AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

THE FALL CREEK FALLS UTILITY DISTRICT
OF VAN BUREN-BLEDSOE COUNTIES, TENNESSEE
PIKEVILLE, TENNESSEE

For the Year Ended
December 3l, 2010

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INTRODUCTORY SECTION

FALL CREEK FALLS UTILITY DISTRICT
OF VAN BUREN AND BLEDSOE COUNTIES, TENNESSEE
ROSTER OF DISTRICT OFFICIALS
December 31, 2010

Board of Commissioners

N.C. Simmons	President
James Van Winkle	Vice President
Thomas Stilber	Secretary/Treasurer

Management

Sharon Bickford	Office Manager

FINANCIAL SECTION

ALBERT R. DICUS

Certified Public Accountant
Member: AICPA; TSCPA

Telephone (931) 836-2205
or (931) 836-2248
Fax (931) 836-3529

P.O. Box 176
131 South Main Street
Sparta, Tennessee 38583

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
The Fall Creek Falls Utility District
of Van Buren-Bledsoe Counties, Tennessee
Pikeville, Tennessee

I have audited the accompanying statement of net assets of The Fall Creek Falls Utility District of Van Buren-Bledsoe Counties, Tennessee, as of December 31, 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Fall Creek Falls Utility District of Van Buren-Bledsoe Counties, Tennessee, as of December 31, 2010, changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated July 8, 2011, on my consideration of The Fall Creek Falls Utility District of Van Buren-Bledsoe Counties, Tennessee's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my 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 conformity with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis and the schedule of funding progress on pages 8 through 15 and page 36, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit this information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the basic financial statements of Fall Creek Falls Utility District of Van Buren-Bledsoe Counties, Tennessee. The information presented as "Introductory Information" and "Other Financial Information" in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information presented as "Other Financial Information" has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The information presented as the "Introductory Section" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on it.

Albert R. Dicus

Certified Public Accountant

Sparta, Tennessee
July 8, 2011

FALL CREEK FALLS UTILITY DISTRICT

27364 STATE ROUTE 30
PIKEVILLE, TENNESSEE 37367

Board of Commissioners and Customers
of Fall Creek Falls Utility District
of Van Buren-Bledsoe Counties
Pikeville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the financial statements allows management an opportunity to discuss and analyze the financial condition of the Fall Creek Falls Utility District of Van Buren-Bledsoe Counties, Tennessee (the District). Summary financial statement data, key financial and operational indicators used in the District's budget, bond resolutions and other management tools were used for this analysis. This information should be read in conjunction with the accompanying financial statements and report of the independent auditor, Albert R. Dicus, CPA.

SUMMARY OF ORGANIZATION AND BUSINESS

The District was incorporated on December 30, 1966, by decree of the County Court of Van Buren County, Tennessee, pursuant to Chapter 248 of the Utility Law of 1937. The District provides water to portions of Van Buren and Bledsoe Counties, including Fall Creek Falls State Park.

The District is governed by a Board of Commissioners composed of three citizens who live or own real estate within the District. Board members serve a term of four years and are appointed by existing board members unless there is a disagreement, at which time the Van Buren County Mayor appoints a new member.

The District's capital assets consist primarily of the District's water lines and mains and the buildings and equipment to maintain these lines and mains.

The District receives no financial support from Van Buren and Bledsoe Counties, Tennessee and has no taxing authority. The District's revenues are derived from water based upon metered water consumption of customers. The water rates are established by the Board of Commissioners with the help of the District's engineer.

THE ANNUAL FINANCIAL STATEMENTS

The financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate regulated accounting principles applicable to the private sector utilities are not used by government utilities.

The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements. The statement of net assets presents the financial position of the District on a full accrual basis of accounting. While the statement of net assets provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The statement also provides certain information about the District's recovery of its costs. The District's rates are based on a cost of service rate study that is updated periodically with the help of the District's engineer.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The following comparative condensed financial statements and other selected information provides key financial data and indicators for management, monitoring, and planning.

FALL CREEK FALLS UTILITY DISTRICT
OF VAN BUREN AND BLEDSOE COUNTIES, TENNESSEE
CONDENSED STATEMENT OF NET ASSETS
December 31, 2010 and December 31, 2009

			Variance	
ASSETS	**2010**	**2009**	**Amount**	**%**
Current Assets	$ 1,111,799.89	$ 1,099,294.28	$ 12,505.61	1.14%
Capital Assets	3,873,954.48	3,170,767.86	703,186.62	22.18%
Other Assets	3,366.63	3,484.63	(118.00)	-3.39%
TOTAL ASSETS	$ 4,989,121.00	$ 4,273,546.77	715,574.23	16.74%
LIABILITIES				
Current Liabilities	$ 91,725.47	$ 174,829.48	$ (83,104.01)	-47.53%
Long-Term Liabilities	114,065.94	129,167.15	(15,101.21)	-11.69%
Total Liabilities	205,791.41	303,996.63	(98,205.22)	-32.30%
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	3,747,424.61	2,945,302.02	802,122.59	27.23%
Restricted	20,796.05	20,763.77	32.28	0.16%
Unrestricted	1,015,108.93	1,003,484.35	11,624.58	1.16%
Total Net Assets	4,783,329.59	3,969,550.14	813,779.45	20.50%
TOTAL LIABILITIES AND NET ASSETS	4,989,121.00	4,273,546.77	715,574.23	16.74%

