

Financial Statements

EAST SEVIER COUNTY UTILITY DISTRICT

Year Ended June 30, 2018

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Board of Commissioners
East Sevier County Utility District
Sevierville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of East Sevier County Utility District, which comprise the statement of net position as of June 30, 2018, and the related statement of revenue, expenses and change in net position and the statement of cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the 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 of America. 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 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 assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the 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 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.

Basis for Qualified Opinion

The accompanying financial statements do not include the value of certain assets that were donated by homeowner associations related to agreements for operating and maintaining their sewer system. Quantification of the effects on the financial statements is not practical.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of East Sevier County Utility District as of June 30, 2018, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note H to the financial statements, East Sevier County Utility District has restated its net position as of June 30, 2017 to include receivable amounts which were not previously recorded. Our opinion is not modified with respect to this matter.

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 4 to 7 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 considered it to be an essential part of financial reporting for placing the basic financial statement 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 response to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise East Sevier County Utility District’s basic financial statements. The accompanying financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2019, on our consideration of East Sevier County Utility District'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 solely 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 operating effectiveness of East Sevier County Utility District's 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 East Sevier County Utility District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Mitchell Emert & Hill". The signature is written in a cursive, flowing style.

February 21, 2019

**EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

As management of East Sevier County Utility District (the District), we offer readers of the District's audited financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018.

OVERVIEW OF THE AUDITED FINANCIAL STATEMENTS

The financial statements presented in this report consist of the *statement of net position*, the *statement of revenues, expenses and changes in net position*, and the *statement of cash flows*. The statements of net position provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for assessing the liquidity and financial flexibility of the District. The current year's revenues and expenses are accounted for in the statements of revenues, expenses and changes in net position. This statement reports the revenues and expenses during the time period indicated and can be used to determine whether the District has successfully recovered all its costs through user fees and other charges. The primary purpose of the statements of cash flows is to provide information about the District's cash receipts and cash payments. This statement reports cash receipts, cash payments, and net changes in cash resulting from activities related to operations, capital and related financing, investing, and noncash capital and related financing activities.

STATEMENT OF NET POSITION

The District's total net position in 2018 increased by \$153,588 or 22.8%. \$117,900 of the increase in net position is a result of a restatement of the 2017 financials for unrecorded accounts receivable of the offsite sewer customers.

Total assets increased \$614,700 (85.2%) due to increases in current assets and capital assets. Current assets increased by \$320,400 (398.3%) primarily due to increases in cash and billed and unbilled receivables. Cash increased \$148,800 (598.6%) due to a reimbursement from the USDA loan of \$404,700 due to expenses incurred in previous years. Accounts receivable increased \$167,200 (690.0%) due to the billing of offsite sewer customers. Capital assets increased \$294,300 (45.9%). Additional information regarding capital asset additions is discussed in the capital assets section of this discussion and analysis.

Total liabilities increased by \$451,500 (1,304.2%) mainly due to an increased in long-term debt of \$422,200. Current liabilities increased by \$29,300 (84.7%), due to an increase in accounts payable that was offset by a decrease in customer deposits.

A summary of financial position follows:

**EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>For The Years Ended June 30</u>		<u>2018</u>	
	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>Percentage Change</u>
Assets:				
Current assets	\$ 400,788	\$ 80,436	320,352	398.3%
Capital assets	935,677	641,344	294,333	45.9
Total assets	<u>1,336,464</u>	<u>721,780</u>	<u>614,684</u>	85.2
Deferred Inflow of Resources:				
Unearned Revenue	<u>22,709</u>	<u>13,127</u>	<u>9,582</u>	73.0
Liabilities:				
Current liabilities	63,930	34,621	29,309	84.7
Long term liabilities, net of current maturities	<u>422,204</u>	<u>-</u>	<u>422,204</u>	N/A
Total liabilities	<u>486,134</u>	<u>34,621</u>	<u>451,513</u>	1304.2
Net Position				
Net investment in capital assets	513,473	641,344	(127,871)	(19.9)
Unrestricted	<u>314,147</u>	<u>32,688</u>	<u>281,459</u>	861.0
Total net position	<u>827,620</u>	<u>674,032</u>	<u>153,588</u>	22.8

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Total operating revenues increased by \$143,000 or 23.0%. The increase consists of water and sewer revenues in the amount of \$66,600 or 11.4%. Water sales increased \$27,300 or 13.4% and sewer charges increased \$39,200 or 10.4%.

