

**HIWASSEE UTILITIES COMMISSION**

*Financial Statements*

*June 30, 2015 and 2014*

**HIWASSEE UTILITIES COMMISSION**

*Financial Statements*

*June 30, 2015 and 2014*

**CONTENTS**

	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 4
FINANCIAL STATEMENTS	
Statements of Net Position	5
Statements of Revenues, Expenses and Changes in Net Position	6
Statements of Cash Flows	7
NOTES TO FINANCIAL STATEMENTS	8 - 13
SUPPLEMENTAL INFORMATION	
Schedule of Additions and Retirements to Utility Plant	14
Schedule of Insurance Coverage	15
Schedule of Utility Rates in Force	16
Schedule of Age of Accounts Receivable	17
Schedule of Officers	18
Schedule of Bond Principal and Interest Requirements	19
Schedule of Unaccounted for Water - Reporting Worksheet	20
Schedule of Unaccounted for Water - Performance Indicators	21
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 <i>GOVERNMENT AUDITING STANDARDS</i>	22 - 23
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	24

**ARNETT, KIRKSEY, KIMSEY, SULLIVAN, LAY & HALL, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS

RONALD E. ARNETT, CPA/PFS, CVA  
WILLIAM B. KIRKSEY, CPA  
BUDDY E. KIMSEY, CPA/PFS  
VICKI PIERCE SULLIVAN, CPA  
MARK A. LAY, CPA  
SCOTT D. HALL, CPA  
ANGELA D. KEY, CPA  
CALEB J. PEACOCK, CPA

WEDGEWOOD OFFICE PARK  
4395 N. OCOEE STREET  
CLEVELAND, TENNESSEE 37312

TELEPHONE: (423) 476-5581  
FACSIMILE: (423) 472-9893  
EMAIL: cpa@akkslh.com

MEMBERS  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
TENNESSEE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS  
NATIONAL ASSOCIATION OF  
CERTIFIED VALUATION ANALYSTS

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Hiwassee Utilities Commission  
Charleston, Tennessee

**Report on the Financial Statements**

We have audited the accompanying financial statements of Hiwassee Utilities Commission as of and for the years ended June 30, 2015 and 2014, 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, 2015 and 2014, 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**

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 14 through 21 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, 2016, 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, 2016

**HIWASSEE UTILITIES COMMISSION***Management's Discussion and Analysis**June 30, 2015 and 2014*

## The Board of Hiwassee Utilities Commission

## Management's Discussion and Analysis

June 30, 2015

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, 2015 and 2014.

**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>2015</u>	<u>2014</u>	<u>2013</u>
Current assets	\$ 2,962,396	\$ 2,633,769	\$ 2,167,304
Capital assets	12,491,499	14,029,435	14,787,087
Other assets	<u>806,225</u>	<u>822,050</u>	<u>837,875</u>
Total assets	16,260,120	17,485,254	17,792,266
Deferred outflows of resources	13,276	13,751	14,227
Current liabilities	300,844	327,638	198,671
Non-current liabilities	<u>10,724,008</u>	<u>10,940,062</u>	<u>11,151,116</u>
Total liabilities	11,024,852	11,267,700	11,349,787
Net investment in capital assets	1,570,767	2,898,124	3,455,198
Unrestricted	<u>3,677,777</u>	<u>3,333,181</u>	<u>3,001,508</u>
Total net position	5,248,544	6,231,305	6,456,706
Operating revenues	3,183,150	3,104,540	2,925,212
Operating expenses	<u>2,697,898</u>	<u>2,752,919</u>	<u>2,568,681</u>
Operating income	485,252	351,621	356,531
Interest income	6,513	6,560	6,125
Bond premium amortization	6,054	6,055	6,054
Interest expense	(525,154)	(532,898)	(540,340)

As indicated in the Financial Highlights, operating revenues for the current year versus the prior year increased \$78,610 due to an average annual rate increase of 2-3%. Operating expenses for the current year versus the prior year decreased \$55,021, mostly attributable to the large decrease in depreciation expense incurred during the current fiscal year.

