</u>	<u>\$ 356,531</u>
Other revenues (expenses)		
Interest expense	\$ (532,898)	\$ (540,340)
Interest income	6,560	6,125
Loss on disposal of assets	(56,739)	(62,827)
Bond premium amortization	6,055	6,054
Total other expenses	<u>\$ (577,022)</u>	<u>\$ (590,988)</u>
Change in net position	\$ (225,401)	\$ (234,457)
Net position, beginning of year, as previously reported	\$ 6,456,706	\$ 6,867,435
Prior Period Adjustment	<u>0</u>	<u>(176,272)</u>
Net position, beginning of year, as restated	<u>\$ 6,456,706</u>	<u>\$ 6,691,163</u>
Net position, end of year	<u>\$ 6,231,305</u>	<u>\$ 6,456,706</u>

HIWASSEE UTILITIES COMMISSION*Statements of Cash Flows**For the Years Ended June 30, 2014 and 2013*

	For the Year Ending June 30, 2014	For the Year Ending June 30, 2013
Cash flows from operating activities:		
Receipts from customers	\$ 3,109,685	\$ 2,920,454
Payments to suppliers for goods and services	(1,788,362)	(1,875,699)
Payments to employees for services	(33,327)	(33,004)
Net cash provided by operating activities	<u>\$ 1,287,996</u>	<u>\$ 1,011,751</u>
Cash flows from capital and related financing activities:		
Net of plant asset additions	\$ (78,437)	\$ (328,107)
Payment of principal on long-term debt	(195,000)	(185,000)
Payment of interest on long-term debt	(532,898)	(540,340)
Net cash used in capital and related financing activities	<u>\$ (806,335)</u>	<u>\$ (1,053,447)</u>
Cash flows from investing activities:		
Interest received	\$ 6,560	\$ 6,125
Net cash provided by investing activities	<u>\$ 6,560</u>	<u>\$ 6,125</u>
Net increase (decrease) in cash and cash equivalents	\$ 488,221	\$ (35,571)
Cash and cash equivalents, beginning of year	1,860,145	1,895,716
Cash and cash equivalents, end of year	<u>\$ 2,348,366</u>	<u>\$ 1,860,145</u>
Reconciliation of operating revenues to net cash provided by operating activities:		
Operating income	\$ 351,621	\$ 356,531
Adjustments to reconcile new operating revenues to net cash provided by operating activities:		
Depreciation	779,350	760,573
Amortization	16,303	16,301
Changes in operating assets and liabilities:		
Accounts receivable	5,145	(4,758)
Other receivables	17,858	(17,858)
Prepaid expenses	(1,247)	201
Accounts payable	118,273	(98,627)
Other current liabilities	693	(612)
Net cash provided by operating activities	<u>\$ 1,287,996</u>	<u>\$ 1,011,751</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 532,898	\$ 540,340

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2014 and 2013

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 5), 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.

Accounting Changes - Prior Period Adjustment

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, 2014 and 2013

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

- *Net investment in capital assets* - 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, 2014 and 2013.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities. Implementation of GASB Statement No. 65 resulted in a restatement of beginning net position for the fiscal year ended June 30, 2013. Net position at the beginning of fiscal year June 30, 2013, was reduced by \$176,272.

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.

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2014 and 2013

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

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.

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>6/30/2014</u>	<u>6/30/2013</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	<u>\$ 632,999</u>	<u>\$ 632,999</u>
Less amortization	411,449	395,624
Net Feasibility Studies	<u>\$ 221,550</u>	<u>\$ 237,375</u>

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

Deferred Outflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The Commission has only one item that qualifies for reporting in this category, the deferred loss on refunding.

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2014 and 2013

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

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2014, and January 7, 2015, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Note 2 - CASH AND CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less are treated as cash equivalents. Funds with longer maturity dates are recorded as investments. All amounts are collateralized and covered under the Federal Deposit Insurance Corporation (or FDIC) limits or the State of Tennessee Collateral Pool.

Note 3 - DEPOSITS AND INVESTMENTS

At year-end, all deposits of the Hiwassee Utilities Commission were covered by the Federal Deposit Insurance Corporation (FDIC) limits or by collateral held by the State of Tennessee Collateral Pool for Public Deposits.

The Commission's investments include:

	06/30/2014		06/30/2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Certificates of Deposit	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000
Total Investments	<u>\$ 600,000</u>	<u>\$ 600,000</u>	<u>\$ 600,000</u>	<u>\$ 600,000</u>

Investments are reported at fair value, which is the amount at which financial instruments could be exchanged in a current transaction between willing parties.

Interest rate risk - In accordance with its investment policy, the Commission manages its exposure to declines in fair values by limiting the amount invested in long-term investments and bidding the amount of interest earned on checking accounts with area banks.

Credit risk - State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer. The Commission places no limit on the amount that may be invested with one issuer.

