

**SOUTH CUMBERLAND UTILITY DISTRICT  
OF CUMBERLAND COUNTY, TENNESSEE**

**FINANCIAL STATEMENTS  
WITH  
SUPPLEMENTAL FINANCIAL INFORMATION  
DECEMBER 31, 2011 AND 2010**

**OF GUMBERLAND COUNTY, TENNESSEE**

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**SOUTH CUMBERLAND UTILITY DISTRICT  
OF CUMBERLAND COUNTY, TENNESSEE**

**INDEPENDENT AUDITOR'S REPORT**

**DECEMBER 31, 2011 AND 2010**

## INDEPENDENT AUDITOR'S REPORT

The Commissioners of the South Cumberland Utility District  
of Cumberland County, Tennessee

We have audited the accompanying financial statements of the South Cumberland Utility District of Cumberland County, Tennessee as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the South Cumberland Utility District of Cumberland County, Tennessee's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Cumberland Utility District of Cumberland County, Tennessee, as of December 31, 2011 and 2010, and the changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2012, on our consideration of the South Cumberland Utility District of Cumberland County, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussions and analysis information on pages 3 through 11 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 inquires 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.

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

*Parsons & Wright*

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Parsons & Wright  
Certified Public Accountants  
Kingston, Tennessee

May 23, 2012

General manager and reviewed by the Board of Commissioners and Parsons & Wright, an independent auditing firm, for correctness. The MD&A presents a narrative overview of the financial standing and performance of South Cumberland Utility District (hereinafter the District) for fiscal year 2011 (FY2011) as well as a comparison of the same for fiscal year 2010 (FY2010).

## **BASIC FINANCIAL REPORTING DISCUSSION**

This section of the MD&A details the type of funds utilized to carry out the District's business activities and the format and content of the basic financial statements used to track our financial position. Proprietary enterprise funds are used to carry out the District's business which means that we impose fees or charges on those who use our services. Generally accepted accounting principles (GAAP) prescribe three basic financial statements for proprietary funds: statement of revenues, expenses, and changes in fund net assets; statement of net assets; and statement of cash flows. Additionally the District utilizes a fourth report that is not a part of the audit report, the trail balance report, to identify errors in reporting. Two of the basic financial statements, the statement of revenues, expenses, and changes in fund net assets and the statement of net assets are generated on a monthly basis along with a trial balance report. The statement of cash flows is generated at the end of each fiscal year as an integral part of the annual financial audit completed by the District. The paragraphs below discuss each of these reports in detail.

### **STATEMENT OF REVENUES, EXPENSES, AND NET ASSETS**

The statement of revenues, expenses, and change in fund net assets is the basic statement of activities for the District's proprietary enterprise funds. This statement tracks the revenues (i.e., monies paid to the District for services provided) and expenses (i.e., monies paid by the District to purchase goods and services) of the District on a monthly basis. The difference in the revenues and expenses results in either a net income or net loss for the District for the specific reporting period and indicates whether or not we have been profitable (i.e., made or lost money). Profitability or loss results in either an increase or decrease, respectively, in the District's net assets and equates to a gain or loss in total equity. Net income or increases in net assets are held in reserve for future capital investments or future expenses. GAAP require that the statement of revenues, expenses, and changes in fund net assets/equity for proprietary enterprise funds distinguish operating from non-operating revenues and expenses. The goal of this requirement is to display the extent to which the expenses were covered by revenues generated by the principal ongoing operations (i.e., the treatment, distribution, and sale of potable water).

statement of activities for proprietary enterprise funds, the statement of net assets is the basic financial statement of position for proprietary enterprise funds. The statement of net assets presents a summary of the items that the District owns and the items for which the District owes at a specific time. Assets are the resources owned by the District while liabilities are the rights or claims against those resources. The statement of net assets reflects the relationship of assets, liabilities, and net assets as follows:

$$\begin{aligned} \text{Assets} &= \text{Liabilities} + \text{Net Assets} \\ &\text{Or} \\ \text{Net Assets} &= \text{Assets} - \text{Liabilities} \end{aligned}$$

As previously discussed, assets are the resources owned by the District and are used in carrying out such activities as potable water production, distribution, maintenance and repair. While GAAP require that proprietary enterprise fund statements of net assets classify assets as current or non-current, the common characteristic possessed by all assets is the capacity to provide future services or benefits and in turn eventually results in cash inflow (i.e., revenue) to the District. Liabilities, likewise must be classified as current or non-current/long term and consist of all the existing debts and obligations of the District. Those debt and obligations are commonly referred to as accounts payable. This includes money owed for supplies, wages, bonds, etc. Net assets are calculated as the difference in the assets minus the liabilities.