Total operating expenses increased by \$134,600 or 22.7%. Operating expenses increased primarily due to cost of management and operations in the amount of \$328,300 which was offset in a reduction of salaries and payroll taxes of \$171,200, repairs and maintenance of \$32,400 and vehicle and equipment expense of \$41,300. Prior to the partnership with Alliance Water Resources, Inc., the District incurred penalties, related to the operation of the sewer system, of \$18,900 which were assessed from the State of Tennessee Department of Environment and Conservation. The non-operating income (expense) changed \$547 primarily due to a loss on the disposal of an asset in 2017.

EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

Alliance discovered that a significant amount of revenue was not being collected from the operations of off-site sewer facilities. There were approximately 150 customers being served who did not have accounts set up. This has been corrected. This will add approximately \$81,00 per year in annual revenue. In addition, going back the allowed amount of three years, these customers had a combined arrears amount totaling approximately \$187,000. To capture this lost revenue, new accounts were created for all identified customers. Arrearage letters were distributed offering terms of 5 years at 10% interest (state allowed amount) to pay off any outstanding balance. Many individuals have elected to pay the balance off in full. To date, \$106,611 has been collected through the arrearage programs.

A summary of changes in net position follows:

	<u>For The Years Ended June 30</u>		<u>2018</u>	
	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>Percentage Change</u>
Operating Revenues:				
Water sales and sewer charges	\$ 648,721	\$ 582,148	66,573	11.4%
Connection fees	31,700	30,949	751	2.4
Late charges	83,706	8,013	75,693	944.6
Total operating revenues	<u>764,127</u>	<u>621,110</u>	<u>143,017</u>	23.0
Operating Expenses:				
Operating expenses	660,938	541,667	119,271	22.0
Depreciation	67,499	52,146	15,353	29.4
Total operating expenses	<u>728,437</u>	<u>593,813</u>	<u>134,624</u>	22.7
Operating Income	35,689	27,297	8,392	30.7
Non-operating income (expenses)	<u>-</u>	<u>(547)</u>	<u>547</u>	N/A
Change in net position before capital contributions	35,689	26,750	8,939	(33.4)
Contributions in aid to construction	<u>-</u>	<u>-</u>	<u>-</u>	0.0
Change in Net Position	35,689	26,750	8,939	(33.4)
Net Position, July 1	791,932	647,282	144,650	22.3
Reinstatement	<u>-</u>	<u>117,900</u>	<u>(117,900)</u>	N/A
Net Position, June 30	<u>\$ 827,620</u>	<u>\$ 791,932</u>	<u>35,688</u>	4.5%

**EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

STATEMENTS OF CASH FLOWS

The District's rate structure is designed to collect sufficient revenues to pay debt service and recover operating and maintenance expenses. The net cash provided by operating activities was used to fund some capital assets additions. In 2018, there was no debt service requirements for the year.

CAPITAL ASSETS

Capital assets, net of depreciation was \$935,677 at June 30, 2018 compared to \$641,344 at June 30, 2017 which represents an increase of \$294,333 or 45.9% primarily due to the water system improvement project for Well C. Depreciation expense for 2018 was \$67,499. System additions primarily consisted of new services and various equipment purchases.

RESTRICTED ASSETS

The District did not have any restricted assets as of June 30, 2018.