**HIWASSEE UTILITIES COMMISSION**

*Management's Discussion and Analysis*

*June 30, 2015 and 2014*

---

**Assets**

During the year ended June 30, 2015, one asset was added that increased both capacity and efficiency. It was comprised of site improvements as well as piping modifications made to the lagoons in an effort to improve the lagoon's capacity and efficiency. The improvements consisted of work completed throughout the year totaling \$102,984. 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 \$22,302, while the total removed from Plant (buildings, lines, pumps, etc.) was \$2,454,823. There was one large project in process at year end which was completed and placed in service in August of 2015. The expenses associated with this project incurred prior to June 30, 2015, were reclassified to Prepaid Expenses as shown on the Statement of Net Position. The project known as the Athens High Service Pump Variable Frequency Drive Project will be capitalized and added to the Fixed Asset listing during the subsequent fiscal year ended June 30, 2016.

**Debt**

During the year ended June 30, 2015, 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, 2015 and 2014

	June 30, 2015	June 30, 2014
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 2,602,691	\$ 2,348,366
Accounts receivable (customers)	256,400	265,861
Prepaid expenses	103,305	19,542
Total Current Assets	<u>\$ 2,962,396</u>	<u>\$ 2,633,769</u>
Non-Current Assets:		
Capital Assets		
Land and easements	\$ 102,174	\$ 102,174
Other assets, net of accumulated depreciation	12,389,325	13,927,261
Total Capital Assets	<u>\$ 12,491,499</u>	<u>\$ 14,029,435</u>
Other Assets:		
Investments - restricted	\$ 600,000	\$ 600,000
Deposits	500	500
Feasibility studies, net of amortization	205,725	221,550
Total Other Assets	<u>\$ 806,225</u>	<u>\$ 822,050</u>
<b>TOTAL ASSETS</b>	<u>\$ 16,260,120</u>	<u>\$ 17,485,254</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred loss on refunding	\$ 13,276	\$ 13,751
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 13,276</u>	<u>\$ 13,751</u>

	June 30, 2015	June 30, 2014
<b>LIABILITIES</b>		
Current Liabilities:		
Current maturities of long-term debt	\$ 210,000	\$ 205,000
Accounts payable	90,106	121,941
Other current liabilities	738	697
Total Current Liabilities	<u>\$ 300,844</u>	<u>\$ 327,638</u>
Non-Current Liabilities:		
Long-term debt, net of current maturities	\$ 10,724,008	\$ 10,940,062
Total Non-Current Liabilities	<u>\$ 10,724,008</u>	<u>\$ 10,940,062</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 11,024,852</u>	<u>\$ 11,267,700</u>
<b>NET POSITION</b>		
Net investment in capital assets	\$ 1,570,767	\$ 2,898,124
Unrestricted	3,677,777	3,333,181
<b>TOTAL NET POSITION</b>	<u>\$ 5,248,544</u>	<u>\$ 6,231,305</u>

**HIWASSEE UTILITIES COMMISSION**

Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended June 30, 2015 and 2014