CONDENSED STATEMENT OF REVENUES, EXPENSES & CHANGE IN NET ASSETS
FALL CREEK FALLS UTILITY DISTRICT
OF VAN BUREN AND BLEDSOE COUNTIES, TENNESSEE
December 31, 2010 and December 31, 2009

	2010	2009	Variance Amount	Variance %
Operating revenues:				
Water sales	$ 539,171.41	$ 510,393.70	$ 28,777.71	5.64%
Forfeited discounts	14,705.14	12,275.92	2,429.22	19.79%
Tap fees	25,539.00	15,496.00	10,043.00	64.81%
Miscellaneous revenue	10,171.06	9,310.00	861.06	9.25%
Total operating revenues	589,586.61	547,475.62	42,110.99	7.69%
Non-operating revenues:				
Interest income	16,439.38	17,089.58	(650.20)	-3.80%
Recovery of bad debt	192.03	294.10	(102.07)	-34.71%
Total non-operating revenues	16,631.41	17,383.68	(752.27)	-4.33%
Total Operating Revenue	$ 606,218.02	$ 564,859.30	$ 41,358.72	7.32%
Operating expenses:				
Water Operations	322,316.13	281,529.47	40,786.66	14.49%
General and Administrative and Other	95,146.51	91,272.60	3,873.91	4.24%
Depreciation	112,351.61	95,606.06	16,745.55	17.52%
Total Expenses	529,814.25	468,408.13	61,406.12	13.11%
Non-operating expenses:				
Interest expense	6,817.48	7,505.94	(688.46)	-9.17%
Total Expenses	$ 536,631.73	$ 475,914.07	$ 60,717.66	12.76%
Increase in Net Assets Before Capital Contributions	$ 69,586.29	$ 88,945.23	$ (19,358.94)	-21.77%
Capital Contributions:				
Customer contributions	735,232.16	489,018.95	246,213.21	50.35%
Tap fees in excess of cost	8,961.00	7,104.00	1,857.00	26.14%
Increase in Net Assets	$ 813,779.45	$ 585,068.18	$ 228,711.27	39.09%
Net assets at January 1	3,969,550.14	3,384,481.96	585,068.18	17.29%
Net assets at December 31	$ 4,783,329.59	$ 3,969,550.14	$ 813,779.45	20.50%

FINANCIAL ANALYSIS

The District's financial condition improved from the prior year with adequate liquid assets and a reasonable level of unrestricted net assets. The District maintained good debt service coverage and was in compliance with all debt covenants. The current financial condition, staff capabilities, operating plans and upgrade plans to meet future water quality requirements are well balanced and under control. Management believes the following information presented is important to understand the financial statements:

- Total assets at year-end were $4,989,121 and exceeded liabilities (net assets) by $4,783,330. Of the total net assets, $1,015,109 was unrestricted and available to support short-term operations.

- Total assets increased from 2009 by $715,574 (16.74%). Total net assets and unrestricted net assets increased from 2009 to 2010 by $813,779 (20.50%) and $11,625 (1.16%), respectively. Projects for capital assets were completed thus increasing total assets.

- Accounts receivable at year-end were 16.91% less than the fiscal year 2009, an decrease of $11,638. At 2010 year-end, the majority of accounts receivable were current within 30 days.

- There was no grant income in either 2010 or 2009.

- The District does not receive any financial assistance from the state or Van Buren-Bledsoe Counties; therefore, the costs of projects are burdened to the District's customers.

Results of Operations

Revenues from operations fall into three general categories: water service, penalties and fees, and other income. The District has two classes of water customers: residential and commercial. The following information is the analysis of operations:

- The District did not increase water rates in the fiscal period.

- The District delivered 119 million gallons of water, representing an increase of 5.37% from the previous year.

- Operating revenues were $589,587, an increase of $42,111 or 7.69%, from 2009.

- Operating expenses before depreciation and amortization increased by $44,661, an increase of 12.01% compared to 2009.

- Operating income for the year was $59,772, representing a 24.40% decrease of $19,295 from 2009. The decrease in operating income is due to the significant increase in depreciation and repairs and maintenance.

- The ratios of operating income to total operating revenues were 10.14% for 2010 compared to 14.44% for 2009.

- The increase in net assets is $813,779, a 20.50% increase from 2009. This is largely in part to the significant increase in customer contributions.