LONG-TERM LIABILITIES

As of June 30, 2018, the District had total long-term debt outstanding of \$422,204. Principal and interest are deferred until 2020. New repayment terms will be implemented once the underlying capital projects have been completed.

ECONOMIC FACTORS AND FUTUE NEEDS

In addition to water and sewer services provided to the English Mountain and the Preserve at English Mountain subdivisions, sewer services are provided to the Sherwood Forest, Bear Creek Crossing, Smoky Mountain Ridge, Lashbrooke, Douglas Lake Resort, Bouldercrest Villas, and Parkside Resort subdivisions.

OVERALL ANAYLSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's overall financial position in 2018 increased as compared to prior year. The District continually strives to improve its financial position as reflected in the restatement of the June 30, 2017 net position to include the receivable amount that was not previously recorded.

REQUEST FOR INFORMATION

This report is designed to provide our customers, debt holders, and other interested parties with a general overview of the financial position of the District and to indicate accountability for the revenues received. Questions about this report or requests for additional information should be directed to the office located at 1529 Alpine Drive, Sevierville, TN 37876 or (865-453-6704).

EAST SEVIER COUNTY UTILITY DISTRICT

STATEMENT OF NET POSITION

June 30, 2018

PLANT IN SERVICE

Land	\$	31,658
Construction in progress		102,408
Building		69,236
Distribution and collection system		1,214,543
Vehicles and trailer		49,748
Equipment		<u>113,821</u>
		1,581,414
Accumulated depreciation		<u>(645,736)</u>
		<u>935,677</u>

CURRENT ASSETS

Cash	\$	173,629
Accounts receivable, net of allowance for uncollectible accounts of \$41,000		191,476
Prepaid expenses		15,665
Inventory		5,647
Deposits		<u>14,370</u>

TOTAL CURRENT ASSETS 400,788

\$ 1,336,464

See the accompanying notes to the financial statements.

CURRENT LIABILITIES

Accounts payable	\$	45,652	
Accrued wages		1,148	
Customer deposits		<u>17,130</u>	

TOTAL CURRENT LIABILITIES

63,930

LONG-TERM DEBT

422,204

DEFERRED INFLOWS OF RESOURCES

Unearned revenue		22,709	
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NET POSITION

Net investment in capital assets	\$	513,473	
Unrestricted		<u>314,147</u>	<u>827,620</u>

\$ 1,336,464

EAST SEVIER COUNTY UTILITY DISTRICT

STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET POSITION

Year Ended June 30, 2018

OPERATING REVENUE

Water sales	\$ 231,838
Sewer services	416,883
Tap fees and service fees	31,700
Reconnect fees	76,008
Penalties and interest	<u>7,698</u>

TOTAL OPERATING REVENUE 764,127

OPERATING EXPENSES

Salaries	\$ 73,203
Payroll taxes	3,843
Contract management	328,343
Insurance	28,824
Unemployment	9,404
Plant utilities	43,322
Repairs and maintenance	61,450
Depreciation	67,499
Vehicle and equipment expense	7,007
Mileage expense	418
Supplies	1,182
Interest	7,544
Permits	4,334
Lab services	5,550
Postage	3,782
Legal fees	10,426
Penalties	18,883
Professional services	38,207
Bond issuance costs	9,463
Travel	1,132
Dues	825
Miscellaneous	<u>3,795</u>

TOTAL OPERATING EXPENSES 728,437

See the accompanying notes to the financial statements.