	For the Year Ending June 30, 2015	For the Year Ending June 30, 2014
Operating Revenues:		
Water revenue	\$ 3,183,150	\$ 3,104,540
Operating Expenses:		
Contracted plant operations	\$ 428,782	\$ 370,747
Contracted plant overhead	216,145	224,801
Electricity	615,725	576,388
Lab supplies, analysis and reports	7,940	13,862
Chemicals	142,121	165,262
Sampling	9,137	10,675
Sludge disposal	43,230	144,266
Security and safety	4,507	5,316
Telephone and communications	6,590	6,844
Longevity pay	5,572	6,953
Property insurance	26,057	20,341
Other fees, permits and professional services	22,814	28,377
Office supplies and small equipment	4,655	2,503
Commission expense	8,473	8,419
Salary - office manager	32,695	31,590
Payroll taxes	1,809	2,430
Maintenance	371,472	338,492
Provision for depreciation and amortization	750,174	795,653
Total operating expenses	<u>\$ 2,697,898</u>	<u>\$ 2,752,919</u>
Operating Income	<u>\$ 485,252</u>	<u>\$ 351,621</u>
Other revenues (expenses)		
Interest expense	\$ (525,154)	\$ (532,898)
Interest income	6,513	6,560
Loss on disposal of assets	(955,426)	(56,739)
Bond premium amortization	6,054	6,055
Total other expenses	<u>\$ (1,468,013)</u>	<u>\$ (577,022)</u>
Change in net position	\$ (982,761)	\$ (225,401)
Net position, beginning of year, as previously reported	<u>6,231,305</u>	<u>6,456,706</u>
Net position, end of year	<u>\$ 5,248,544</u>	<u>\$ 6,231,305</u>

**HIWASSEE UTILITIES COMMISSION***Statements of Cash Flows**For the Years Ended June 30, 2015 and 2014*

	For the Year Ending June 30, 2015	For the Year Ending June 30, 2014
Cash flows from operating activities:		
Receipts from customers	\$ 3,192,611	\$ 3,109,685
Payments to suppliers for goods and services	(2,028,818)	(1,788,362)
Payments to employees for services	(34,463)	(33,327)
Net cash provided by operating activities	<u>\$ 1,129,330</u>	<u>\$ 1,287,996</u>
Cash flows from capital and related financing activities:		
Net of plant asset additions	\$ (151,364)	\$ (78,437)
Payment of principal on long-term debt	(205,000)	(195,000)
Payment of interest on long-term debt	(525,154)	(532,898)
Net cash used in capital and related financing activities	<u>\$ (881,518)</u>	<u>\$ (806,335)</u>
Cash flows from investing activities:		
Interest received	\$ 6,513	\$ 6,560
Net cash provided by investing activities	<u>\$ 6,513</u>	<u>\$ 6,560</u>
Net increase in cash and cash equivalents	\$ 254,325	\$ 488,221
Cash and cash equivalents, beginning of year	2,348,366	1,860,145
Cash and cash equivalents, end of year	<u>\$ 2,602,691</u>	<u>\$ 2,348,366</u>
Reconciliation of operating revenues to net cash provided by operating activities:		
Operating income	\$ 485,252	\$ 351,621
Adjustments to reconcile new operating revenues to net cash provided by operating activities:		
Depreciation	733,872	779,350
Amortization	16,302	16,303
Changes in operating assets and liabilities:		
Accounts receivable	9,461	5,145
Other receivables	0	17,858
Prepaid expenses	(83,763)	(1,247)
Accounts payable	(31,835)	118,273
Other current liabilities	41	693
Net cash provided by operating activities	<u>\$ 1,129,330</u>	<u>\$ 1,287,996</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 525,154	\$ 532,898

# HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2015 and 2014

## 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

GASB Statement No. 65 (Statement 65) of the Government Accounting Standards Board, Items Previously Reported as Assets and Liabilities, 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, 2015 and 2014

## 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:

	6/30/2015	6/30/2014
Bradley-McMinn Study	\$ 326,635	\$ 326,635
Athens Sewer System Evaluation Survey	113,640	113,640
Cleveland Sewer System Evaluation Survey - Phase I	159,298	159,298
Cleveland Sewer System Evaluation Survey - Phase II	4,207	4,207
Candies Creek Sewer System Evaluation Survey - Phase I	15,313	15,313
Candies Creek Sewer System Evaluation Survey - Phase II	13,906	13,906
Total Feasibility Studies	\$ 632,999	\$ 632,999
Less amortization	427,274	411,449
Net Feasibility Studies	\$ 205,725	\$ 221,550

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, 2015 and 2014

## 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, 2015, and January 7, 2016, 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:

	06/30/2015		06/30/2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Certificates of Deposit	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000
Total Investments	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000