Capital Contributions

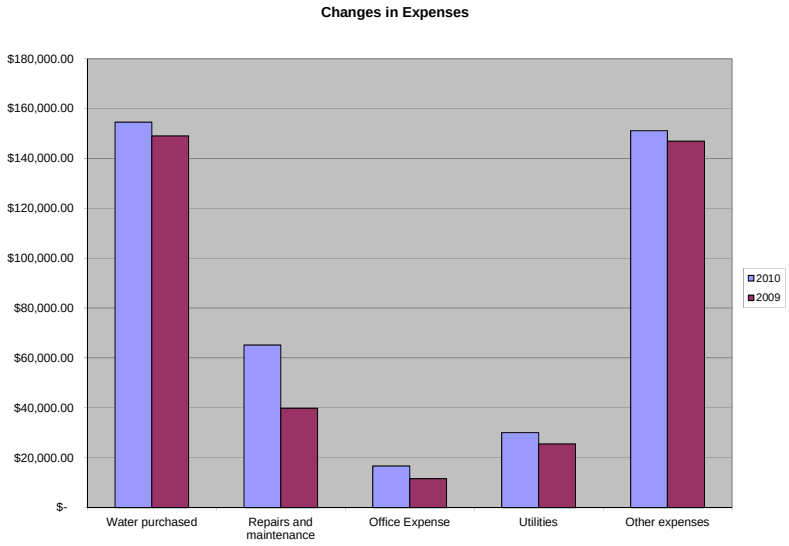
The District collects water connection fees in order to ensure that current customers do not bear the burden of growth. These fees are paid by new customers and represent the cost of water capacity of the new customer. These fees are paid at the time a new customer meter is connected to the system. In addition, the District accepts new water lines that are donated by residential and commercial real estate developers.

- Customer contributions were $735,232, an increase of $246,213.

Expenses

Operating expenses, excluding depreciation and amortization, increased by $44,661 in 2010. This was a result of significant changes in:

	2010	2009	Difference
Water purchased	$ 154,560	$ 149,037	$ 5,523
Repairs and maintenance	65,144	39,833	25,311
Office Expense	16,630	11,560	5,070
Utilities	30,028	25,500	4,528
Other expenses	151,101	146,872	4,228
	$ 417,463	$ 372,802	$ 44,661



The most significant increase was in the repairs and maintenance line item. Depreciation expense of the District's system increased by $16,746, or 17.54%.

CAPITAL ASSETS

During 2010, new capital assets include a new porch on the building, painting on the tank, Long Branch Lakes waterline, and Denney line extension. More detailed information about the District's capital assets is described in Note C in the accompanying notes to the financial statements.

DEBT

At December 31, 2010, the District has $129,167 in long-term debt bonds payable, a decrease of $14,366 from December 31, 2009. The District paid $6,850 in interest on the bonds. More detailed information about the District's debt is described in Note D in the accompanying notes to the financial statements.

The long-term debt to total assets ratio improved from 3.36% at December 31, 2009 to 2.59% at December 31, 2010.

GENERAL TRENDS AND SIGNIFICANT EVENTS

Customer growth in the District has remained strong. The District's average number of water customers (billing units) increased during 2010 by 2.65%.

CONTACTING THE DISTRICT

The analysis is designed to provide our customers, creditors and regulatory agencies with a general overview of the District's finances. If additional information is needed, you may contact the District at:

Sharon Bickford
Fall Creek Falls Utility District
27364 State Route 30
Pikeville, TN 37367
423-881-5065

BASIC FINANCIAL STATEMENTS

FALL CREEK FALLS
OF VAN BUREN AND BLEDSOE
STATEMENT OF
DECEMBER

ASSETS

CURRENT ASSETS		
Cash and cash equivalents - Note B		$ 474,968.13
Temporary investments - Note B		551,615.69
Restricted for debt service		21,216.00
Accounts receivable	$ 59,406.51	
Less: allowance for doubtful accounts	2,213.11	57,193.40
Other receivables		2,610.00
Interest receivable		4,196.67
TOTAL CURRENT ASSETS		$ 1,111,799.89
CAPITAL ASSETS - Note C		
Capital assets in service - at cost	$ 5,865,697.64	
Less accumulated depreciation	(2,009,331.14)	
	$ 3,856,366.50	
Construction in progress	17,587.98	3,873,954.48
OTHER ASSETS		
Unamortized bond expense	$ 2,636.63	
Prepaid lease	730.00	3,366.63
		$ 4,989,121.00

See the notes to financial statements.

UTILITY DISTRICT
COUNTIES, TENNESSEE
NET ASSETS
31, 2010

LIABILITIES AND CAPITAL

CURRENT LIABILITIES		
Accounts payable - trade		$ 18,047.17
Tennessee sales tax payable		6,388.21
Accrued and withheld payroll taxes		1,809.50
Accrued vacation		8,766.80
Retirement payable - Note E		957.38
Meter deposits		40,235.90
Accrued interest payable		419.95
Portion of long-term debt due within one year		15,100.56
TOTAL CURRENT LIABILITIES		$ 91,725.47
LONG-TERM DEBT		
Bonds payable - Note D	$ 129,166.50	
Less amount due within one year, shown as current liability	15,100.56	114,065.94
TOTAL LIABILITIES		$ 205,791.41
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$ 3,747,424.61	
Restricted for Debt Service	20,796.05	
Unrestricted	1,015,108.93	4,783,329.59
		$ 4,989,121.00