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2014 and 2013

Note 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	6/30/2013 Beginning Balance	Increases	Decreases	6/30/2014 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	\$ 23,489,898	\$ 78,437	\$ (509,788)	\$ 23,058,547
Equipment and fixtures	239,874	0	(174,902)	64,972
Total capital assets being depreciated	<u>\$ 23,729,772</u>	<u>\$ 78,437</u>	<u>\$ (684,690)</u>	<u>\$ 23,123,519</u>
Less Accumulated depreciation for				
Buildings, lines, pumps and equipment	\$ (8,821,394)	\$ (776,255)	\$ 453,049	\$ (9,144,600)
Equipment and fixtures	(223,465)	(3,095)	174,902	(51,658)
Total accumulated depreciation	<u>\$ (9,044,859)</u>	<u>\$ (779,350)</u>	<u>\$ 627,951</u>	<u>\$ (9,196,258)</u>
Total capital assets being depreciated, net	<u>\$ 14,684,913</u>	<u>\$ (700,913)</u>	<u>\$ (56,739)</u>	<u>\$ 13,927,261</u>

Capital asset activity for the prior 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, 2014 and 2013

Note 5 - 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
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
2020-2024	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>\$ 9,411,300</u>	<u>\$ 10,970,000</u>	<u>\$ 20,381,300</u>

Activity in Long-term debt for the year ended June 30, 2014, was as follows:

	6/30/2013 Beginning Balance	Additions	Reductions	6/30/2014 Ending Balance	Due within One Year
Note payable	\$ 11,165,000	\$ 0	\$ (195,000)	\$ 10,970,000	\$ 205,000
Note premium	181,117	0	(6,055)	175,062	
Total	<u>\$ 11,346,117</u>	<u>\$ 0</u>	<u>\$ (201,055)</u>	<u>\$ 11,145,062</u>	<u>\$ 205,000</u>

Activity in Long-term debt for the prior 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
Note premium	187,171	0	(6,054)	181,117	
Total	<u>\$ 11,537,171</u>	<u>\$ 0</u>	<u>\$ (191,054)</u>	<u>\$ 11,346,117</u>	<u>\$ 195,000</u>

HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2014 and 2013

Note 6 - FEDERAL AND STATE INCOME TAXES

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

Note 7 - 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 8 - 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 9 - RECLASSIFICATION

Certain items have been reclassified in order to present more clearly the financial statements at June 30, 2014.

Note 10 - ECONOMIC DEPENDENCY - MAJOR CUSTOMER

Hiwassee Utilities Commission sells a substantial portion of its water to one customer. For years ending June 30, 2014 and 2013, sales to that customer totaled \$2,216,213 and \$2,186,741, respectively. At June 30, 2014 and 2013, amounts due from that customer included in trade accounts receivable was \$182,374 and \$179,438, 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, 2014*

	Balance June 30, 2013	Additions	Retirement	Balance June 30, 2014
Land and land rights	\$ 102,174	\$ 0	\$ 0	\$ 102,174
Buildings, lines, pumps and equipment	23,489,898	78,437	(509,788)	23,058,547
Fixtures and equipment	<u>239,874</u>	<u>0</u>	<u>(174,902)</u>	<u>64,972</u>
TOTAL	\$ 23,831,946	\$ 78,437	\$ (684,690)	\$ 23,225,693
Less: Accumulated depreciation	<u>(9,044,859)</u>	<u>(779,350)</u>	<u>627,951</u>	<u>(9,196,258)</u>
Net	<u>\$ 14,787,087</u>	<u>\$ (700,913)</u>	<u>\$ (56,739)</u>	<u>\$ 14,029,435</u>

HIWASSEE UTILITIES COMMISSION

Schedule of Insurance Coverage

For the Year Ended June 30, 2014

<u>Policy No.</u>	<u>Insurance Company</u>	<u>Period</u>	<u>Type of Policy</u>	<u>Premium Amount</u>	<u>Coverage</u>
S 2023672	Selective Insurance	4/20/14-4/20/15	Special Multi-Peril Policy (Commercial Package)	\$ 23,450	See breakdown of policy below
S 2023672	Selective Insurance	4/20/14-4/20/15	Automotive/Equipment	\$ 2,500 included in above	\$ 1,149,000 limit on real and personal property; \$500 deductible
S 2023672	Selective Insurance	4/20/14-4/20/15	General Liability Ins.	\$ 1,250 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	4/20/14-4/20/15	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	4/20/14-4/20/15	Inland Marine	\$ 2,500 included in above	Contractor's equip.- actual cost of \$10,000 deductible
S 2023672	Selective Insurance	4/20/14-4/20/15	Commercial Auto	\$ 199 included in above	Commercial auto (business or truckers)
S 2023672	Selective Insurance	4/20/14-4/20/15	Flood and Earthquake	\$ 3,602 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, 2014*