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, 2015 and 2014

## Note 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	6/30/2014 Beginning Balance	Increases	Decreases	6/30/2015 Ending Balance
<b>Business-type activities:</b>				
<b>Capital assets not being depreciated:</b>				
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>
<b>Capital assets being depreciated:</b>				
Buildings, lines, pumps and equipment	\$ 23,058,547	\$ 151,364	\$ (2,454,823)	\$ 20,755,088
Equipment and fixtures	64,972	0	(22,302)	42,670
Total capital assets being depreciated	<u>\$ 23,123,519</u>	<u>\$ 151,364</u>	<u>\$ (2,477,125)</u>	<u>\$ 20,797,758</u>
Less Accumulated depreciation for:				
Buildings, lines, pumps and equipment	\$ (9,144,600)	\$ (730,817)	\$ 1,501,551	\$ (8,373,866)
Equipment and fixtures	(51,658)	(3,056)	20,147	(34,567)
Total accumulated depreciation	<u>\$ (9,196,258)</u>	<u>\$ (733,873)</u>	<u>\$ 1,521,698</u>	<u>\$ (8,408,433)</u>
Total capital assets being depreciated, net	<u>\$ 13,927,261</u>	<u>\$ (582,509)</u>	<u>\$ (955,427)</u>	<u>\$ 12,389,325</u>

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

	6/30/2013 Beginning Balance	Increases	Decreases	6/30/2014 Ending Balance
<b>Business-type activities:</b>				
<b>Capital assets not being depreciated:</b>				
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>
<b>Capital assets being depreciated:</b>				
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>

# HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2015 and 2014

## 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 at a 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
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
2021-2025	2,228,400	1,410,000	3,638,400
2026-2030	1,878,800	1,755,000	3,633,800
2031-2035	1,399,750	2,235,000	3,634,750
2036-2040	782,000	2,860,000	3,642,000
2041-2042	102,500	1,355,000	1,457,500
	<u>\$ 8,886,200</u>	<u>\$ 10,765,000</u>	<u>\$ 19,651,200</u>

Activity in Long-term debt for the year ended June 30, 2015, was as follows:

	6/30/2014 Beginning Balance	Additions	Reductions	6/30/2015 Ending Balance	Due within One Year
Note payable	\$ 10,970,000	\$ 0	\$ (205,000)	\$ 10,765,000	\$ 210,000
Note premium	175,062	0	(6,054)	169,008	0
Total	<u>\$ 11,145,062</u>	<u>\$ 0</u>	<u>\$ (211,054)</u>	<u>\$ 10,934,008</u>	<u>\$ 210,000</u>

Activity in Long-term debt for the prior 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	0
Total	<u>\$ 11,346,117</u>	<u>\$ 0</u>	<u>\$ (201,055)</u>	<u>\$ 11,145,062</u>	<u>\$ 205,000</u>

## Note 6 - FEDERAL AND STATE INCOME TAXES

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

## HIWASSEE UTILITIES COMMISSION

Notes to Financial Statements

June 30, 2015 and 2014

---

### 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, 2015.

### Note 10 - ECONOMIC DEPENDENCY - MAJOR CUSTOMER

Hiwassee Utilities Commission sells a substantial portion of its water to one customer. For years ending June 30, 2015 and 2014, sales to that customer totaled \$2,250,739 and \$2,216,213, respectively. At June 30, 2015 and 2014, amounts due from that customer included in trade accounts receivable were \$184,724 and \$182,374, 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, 2015*

	<b>Balance June 30, 2014</b>	<b>Additions</b>	<b>Retirement</b>	<b>Balance June 30, 2015</b>
Land and land rights	\$ 102,174	\$ 0	\$ 0	\$ 102,174
Buildings, lines, pumps and equipment	23,058,547	151,364	(2,454,823)	20,755,088
Fixtures and equipment	<u>64,972</u>	<u>0</u>	<u>(22,302)</u>	<u>42,670</u>
TOTAL	\$ 23,225,693	\$ 151,364	\$ (2,477,125)	\$ 20,899,932
Less: Accumulated depreciation	<u>(9,196,258)</u>	<u>(733,873)</u>	<u>1,521,698</u>	<u>(8,408,433)</u>
Net	<u>\$ 14,029,435</u>	<u>\$ (582,509)</u>	<u>\$ (955,427)</u>	<u>\$ 12,491,499</u>