FALL CREEK FALLS UTILITY DISTRICT
OF VAN BUREN AND BLEDSOE COUNTIES, TENNESSEE
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
Year ended December 31, 2010

Operating revenues:		
Water sales (less bad debts, $6,079.80)		$ 539,171.41
Forfeited discounts		14,705.14
Tap fees		25,539.00
Miscellaneous revenue		10,171.06
TOTAL OPERATING REVENUE		$ 589,586.61
Operating expenses:		
Salaries	$ 105,544.61	
Payroll taxes	8,232.50	
Retirement	7,535.38	
Water purchased	154,560.47	
Legal and accounting	3,360.00	
Repairs and maintenance	65,143.67	
Provision for depreciation	112,233.61	
Amortization	118.00	
Office supplies and billing	16,630.10	
Telephone	3,772.14	
Utilities	30,027.59	
Commissioners fees	3,400.00	
Insurance	6,842.00	
Dues, fees, and seminars	3,948.95	
Water samples	5,440.09	
Miscellaneous	3,025.14	529,814.25
OPERATING INCOME		$ 59,772.36
Non-operating revenues (expenses):		
Interest income	$ 16,439.38	
Recovery of bad debt	192.03	
Interest expense	(6,817.48)	9,813.93
INCREASE IN NET ASSETS BEFORE CONTRIBUTIONS		$ 69,586.29
Contributions:		
Tap fees in excess of cost	$ 8,961.00	
Customer contributions	735,232.16	744,193.16
INCREASE IN NET ASSETS		$ 813,779.45
Net assets at January 1, 2010		3,969,550.14
NET ASSETS AT DECEMBER 31, 2010		$ 4,783,329.59

Provision for depreciation was computed by the straight-line method and totaled $112,233.60

Interest incurred for the year totaled $6,817.48, and was charged to expense.

See the notes to financial statements.

FALL CREEK FALLS
OF VAN BUREN AND BLEDSOE
STATEMENT OF
YEAR ENDED

Cash flows from operating activities:		
Receipts from customers and users		$ 601,110.84
Payments to suppliers		(293,393.51)
Payments to employees		(122,892.51)
NET CASH PROVIDED BY OPERATING ACTIVITIES		$ 184,824.82
Cash flows from capital and related financing activities:		
Customer contributions	$ 141,405.53	
Tap fees in excess of cost	8,961.00	
Acquisition of capital assets	(242,403.03)	
Principal paid on notes and revenue bonds	(14,366.24)	
Interest paid on notes and revenue bonds	(6,849.76)	
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		(113,252.50)
Cash flows from investing activities:		
Interest on investments	$ 16,706.23	
Increase in temporary investments	(12,223.82)	
NET CASH PROVIDED BY INVESTING ACTIVITIES		4,482.41
NET INCREASE IN CASH AND CASH EQUIVALENTS		$ 76,054.73
Cash and cash equivalents at January 1, 2010		398,913.40
CASH AND CASH EQUIVALENTS AT DECEMBER 31, 2010		$ 474,968.13

Noncash transactions: During the year ended December 31, 2010, the District received waterlines from developers in the amount of $657,694.93.

See the notes to financial statements.

UTILITY DISTRICT
COUNTIES, TENNESSEE
CASH FLOWS
DECEMBER 31, 2010

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income	$	59,772.36
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		112,233.61
Amortization		118.00
Recovery of bad debts		192.03
Bad debts		6,079.80
Changes in current assets and liabilities:		
Accounts receivable		5,557.99
Accounts payable		(1,162.57)
Customer deposits		(305.59)
Other current liabilities		2,339.19
Net Cash Provided by Operating Activities	$	184,824.82

THE FALL CREEK FALLS UTILITY DISTRICT
OF VAN BUREN-BLEDSOE COUNTIES, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE A - The Fall Creek Falls Utility District of Van Buren-Bledsoe Counties, Tennessee, was created on December 30, 1966, by decree of the County Court of Van Buren County, Tennessee, under chapter 248 of the Public Acts of Tennessee for 1937.

The District provides water for portions of Van Buren and Bledsoe Counties, including Fall Creek Falls State Park.

The Fall Creek Falls Utility District of Van Buren-Bledsoe Counties, Tennessee, has adopted the following accounting policies:

(1) Reporting Entity

The identification of a financial reporting entity is built around the concept of financial accountability. That is, if a primary government is financially accountable for another entity, that entity's financial statements must be included in the financial statements of the reporting entity. While financial accountability is central to the identification of component units, even if it does not exist, an entity will be considered a component unit if that entity's relationship with the primary government is such that its exclusion would create misleading or incomplete financial statements.

Based upon this concept, the reporting entity is The Fall Creek Falls Utility District of Van Buren-Bledsoe Counties, Tennessee. There are no other potential component units to consider.

(2) Basis of Accounting

The District uses the accrual method of accounting to prepare its financial statements.