<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	1.0148
Cleveland	9,700,000	5,335,000	0.1500	1.0148
Riceville	500,000	275,000	0.1500	1.0148
McMinn County	500,000	0	0.1500	0
Calhoun- Charleston	500,000	275,000	0.1500	1.0148

HIWASSEE UTILITIES COMMISSION

Schedule of Age of Accounts Receivable

June 30, 2014

<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	\$ 50,129	\$ 0	\$ 0	\$ 0	\$ 50,129
Calhoun-Charleston	21,666	0	0	0	21,666
Cleveland	182,374	0	0	0	182,374
McMinn	2,325	0	0	0	2,325
Riceville	9,367	0	0	0	9,367
TOTALS	<u>\$ 265,861</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 265,861</u>

HIWASSEE UTILITIES COMMISSION

Schedule of Officers

June 30, 2014

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

HIWASSEE UTILITIES COMMISSION*Schedule of Bond Principal and Interest Requirements**June 30, 2014*

Fiscal Year Ending June 30,	2007 Water Expansion Project		
	Interest	Principal	Total Requirements
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>\$ 9,411,300</u>	<u>\$ 10,970,000</u>	<u>\$ 20,381,300</u>

AWWA Free Water Audit Software:
 Reporting Worksheet

WAS v5.0
 American Water Works Association
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Click to access definition
 Click to add a comment

Water Audit Report for: **Hiwassee Utilities Commission (0000831)**
 Reporting Year: **2014** **7/2013 - 6/2014**

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

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

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

WATER SUPPLIED

Volume from own sources: 2,408.240 MG/Yr
 Water imported: 0.000 MG/Yr
 Water exported: 0.000 MG/Yr

Master Meter and Supply Error Adjustments

Pcnt: Value: MG/Yr
 MG/Yr
 MG/Yr

WATER SUPPLIED: 2,408.239 MG/Yr

Enter negative % or value for under-registration
 Enter positive % or value for over-registration

AUTHORIZED CONSUMPTION

Billed metered: 2,328.678 MG/Yr
 Billed unmetered: 0.000 MG/Yr
 Unbilled metered: 65.601 MG/Yr
 Unbilled unmetered: 0.001 MG/Yr

Click here: for help using option buttons below

Pcnt: Value: MG/Yr

AUTHORIZED CONSUMPTION: 2,394.280 MG/Yr

Use buttons to select percentage of water supplied OR value

WATER LOSSES (Water Supplied - Authorized Consumption)

13.959 MG/Yr

Apparent Losses

Unauthorized consumption: 0.001 MG/Yr
 Customer metering inaccuracies: -44.251 MG/Yr
 Systematic data handling errors: 0.001 MG/Yr

Pcnt: Value: MG/Yr

Apparent Losses: -44.249 MG/Yr

MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: **58.208 MG/Yr**

WATER LOSSES: 13.959 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 79.561 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains: 17.0 miles
 Number of active AND inactive service connections: 5
 Service connection density: 0 conn./mile main

Are customer meters typically located at the curbstop or property line?
 Average length of customer service line: 0.0 ft (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average operating pressure: 130.0 psi

COST DATA

Total annual cost of operating water system: \$344,565 \$/Year
 Customer retail unit cost (applied to Apparent Losses): \$1.34 \$/1000 gallons (US)
 Variable production cost (applied to Real Losses): \$1,171.00 \$/Million gallons

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 93 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: Billed metered
- 3: Unbilled metered



AWWA Free Water Audit Software:
 System Attributes and Performance Indicators

American Water Works Association
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Water Audit Report for: Hiwassee Utilities Commission (0000831)
 Reporting Year: 2014 7/2013 - 6/2014

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 93 OUT OF 100 ***

System Attributes:

Apparent Losses: (44,249) MG/Yr
 + Real Losses: 58,208 MG/Yr
 = **Water Losses:** 13,959 MG/Yr

Unavoidable Annual Real Losses (UARL): See limits in definition MG/Yr

Annual cost of Apparent Losses: \$59,294

Annual cost of Real Losses: \$68,162 Valued at **Variable Production Cost**
 Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial: {

Non-revenue water as percent by volume of Water Supplied: 3.3%

Non-revenue water as percent by cost of operating system: 24.9% Real Losses valued at Variable Production Cost

Operational Efficiency: {

Apparent Losses per service connection per day: -24246.04 gallons/connection/day

Real Losses per service connection per day: N/A gallons/connection/day

Real Losses per length of main per day*: 9,380.83 gallons/mile/day

Real Losses per service connection per day per psi pressure: N/A gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): 58.21 million gallons/year

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

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

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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, 2014, 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 7, 2015.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 2014-1.

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 7, 2015

HIWASSEE UTILITIES COMMISSION

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2014

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 2014-1

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 2014-1.