**HIWASSEE UTILITIES COMMISSION**

*Schedule of Insurance Coverage*

*For the Year Ended June 30, 2015*

<b>Policy No.</b>	<b>Insurance Company</b>	<b>Period</b>	<b>Type of Policy</b>	<b>Premium Amount</b>	<b>Coverage</b>
S 2023672	Selective Insurance	4/20/15-4/20/16	Special Multi-Peril Policy (Commercial Package)	\$ 24,743	See breakdown of policy below
S 2023672	Selective Insurance	4/20/15-4/20/16	Automotive/Equipment	\$ 14,796 included in above	\$ 1,275,203 limit on real and personal property; \$10,000 deductible
S 2023672	Selective Insurance	4/20/15-4/20/16	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	4/20/15-4/20/16	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	4/20/15-4/20/16	Inland Marine	\$ 2,500 included in above	Contractor's equip.- actual cost of \$10,000 deductible
S 2023672	Selective Insurance	4/20/15-4/20/16	Commercial Auto	\$ 179 included in above	Commercial auto (business or truckers)
S 2023672	Selective Insurance	4/20/15-4/20/16	Flood and Earthquake	\$ 3,827 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, 2015*

---

<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	1.0351
Cleveland	9,700,000	5,335,000	0.1500	1.0351
Riceville	500,000	275,000	0.1500	1.0351
McMinn County	500,000	0	0.1500	0
Calhoun- Charleston	500,000	275,000	0.1500	1.0351

**HIWASSEE UTILITIES COMMISSION***Schedule of Age of Accounts Receivable**June 30, 2015*

---

<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	\$ 48,977	\$ 0	\$ 0	\$ 0	\$ 48,977
Calhoun-Charleston	10,865	0	0	0	10,865
Cleveland	184,724	0	0	0	184,724
McMinn	2,325	0	0	0	2,325
Riceville	9,509	0	0	0	9,509
<b>TOTALS</b>	<u>\$ 256,400</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 256,400</u>

**HIWASSEE UTILITIES COMMISSION**

*Schedule of Officers*

*June 30, 2015*

---

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, 2015*

---

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>2007 Water Expansion Project</u>		
	<u>Interest</u>	<u>Principal</u>	<u>Total</u> <u>Requirements</u>
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>\$ 8,886,200</u>	<u>\$ 10,765,000</u>	<u>\$ 19,651,200</u>

# HIWASSEE UTILITIES COMMISSION

## Schedule of Unaccounted for Water - Reporting Worksheet

June 30, 2015

### AWWA Free Water Audit Software: Reporting Worksheet

WAS 15.0

American Water Works Association  
Copyright © 2014. All Rights Reserved.

Water Audit Report for: **Hiwassee Utilities Commission (0000831)**  
Reporting Year: **2015** **7/2014 - 6/2015**

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:     MG/Yr  
Water imported:    MG/Yr  
Water exported:    MG/Yr

**WATER SUPPLIED:**  MG/Yr

#### Master Meter and Supply Error Adjustments

Enter grading in column 'E' and 'J' Pcnt:    Value:  MG/Yr  
   MG/Yr  
   MG/Yr

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

#### AUTHORIZED CONSUMPTION

Billed metered:     MG/Yr  
Billed unmetered:    MG/Yr  
Unbilled metered:     MG/Yr  
Unbilled unmetered:     MG/Yr