The District has elected under Government Accounting Standards Board (GASB) Statement Number 20 to adopt all Financial Accounting Standards Board (FASB) pronouncements applicable to local governments and GASB pronouncements issued through November 30, 1989, and only GASB pronouncements issued by GASB after November 30, 1989.

NOTE A (Cont'd):

(2) Basis of Accounting

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the balance sheet. Net assets (i.e. total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted components.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

(3) Capital Assets

The capital assets in service are carried at cost and are depreciated over the estimated useful life of the asset using the straight-line method of depreciation. Cost consists of all direct costs related to construction or acquisition of capital assets. In addition, the District capitalizes interest costs related to qualified expenditures for projects under development. Depreciation is not considered until the assets are actually put into use. Capital assets contributed by developers are included at the developers' cost or estimated cost.

Maintenance and repairs, which do not significantly extend the value or life of the property, plant, and equipment, are expensed as incurred.

NOTE A (Cont'd):

(3) Capital Assets (Cont'd)

Capital policy for the District is items purchased or betterment, not repairs, in excess of $1,000.00 and having a useful life of one year or more will be capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	Years
Water Distribution System	20-50
Structures and Improvements	15-40
Office Furniture, Equipment, and Vehicles	5-15

(4) Provision for Uncollectible Accounts

Management has made an allowance for uncollectible accounts equal to the total of the inactive accounts carried in the billing system.

(5) Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments (including debt-service funds) with a maturity date of three months or less when purchased are considered to be cash equivalents.

(6) Credit Risk

The District provides water for residential, commercial and industrial customers located within the District's boundaries.

NOTE A (Cont'd):

(7) Restricted Assets

Assets restricted for debt service represent cash maintained in accordance with bond resolutions, loan agreements, grant awards, and other resolutions and formal actions of the District or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the system.

Assets restricted for capital activity represent cash and receivables funded through long-term debt and grant revenues that are payable to the contractor and are reported as liabilities payable from restricted assets.

(8) Net Assets

Net assets contain the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified as invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt is all capital assets, net of accumulated depreciation and outstanding debt attributable to the acquisition, construction or improvement of the assets; debt related to unspent proceeds or other restricted cash and investments is not included in this determination. Restricted for capital activity and debt service includes net assets restricted by external parties such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates. Unrestricted are the net assets that do not meet the definition of capital assets, net of related debt or restricted for capital activity and debt service.

NOTE A (Cont'd):

(9) Receivables and Revenues

Revenues are billed monthly. Revenues are not accrued for usage from the last meter reading date to December 31.

Operating revenues consist of water charges, service fees, and other miscellaneous income. Tap fees are recorded as revenue to the extent of expenses incurred in connecting a customer to the system. Tap fees in excess of costs are recorded as cash capital contributions. Non-operating revenue consists of interest income earned on cash investments.

(10) Expenses

Operating expenses consist of the cost of purchasing water, repairs and maintenance on the lines and storage facilities, customer billing, administrative and general and depreciation of capital assets.

Non-operating expenses consist of interest on long-term liabilities.

(11) Contributions

Contributions are recognized in the Statement of Revenues, Expenses, and Changes in Net Assets when earned. Contributions include developer contributed utility systems, capacity and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

NOTE A (Cont'd):

(12) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may vary from those estimates.

(13) Budgets

Prior to January 1, the budget is approved by the commissioners and submitted to the state comptroller's office as required by state statute. The budget is prepared on the basis where current available funds must be sufficient to meet current expenditures.

The District's budgetary basis of accounting is consistent with generally accepted accounting principles.

NOTE B - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's deposit policy for custodial risk is as follows:

All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool.

The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the district.

The District is in compliance with the State of Tennessee laws regarding collateralized deposits.

NOTE C – Capital assets activity during the year was as follows:

	Balance at January 1	Additions	Reductions	Balance at December 31
Capital Assets Not Being Depreciated:				
Land	$ 19,187.00	$ -	$ -	$ 19,187.00
Construction in progress	547,785.49	710,590.73	1,240,788.24	17,587.98
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	$ 566,972.49	$ 710,590.73	$ 1,240,788.24	$ 36,774.98
Capital Assets Being Depreciated:				
Water system	4,371,363.00	1,343,897.74	-	5,715,260.74
Building	69,297.39	1,720.00	-	71,017.39
Vehicles	31,675.19	-	-	31,675.19
Equipment	28,557.32	-	-	28,557.32
TOTAL CAPITAL ASSETS BEING DEPRECIATED	$ 4,500,892.90	$ 1,345,617.74	$ -	$ 5,846,510.64
Less Accumulated Depreciation for:				
Water system	(1,804,997.81)	(105,883.70)	-	(1,910,881.51)
Building	(41,100.46)	(1,824.63)	-	(42,925.09)
Vehicles	(30,547.52)	(1,127.67)	-	(31,675.19)
Equipment	(20,451.74)	(3,397.61)	-	(23,849.35)
TOTAL ACCUMULATED DEPRECIATION	$ (1,897,097.53)	$ (112,233.61)	$ -	$ (2,009,331.14)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, Net	$ 2,603,795.37	$ 1,233,384.13	$ -	$ 3,837,179.50
CAPITAL ASSETS, NET	$ 3,170,767.86	$ 1,943,974.86	$ 1,240,788.24	$ 3,873,954.48

Depreciation expense was $112,233.61

CONSTRUCTION IN PROGRESS

Construction in progress at December 31, 2010 consisted of:

	Actual to date
Engineering -Bradden's Creek	$ 4,777.98
Hawk's Bluff subdivision	9,885.00
Long Branch Lakes subdivision	2,925.00
	$ 17,587.98

The above projects are funded with developer contributions.