### **STATEMENT OF CASH FLOWS**

The statement of cash flows is the third basic financial statement for proprietary enterprise funds and focuses on the major sources of cash inflows and outflows and their net effect on the cash and cash equivalents of the District. Cash is defined as primarily cash on hand, cash on deposit, or cash in restricted accounts. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and must mature within three months of the date it is acquired by the District. GAAP requires that cash flows be classified into one of four categories: cash flows from operating activities; cash flows from non-capital financing activities; cash flows from capital and related financing activities; and cash flows from investing activities.

### **TRIAL BALANCE REPORT**

The trial balance report is a listing all financial accounts and their respective balances at a given time. The District prepares a trial balance report at the end of each month for the purpose of ensuring that the sum of the debits equals the sum of the credits after posting. If the debits do not equal the credits, the trial balance is useful in determining where errors in journalizing and posting have occurred.

expenses of the District for the subject fiscal year as well as a comparison of the same for the prior fiscal year.

## ASSETS

Assets can be generally subcategorized as either plant, property, and equipment assets or other assets. Plant, property, and equipment assets are those resources and their associated costs that are integral to the production and distribution of potable water as well as those resources necessary for the normal operation of the District. Other assets are cash, certificates of deposit, accounts receivable, prepaid expenses, restricted cash assets, bond costs, and accumulated amortization of bond costs. The following table summarizes the assets of the District for both FY11 and FY10. The assets are presented as either plant, property, and equipment assets or other assets.

<b>TABLE OF ASSETS FOR FY2011 AND FY2010</b>			
<b>SUMMARY OF PLANT, PROPERTY, AND EQUIPMENT ASSETS</b>			
<b>Asset:</b>	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>	<b>Difference</b>
Cost of Plant in Service	\$8,877,628	\$8,839,129	\$38,499
Land	\$156,607	\$128,604	\$28,003
Construction in Progress	\$1,146,782	\$12,350	\$1,134,432
<b>SUBTOTAL</b>	<b>\$10,181,017</b>	<b>\$8,980,083</b>	<b>\$1,200,934</b>
Accumulated Depreciation	\$(2,950,705)	\$(2,723,757)	\$(226,948)
<b>TOTAL PLANT, PROPERTY, AND EQUIPMENT ASSETS</b>	<b>\$7,230,312</b>	<b>\$6,256,326</b>	<b>\$973,986</b>
<b>SUMMARY OF OTHER ASSETS</b>			
<b>Current Asset:</b>	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>	<b>Difference</b>
Cash in Banks and On Hand	\$1,714,817	\$2,097,155	\$(382,338)
Certificates of Deposit	\$163,956	\$159,790	\$4,166
<b>Total Unrestricted Cash (Subtotal Current Assets)</b>	<b>\$1,878,773</b>	<b>\$2,256,945</b>	<b>\$(378,172)</b>
Accounts Receivable – Customers	\$170,834	\$201,054	\$(30,220)
Accrued Interest Receivable	\$3,125	\$3,718	\$(593)
Inventory	\$50,005	\$42,616	\$7,389
Prepaid Expenses	\$30,252	\$26,581	\$3,671
<b>Total Current Assets</b>	<b>\$2,132,989</b>	<b>\$2,530,914</b>	<b>\$(397,925)</b>
<b>Restricted Assets:</b>			
Cash and Cash Equivalents	\$340,514	\$340,174	\$340
Debt Service Reserve	\$298,103	\$294,371	\$3,732
Certificates of Deposit	\$1,000,370	\$1,000,370	\$0
<b>Total Restricted Assets</b>	<b>\$1,638,987</b>	<b>\$1,634,915</b>	<b>\$4,072</b>
<b>Other Assets:</b>			
Bond Cost	\$167,226	\$167,226	\$0



TOTAL OTHER ASSETS	\$3,893,679	\$4,293,706	\$(399,427)
TOTAL ASSETS	\$11,123,991	\$10,549,432	\$574,559

Noteworthy changes to the District's assets occurred in the following asset categories: cost of plant in service and construction in progress. The utility district completed several capital projects within the subject fiscal year. These projects consisted of expansions to our distribution system and resulted in an increase to the cost of plant in service as upon completion the project was listed as a depreciable asset rather than a construction project in progress. The utility district's construction in progress fell drastically as by fiscal year end the expansion projects were effectively complete.