**AUTHORIZED CONSUMPTION:**   MG/Yr

Click here:  for help using option buttons below  
Pcnt:  Value:  MG/Yr

Use buttons to select percentage of water supplied OR value

#### WATER LOSSES (Water Supplied - Authorized Consumption)

MG/Yr

#### Apparent Losses

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

**Apparent Losses:**   MG/Yr

Pcnt:  Value:  MG/Yr

MG/Yr  
 MG/Yr

#### Real Losses (Current Annual Real Losses or CARL)

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

**WATER LOSSES:**  MG/Yr

#### NON-REVENUE WATER

**NON-REVENUE WATER:**   MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

#### SYSTEM DATA

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

Are customer meters typically located at the curbside or property line?  (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line:     ft

Average operating pressure:     psi

#### COST DATA

Total annual cost of operating water system:     \$/Year  
Customer retail unit cost (applied to Apparent Losses):     \$/1000 gallons (US)  
Variable production cost (applied to Real Losses):     \$/Million gallons  Use Customer Retail Unit Cost to value real losses

#### 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

# HIWASSEE UTILITIES COMMISSION

Schedule of Unaccounted for Water - Performance Indicators

June 30, 2015

AWWA Free Water Audit Software		WAS 4.0
System Attributes and Performance Indicators		American Water Works Association Copyright © 2004 American Water Works Association
Water Audit Report for: <b>Hiwassee Utilities Commission (0000831)</b>		
Reporting Year:	<b>2015</b>	<b>7/2014 - 6/2015</b>
*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 93 out of 100 ***		
<b>System Attributes:</b>		
	Apparent Losses:	<b>(44.505)</b> MG/Yr
	+ Real Losses:	<b>70.433</b> MG/Yr
	= Water Losses:	<b>25.928</b> MG/Yr
	<b>?</b> Unavoidable Annual Real Losses (UARL):	<b>See limits in definition</b> MG/Yr
	Annual cost of Apparent Losses:	<b>-\$59,637</b>
	Annual cost of Real Losses:	<b>\$81,491</b> Valued at <b>Variable Production Cost</b>
<small>Return to Reporting Worksheet to change this assumption</small>		
<b>Performance Indicators:</b>		
Financial:	Non-revenue water as percent by volume of Water Supplied:	<b>3.8%</b>
	Non-revenue water as percent by cost of operating system:	<b>3.5%</b> Real Losses valued at Variable Production Cost
Operational Efficiency:	Apparent Losses per service connection per day:	<b>24386.26</b> gallons/connection/day
	Real Losses per service connection per day:	<b>N/A</b> gallons/connection/day
	Real Losses per length of main per day*:	<b>11,351.00</b> gallons/mile/day
	Real Losses per service connection per day per psi pressure:	<b>N/A</b> gallons/connection/day/psi
	From Above, Real Losses = Current Annual Real Losses (CARL):	<b>70.43</b> million gallons/year
	<b>?</b> 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

**ARNETT, KIRKSEY, KIMSEY, SULLIVAN, LAY & HALL, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS

RONALD E. ARNETT, CPA/PFS, CVA  
WILLIAM B. KIRKSEY, CPA  
BUDDY E. KIMSEY, CPA/PFS  
VICKI PIERCE SULLIVAN, CPA  
MARK A. LAY, CPA  
SCOTT D. HALL, CPA  

---

ANGELA D. KEY, CPA  
CALEB J. PEACOCK, CPA

WEDGEWOOD OFFICE PARK  
4395 N. OCOEE STREET  
CLEVELAND, TENNESSEE 37312  

---

TELEPHONE: (423) 476-5581  
FACSIMILE: (423) 472-9893  
EMAIL: cpa@akkslh.com

MEMBERS  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
TENNESSEE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS  
NATIONAL ASSOCIATION OF  
CERTIFIED VALUATION ANALYSTS

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, 2015, 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, 2016.

**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 2015-1.

## **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, 2016

**HIWASSEE UTILITIES COMMISSION**

*Schedule of Findings and Questioned Costs*

*For the Year Ended June 30, 2015*

---

**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 2015-1**

**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 2015-1.