NOTE D – LONG-TERM DEBT

Bonds are issued to provide funds for the acquisition and construction of capital assets.

Changes in long-term indebtedness of Fall Creek Falls Utility District consists of:

	Amount at January 1	Amount Issued	Amount Retired	Amount at December 31	Current Portion
Waterworks Revenue Bond, 1997	$ 143,532.74	$ -	$ 14,366.24	$ 129,166.50	$ 15,100.56

A description of the long-term debt is as follows:

	Amount Issued	Amount Outstanding	Interest Rates	Monthly Payments (including interest)
Waterworks Revenue Bond, 1997 (matures in 2018)	$ 360,000.00	$ 129,166.50	5.00%	$ 1,768.00

Long-term debt activity during 2010 was as follows:

Balance at January 1, 2010	$ 143,532.74
Principal payments	(14,366.24)
Balance at December 31, 2010	$ 129,166.50
Due within one year	$ 15,100.56

NOTE D (Cont'd):

A summary of the debt service requirements for principal and interest at December 31, 2010, is as follows:

Year ending December 31	Principal	Interest	Total
2011	15,100.56	6,115.44	21,216.00
2012	15,873.13	5,342.87	21,216.00
2013	16,685.22	4,530.78	21,216.00
2014	17,538.88	3,677.12	21,216.00
2015	18,436.19	2,779.81	21,216.00
2016-2018	45,532.52	2,734.31	48,266.83
TOTAL	$ 129,166.50	$ 25,180.33	$ 154,346.83

NOTE E - RETIREMENT PLAN

Plan Description

Employees of the Fall Creek Falls Utility District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 (Five) years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Fall Creek Falls Utility District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

NOTE E (Cont'd):

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at http://treasury.state.tn.us/tcrs/PS/.

Funding Policy

Fall Creek Falls Utility District requires employees to contribute 5.0 percent of earnable compensation.

Fall Creek Falls Utility District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending December 31, 2010 was 7.17% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Fall Creek Falls Utility District is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended December 31, 2010, the Fall Creek Falls Utility District's annual pension cost of $7,535 to TCRS was equal to the Fall Creek Falls Utility District's required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age liability actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), and (c) projected 3.5 percent annual increase in the Social Security wage. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. The Fall Creek Falls Utility District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 12 years. An actuarial valuation was performed as of July 1, 2009, which established contributions rates effective July 1, 2010.

NOTE E (Cont'd):

Trend Information

Fiscal Year Ending	Annual Pension Cost(APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/10	$7,535.38	100.00%	$0.00
12/31/09	$7,042.19	100.00%	$0.00
12/31/08	$6,764.04	100.00%	$0.00

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 67.38% funded. The actuarial accrued liability for benefits was $0.17 million, and the actuarial value of assets was $0.12 million, resulting in an unfunded actuarial accrued liability (UAAL) of $0.06 million. The covered payroll (annual payroll of active employees covered by the plan) was $0.10 million, and the ratio of the UAAL to the covered payroll was 58.35%.

The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c.)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2009	$ 117	$ 174	$ 57	67.38%	$ 97	58.35%
July 1, 2007	$ 89	$ 117	$ 28	76.07%	$ 85	32.94%

NOTE F - It is the policy of the District 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 and employee fidelity. Settled claims have not exceeded this commercial coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

FALL CREEK FALLS UTILITY DISTRICT
OF VAN BUREN-BLEDSOE COUNTIES, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2010

Schedule of Funding Progress for the Fall Creek Falls Utility District

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	$ 117	$ 174	$ 57	67.38%	$ 97	58.35%
July 1, 2007	$ 89	$ 117	$ 28	76.07%	$ 85	32.94%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into effect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

OTHER FINANCIAL INFORMATION

FALL CREEK FALLS UTILITY DISTRICT
OF VAN BUREN AND BLEDSOE COUNTIES, TENNESSEE
CONDENSED COMPARATIVE STATEMENTS OF NET ASSETS
December 31, 2010 and December 31, 2009