### LIABILITIES

Liabilities can be generally subcategorized as either long-term or current liabilities. Long-term liabilities consist primarily of the debt incurred by the District which will be paid over time along with interest to purchase the plant, property, and equipment assets. Current liabilities consist of the payable items that will not be financed over time but rather will be paid within the subject fiscal year. The following table details both the long term and current liabilities of the District at fiscal year end.

Long Term Debt:	Fiscal Year 2011	Fiscal Year 2010	Difference
Revenue Bonds Payable	\$3,224,363	\$3,302,836	\$(78,473)
Less: Current Maturities of Long-Term Debt	\$(83,620)	\$(78,444)	\$(5,176)
<b>Total Long Term Debt</b>	<b>\$3,140,743</b>	<b>\$3,224,392</b>	<b>\$(83,649)</b>
<b>Current Liabilities (Payable from Current Assets):</b>			
Accounts Payable	\$255,544	\$99,358	\$156,186
Accrued Expenses	\$26,203	\$30,163	\$(3,960)
Customer Deposits	\$59,746	\$52,971	\$6,775
Deferred Revenue	\$371,633	\$0	\$371,633
<b>Total Current Liabilities (Payable from Current Assets)</b>	<b>\$713,126</b>	<b>\$182,492</b>	<b>\$530,634</b>
<b>Current Liabilities (Payable from Restricted Assets):</b>			
Accrued Interest	\$14,877	\$12,327	\$2,550
Current Maturities of Long Term Debt	\$83,620	\$78,444	\$5,176
<b>Total Current Liabilities (Payable from Restricted Assets)</b>	<b>\$98,497</b>	<b>\$90,771</b>	<b>\$7,726</b>
<b>Total Current Liabilities</b>	<b>\$811,623</b>	<b>\$273,263</b>	<b>\$538,360</b>
<b>TOTAL LIABILITIES</b>	<b>\$3,952,366</b>	<b>\$3,497,655</b>	<b>\$454,711</b>

The long-term liabilities of the District decreased from FY2010 to FY2011 as we have continued paying on the bonds that were issued for the purpose of expanding the water distribution system.

debt, restricted assets, and unrestricted assets. The following table summarizes the change in net assets between the current and previous fiscal year.

<b>SUMMARY OF NET ASSETS</b>			
	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>	<b>Difference</b>
Invested in Capital Assets, Net of Related Debt	\$5,468,536	\$4,421,311	\$1,047,225
Restricted	\$1,653,864	\$1,647,242	\$6,622
Unrestricted	\$49,225	\$983,224	\$(933,999)
<b>TOTAL NET ASSETS</b>	<b>\$7,171,625</b>	<b>\$7,051,777</b>	<b>\$119,848</b>

The capital assets net of related debt consist of those assets that the District owns that are free of long term debt and have not been depreciated (still have some useful life). The restricted assets are basically cash that the District has set aside and earmarked for payment on long term debt but has not paid to the debtor as the payment dates were after the end of the subject fiscal year. The unrestricted assets are the financial resources of the District that have not currently been obligated toward the payment of long term debt. The net assets of the District increased by approximately 1.7% from FY2010 to FY2011.

### **REVENUES**

The District generates operating revenue primarily from the sale of potable water, which comprised approximately 95% of the total operating revenue during FY2011. However, additional revenue was generated in five other categories as follows: reconnect fees, meter usage fees, penalties, other income, and interest income.

<b>SUMMARY OF REVENUES</b>			
	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>	<b>Difference</b>
<b>Operating Revenue</b>			
Metered Water Sales (Net of Bad Debts)	\$1,710,905	\$1,701,162	\$9,743
Penalties	\$23,962	\$22,027	\$1,935
Other Income	\$70,862	\$67,941	\$2,921
<b>SUBTOTAL OPERATING REVENUE</b>	<b>\$1,805,729</b>	<b>\$1,791,130</b>	<b>\$14,599</b>
<b>Non-Operating Revenue</b>			
Interest Income	\$22,259	\$32,036	\$(9,777)
Tap Fees	\$45,100	\$66,200	\$(21,100)
<b>SUBTOTAL NON-OPERATING REVENUE</b>	<b>\$67,359</b>	<b>\$98,236</b>	<b>\$(30,877)</b>
<b>TOTAL REVENUE</b>	<b>\$1,873,088</b>	<b>\$1,889,366</b>	<b>\$(16,278)</b>