	2010	2009	Increase (Decrease)
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 474,968.13	$ 398,913.40	$ 76,054.73
Temporary investments	551,615.69	539,391.87	12,223.82
Restricted investments	21,216.00	21,216.00	-
Accounts receivable (net)	59,803.40	135,309.49	(75,506.09)
Interest receivable	4,196.67	4,463.52	(266.85)
TOTAL CURRENT ASSETS	$ 1,111,799.89	$ 1,099,294.28	$ 12,505.61
Capital assets (net)	3,873,954.48	3,170,767.86	703,186.62
Other assets	3,366.63	3,484.63	(118.00)
	$ 4,989,121.00	$ 4,273,546.77	$ 715,574.23
LIABILITIES AND NET ASSETS			
Current Liabilities	$ 91,725.47	$ 174,829.48	$ (83,104.01)
Long-Term Debt	114,065.94	129,167.15	(15,101.21)
TOTAL LIABILITIES	$ 205,791.41	$ 303,996.63	$ (98,205.22)
Net Assets:			
Invested in Capital Assets, Net of Related Debt	$ 3,747,424.61	$ 2,945,302.02	$ 802,122.59
Restricted for Debt Service	20,796.05	20,763.77	32.28
Unrestricted	1,015,108.93	1,003,484.35	11,624.58
TOTAL NET ASSETS	$ 4,783,329.59	$ 3,969,550.14	$ 813,779.45
	$ 4,989,121.00	$ 4,273,546.77	$ 715,574.23

FALL CREEK FALLS UTILITY DISTRICT
OF VAN BUREN AND BLEDSOE COUNTIES, TENNESSEE
CONDENSED STATEMENT OF REVENUES, EXPENSES & CHANGE IN NET ASSETS
December 31, 2010 and December 31, 2009

	2010	2009	Increase (Decrease)
Operating revenue (net of bad debts)	$ 589,586.61	$ 547,475.62	$ 42,110.99
Operating expenses:			
Salaries	$ 105,544.61	$ 103,634.49	$ 1,910.12
Payroll taxes	8,232.50	7,792.47	440.03
Retirement	7,535.38	7,042.19	493.19
Water purchased	154,560.47	149,037.15	5,523.32
Legal and accounting	3,360.00	3,259.50	100.50
Repairs and maintenance	65,143.67	39,833.01	25,310.66
Provision for depreciation	112,233.61	95,488.06	16,745.55
Amortization	118.00	118.00	-
Office supplies and billing	16,630.10	11,559.87	5,070.23
Telephone	3,772.14	3,017.00	755.14
Utilities	30,027.59	25,499.57	4,528.02
Commissioners fees	3,400.00	3,500.00	(100.00)
Insurance	6,842.00	6,009.00	833.00
Dues, fees, and seminars	3,948.95	4,096.63	(147.68)
Water samples	5,440.09	6,651.50	(1,211.41)
Miscellaneous	3,025.14	1,869.69	1,155.45
TOTAL OPERATING EXPENSES	$ 529,814.25	$ 468,408.13	$ 61,406.12
OPERATING INCOME	$ 59,772.36	$ 79,067.49	$ (19,295.13)
Non-operating income (expenses):			
Interest income	$ 16,439.38	$ 17,089.58	$ (650.20)
Recovery of bad debt	192.03	294.10	(102.07)
Interest expense	(6,817.48)	(7,505.94)	(688.46)
INCREASE IN NET ASSETS BEFORE CONTRIBUTIONS	$ 69,586.29	$ 88,945.23	$ (19,358.94)
Contributions:			
Customer contributions	735,232.16	$ 489,018.95	$ 246,213.21
Tap fees in excess of cost	8,961.00	7,104.00	1,857.00
INCREASE IN NET ASSETS	$ 813,779.45	$ 585,068.18	$ 228,711.27

THE FALL CREEK FALLS UTILITY DISTRICT
OF VAN BUREN-BLEDSOE COUNTIES, TENNESSEE
SCHEDULE OF LONG-TERM DEBT
PRINCIPAL AND INTEREST REQUIREMENTS
December 31, 2010

Date of Issue	**July 8, 1997**	
Original Amount:	**$360,000.00**	
Payment for year ended December 31,	**Interest**	**Principal**
2011	6,115.44	15,100.56
2012	5,342.87	15,873.13
2013	4,530.78	16,685.22
2014	3,677.12	17,538.88
2015	2,779.81	18,436.19
2016	1,836.56	19,379.44
2017	845.08	20,370.92
2018	52.67	5,782.16
	$ 25,180.33	$ 129,166.50

THE FALL CREEK FALLS UTILITY DISTRICT
OF VAN BUREN-BLEDSOE COUNTIES, TENNESSEE
INFORMATION REQUIRED BY BOND RESOLUTIONS
December 31, 2010

The District had approximately 1,624 metered water customers as of December 31, 2010.

The District is exempt from federal income tax.

Amounts totaling $11,231.20 were past due at December 31, 2010.

Water rates in effect as of December 31, 2010, are:

First 1,000 gallons	$ 9.00 minimum bill
Over 1,000 gallons	3.80 per 1,000 gallons
Brockdell Extension	
First 1,000 gallons	$13.00 minimum bill
Over 1,000 gallons	4.90 per 1,000 gallons

A description of insurance in force at December 31, 2010, follows:

Insurer	**Coverage**	**Amount of Coverage**	**Date of Expiration**
Tennessee Farmers Mutual	Buildings	$ 67,000.00	
	Personal Property	38,000.00	
	Liability	200,000.00	
	Theft	3,000.00	September 22, 2011
Benchmark Ins.	Workmen's Compensation	Statutory	September 17, 2011
CNA Fidelity Bonds	Fidelity Bond: Employees & Commissioners	$ 200,000.00	November 15, 2012
Tennessee Farmers Mutual	Vehicles	$ 100,000.00/ 300,000.00	January 2, 2011

FALL CREEK FALLS UTILITY DISTRICT
SCHEDULE OF UNACCOUNTED FOR WATER
For the Year Ended December 31, 2010

(All amounts in gallons)

A	**Water treated and purchased:**		
B	Water pumped (potable)	0	
C	Water purchased	147,163,400	
D	**Total water treated and purchased (Sum Lines B and C)**		147,163,400
E	**Accounted for water:**		
F	Water sold	118,997,514	
G	Metered for consumption (in house usage)	0	
H	Fire department(s) usage	12,250	
I	Flushing	434,220	
J	Tank Cleaning/ filling	0	
K	Street cleaning	0	
L	Bulk sales	0	
M	Water bill adjustments/plus or (minus)	0	
N	**Total accounted for water (Sum Lines F thru M)**		119,443,984
O	**Unaccounted for water (Line D minus Line N)**		27,719,416
P	**Percent unaccounted for water (Line O divided by Line D times 100)**		18.84%
Q	**Other (explain)**		See Below
	Explain other: None		0

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

ALBERT R. DICUS

Certified Public Accountant
Member: AICPA; TSCPA

Telephone (931) 836-2205
or (931) 836-2248
Fax (931) 836-3529

P.O. Box 176
131 South Main Street
Sparta, Tennessee 38583

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
The Fall Creek Falls Utility District
of Van Buren-Bledsoe Counties, Tennessee
Pikeville, Tennessee

I have audited the financial statements of Fall Creek Falls Utility District of Van Buren-Bledsoe Counties, Tennessee, as of the year ended December 31, 2010, and have issued my report thereon dated July 8, 2011. I conducted my 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Fall Creek Falls Utility District of Van Buren-Bledsoe Counties, Tennessee's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Fall Creek Falls Utility District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Fall Creek Falls Utility District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and recommendations, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

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. I consider the deficiency described in the accompanying schedule of findings and recommendations as Item 10-2 to be a material weakness.

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. I consider the deficiency described in the accompanying schedule of audit findings and recommendations as Item 10-1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fall Creek Falls Utility District of Van Buren-Bledsoe Counties, Tennessee's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Fall Creek Falls Utility District's responses to the findings identified in my audit are described in the accompanying schedule of findings and recommendations. I did not audit Fall Creek Falls Utility District's responses and, accordingly, I express no opinion on them.

This report is intended for the information of the management and the Board of Commissioners of The Fall Creek Falls Utility District of Van-Buren - Bledsoe Counties, Tennessee; the Tennessee Comptroller's Office, Division of Municipal Audit; and any federal awarding agency, is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

Sparta, Tennessee
July 8, 2011

THE FALL CREEK FALLS UTILITY DISTRICT
OF VAN BUREN-BLEDSOE COUNTIES, TENNESSEE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
December 31, 2010

A: SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Fall Creek Falls Utility District of Van Buren-Bledsoe Counties, Tennessee.

2. Two significant deficiencies were disclosed during the audit of the financial statements. The significant deficiency listed as item 10-2 is reported as a material weakness.

3. No instances of noncompliance material to the financial statements of The Fall Creek Falls Utility District of Van Buren-Bledsoe Counties, Tennessee were disclosed during the audit.

B: FINDINGS

Item 10-1: Segregation of duties (Significant Deficiency)

The District does not have the proper segregation of duties for an effective internal control system.

Recommendation: The District needs to evaluate and review the separation of duties for its accounting personnel.

Management's response: We concur with the auditor's finding and recommendation. It is not practical nor would it be financially feasible for the District to hire sufficient employees for the proper implementation of the required segregation of duties. We require two signatures on all checks, and have separated the receipt and disbursement
functions which gives us some control over the bank account and accounts receivable.

Item 10-2: Financial statement preparation (Material Weakness)

The financial statements and note disclosures are prepared by the auditor and presented to management for their approval. Management's ability to prepare the financial statements and note disclosures without material misstatements is questionable.

Recommendation: Management should consider hiring an individual with the proper training and qualifications to apply generally accepted accounting principles in the preparation of financial statements.

Management's response: We concur with the auditor's finding that preparation of the financial statements and note disclosures may be beyond our expertise. It is not practical nor would it be financially feasible for the District to hire qualified employees to oversee financial statement preparation. However, we believe that our knowledge and experience enables us to review the report and to understand it fully.

Items 10-1 and 10-2, were reported in the prior year's audit report as items 09-1 and 09-2. Item 09-3, regarding collateral for deposits, was corrected.