Meter usage fees are those charges that a customer pays when they apply for water service within the District's boundary at a residence or business that has a physical connection to the District's distribution system. Penalty fees are assessed to a customers' account if their bill is not paid by the due date. Other income consists of reconnect fees, sale of surplus materials, non-sufficient check charges, bad debt recovery, and vendor compensation. Interest

The water sales rate structure has been set by the Board of Commissioners to provide adequate monies for the normal operation of the District as well as to provide monies in excess of our normal expenses. It is necessary to ensure that the water sales rate structure is set to provide monies in excess of expenses such that the District has a reserve of cash to pay for unexpected repairs and maintenance and infrastructure replacement and expansion. Water rates increased in FY 2011 and FY 2010 to match the increase in the rate charged to the District by the City of Crossville for water purchased. The water sales rate structures in effect during FY2011 and FY2010 are as follows:

<b>WATER RATES SUMMARY</b>			
<b>FY2011 RATE STRUCTURE</b>		<b>FY2010 RATE STRUCTURE</b>	
<b>Quantity Purchased (Gallons)</b>	<b>Current Rate (Per 1000 Gallons)</b>	<b>Quantity Purchased</b>	<b>Current Rate (Per 1000 Gallons)</b>
0 -1,000	\$15.20	0 -1,000	\$14.60
> 1,000	\$7.50	> 1,000	\$7.35

**EXPENSES**

The operating expenses for the District are all of those costs that are necessary for the purchase of water, distribution system, and administrative offices. Operating expenses include items such as utilities, salaries, employee benefits, vehicle expenses, water purchases, telephone, as well as a number of other accounts. The total operating expenses for FY2010 and FY2011 are \$1,353,309 and \$1,368,867, respectively which is an increase of 1.2%. The District has for the past few years been attempting to replace aged infrastructure within the distribution system as well as expand our distribution system into un-served areas within our geographic boundaries. The expenditures on those infrastructure replacement and expansion projects are recorded as depreciable assets rather than expenses. However, the added work load of the projects causes the District to incur additional expenses in other areas of our operation (e.g., additional water used for flushing and testing of the new water lines results in additional water purchase costs without realizing additional revenue). Additionally, the utility district continues to experience increases in the areas of materials, utilities, fuel, maintenance and repairs, and health care.

Expenses incurred by the District that are not classified as operating expenses are non-operating expenses. Those expenses are interest expense and depreciation expense, both of which increased slightly.

<b>SUMMARY OF EXPENSES</b>			
	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>	<b>Difference</b>
Operating Expenses	\$1,368,867	\$1,353,309	\$15,558
Depreciation and Amortization	\$232,522	\$226,855	\$5,667
Non-Operating Expenses			
Interest Expense	\$151,851	\$151,987	\$(136)
<b>TOTAL EXPENSES</b>	<b>\$1,753,240</b>	<b>\$1,732,151</b>	<b>\$21,089</b>

before capital contributions of \$436,662. The District is pleased with our current fiscal position considering our recent efforts to expand and upgrade our water distribution system.

### **SIGNIFICANT CHANGES**

The District has completed several capital projects during the year. The District has installed a radio read meter system. The new meter reading system includes the replacement of all meters within the distribution system resulting in better measuring accuracy of the water used by customers. Additionally the new radio read meter system adds data logging capabilities that heretofore have been unavailable to the utility district. With the use of the data logging capabilities the utility district will be able to take a more proactive approach to finding and repairing leaks rather than a reactive approach.

### **BUDGET VARIANCES**

There were no budget variances that had a significant negative impact on the fiscal condition of the District.

### **CAPITAL ASSETS AND LONG-TERM DEBT**

Plant, property and equipment assets are referred to as capital assets and include all resources and their associated costs that are necessary to the distribution of potable water as well as those resources necessary for the normal operation of the District. The capital assets of the District changed by \$1,200,934 as detailed within the following table:

<b>TABLE OF CAPITAL ASSETS FOR FY2011 AND FY2010</b>			
<b>Asset:</b>	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>	<b>Difference</b>
Land and Land Rights	\$156,607	\$128,604	\$28,003
Well System	\$251,858	\$251,858	\$0
Office Furniture and Equipment	\$186,121	\$186,121	\$0
Tanks	\$1,733,359	\$1,733,359	\$0
Transmission and Distribution	\$6,330,349	\$6,326,849	\$3,499
Roadways	\$23,457	\$23,457	\$0
Transportation Equipment	\$207,663	\$207,663	\$0
Buildings	\$144,822	\$109,822	\$35,000
Construction in Progress	\$1,146,782	\$12,350	\$1,134,432
<b>TOTAL CAPITAL ASSETS</b>	<b>\$10,181,017</b>	<b>\$8,980,083</b>	<b>\$1,200,934</b>

This increase in capital assets is primarily due to the commencement of several projects before year end that were not completed until 2012. These projects were considered Construction in Progress and will become part of Transmission and Distribution upon completion.

equipment assets. The District's long-term liabilities consist of the debt incurred by the District in 2000 with a Rural Development loan for a water line extension and a bond issued in 2003 for upgrades to the distribution system and to retire existing debt with higher interest rates. The following table details the changes in long term debt from FY2010 to FY2011.

<b>TABLE OF LONG TERM DEBT FOR FY2011 AND FY2010</b>		
	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>
<b>Long Term Debt:</b>		
Revenue Bonds Payable	\$3,224,363	\$3,302,836
Less: Current Maturities of Long-Term Debt	\$(83,620)	\$(78,444)
<b>Total Long Term Debt</b>	<b>\$3,140,743</b>	<b>\$3,224,392</b>

The decrease in long term debt is a reflection of the payments toward the principal of the indebtedness made during the subject fiscal year. The bond indebtedness of the District is summarized in the following table.

<b>SUMMARY OF BONDED INDEBTEDNESS</b>			
<b>Bond Title</b>	<b>Due Date</b>	<b>Interest Rate</b>	<b>Outstanding</b>
Rural Development – 2000 Cumberland Securities	2038	5.00%	\$194,363
Regions Bank – 2003 Series	2034	Variable	\$3,030,000
Less: Current Portion			\$(83,620)
<b>TOTAL LONG-TERM DEBT</b>			<b>\$3,140,743</b>

#### **PROPERTY, PLANT AND EQUIPMENT**

The District maintains and operates a number of assets necessary for the distribution of potable water as follows: water distribution system, water storage tanks, maintenance and transportation equipment, administrative facilities, and information technology equipment.

The District operates and maintains six treated water storage tanks within the distribution system that provide the storage capacity of 1,600,000 gallons of water. The Tennessee Department of Environment and Conservation (TDEC) requires an inspection of those tanks every five years. The District completed inspection on one of its storage tanks within FY2011. The tank was reported to be in good condition and without the need for major capital investment. Additional tank inspections will be done in FY2013, FY2015 and FY2016.

In FY2009 the District identified the need for service line replacements due to an increase in water line leaks causing a higher amount of water loss and an increase in maintenance repairs. The replacements were for water service lines installed from 1972 thru 1990. In FY2010 the District applied for and received approval of \$702,000 Waterworks Revenue Bond, Series 2010 with USDA Rural Development and an additional \$212,000 American Recovery and Reinvestment Act (ARRA) Grant. The District decided to self fund the project and forego the federal funding. The district will be replacing over 700 service connections within its service area and installing automated read drive-by meters throughout the district's service area. These major upgrades to the District's infrastructure will greatly reduce water loss and maintenance and repair costs for the District. The District was awarded a Community Development Block Grant (CDBG) in the amount of \$500,000 in FY2010. These federal funds will allow the District to replace and upgrade the water distribution lines within the Cumberland Mountain Retreat and provide water service to approximately eighty-eight residences. The District bid out the work to replace the

water service lines and upgrade the water lines within Cumberland Mountain Retreat. The meter replacements will be completed by the District's personnel. These three major projects will be completed within FY2012.

The District's maintenance and transportation equipment, administrative facilities and information technology equipment are in good repair and without need for major capital investments.

#### **OTHER SIGNIFICANT ITEMS**

There are no facts, conditions, or decisions of which the management of the District was aware on or before the audit report date that are expected to have a significant impact on financial position.

#### **CONTACTING THE DISTRICT**

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for needed additional financial information, contact the District's General Manager at 139 Utility Drive, Crossville, Tennessee 38572.