EAST SEVIER COUNTY UTILITY DISTRICT

STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET POSITION

(continued)

Year Ended June 30, 2018

	CHANGE IN NET POSITION	35,689
NET POSITION AT THE BEGINNING OF THE YEAR, as restated		<u>791,932</u>
NET POSITION AT THE END OF THE YEAR		<u><u>\$ 827,620</u></u>

EAST SEVIER COUNTY UTILITY DISTRICT

STATEMENT OF CASH FLOWS

Year Ended June 30, 2018

**CASH PROVIDED(USED) BY
OPERATING ACTIVITIES**

Cash received from customers	\$ 714,787
Cash paid to employees	(73,203)
Cash paid to suppliers	<u>(553,181)</u>

**NET CASH PROVIDED BY
OPERATING ACTIVITIES**

88,403

**CASH PROVIDED(USED) BY CAPITAL AND RELATED
FINANCING ACTIVITIES**

Proceeds from issuance of long-term debt	\$ 422,204
Acquisition of capital assets	<u>(361,833)</u>

**NET CASH PROVIDED BY CAPITAL
AND RELATED FINANCING ACTIVITIES**

60,371

NET INCREASE IN CASH

148,774

CASH AT THE BEGINNING OF THE YEAR

24,854

CASH AT THE END OF THE YEAR

\$ 173,629

See the accompanying notes to the financial statements.

EAST SEVIER COUNTY UTILITY DISTRICT

STATEMENT OF CASH FLOWS

(continued)

Year Ended June 30, 2018

**RECONCILIATION OF CHANGE IN NET POSITION
TO NET CASH PROVIDED(USED)
BY OPERATING ACTIVITIES**

Change in net position		\$	35,689
Adjustments to reconcile change in net position to net cash provided by operating activities:			
Depreciation	\$	67,499	
(Increase)decrease in:			
Accounts receivable		(49,339)	
Deposits		(2,995)	
Inventory		(5,647)	
Prepaid expenses		4,305	
Increase(decrease) in:			
Accounts payable		44,174	
Payroll taxes payable		(573)	
Accrued wages		1,148	
Deferred revenue		9,582	
Customer deposits		(15,440)	<u>52,714</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES			<u>\$ 88,403</u>

EAST SEVIER COUNTY UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE A - DESCRIPTION OF ORGANIZATION

East Sevier County Utility District (the District) was created under the authority of Title 7, Chapter 82 of the 1937 Utility District Law of the State of Tennessee. The Board of Commissioners is appointed by the Sevier County Mayor for a term of four years. Sevier County does not have any fiscal or budgetary control over the District. Operations are funded by water and sewer rates established by the Board of Commissioners.

On September 12, 2017 the District entered into a contract with Alliance Water Resources beginning October 9, 2017 to perform management, operation and maintenance services for the District.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting

The District uses the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included in the statement of net position. The statement of revenue, expenses and change in net position presents increases (revenue) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenue is recognized in the period in which it is earned while expenses are recognized in the period in which the liability is incurred. Water revenue is recorded when billed to the customers, based on a monthly meter reading cycle. Sewer revenue is recorded when billed, based on the underlying contract.

The District distinguishes operating revenue and expenses from nonoperating items. Operating revenue is revenue that is generated from the primary operations of the District. The principal operating revenue of the District is charges to customers for water sales and sewer services. The District also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Revenue from sewer only customers is recognized in the month service is provided. Sewer only customers are billed a flat rate one month in advance which is reported as deferred revenue. All other revenue is reported as nonoperating revenue. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All other expenses are reported as nonoperating expenses.

EAST SEVIER COUNTY UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2018

The District prepares its financial statements in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments*. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting reporting purposes into the following three net position groups:

Net investment in capital assets

This category includes capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net investment in capital assets at June 30, 2018 has been calculated as follows:

Capital assets	\$ 1,581,414
Accumulated depreciation	(645,736)
Principal balance on long-term debt	<u>(422,204)</u>
	<u>\$ 513,473</u>

Restricted

This category includes net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of the District pursuant to those stipulations or that expire by the passage of time. 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 they are needed. The District had no restricted net position at June 30, 2018.

Unrestricted

This category includes net position that are not subject to externally imposed stipulations and that do not meet the definition of “restricted” or “net investment in capital assets.” Unrestricted net position may be designated for specific purposes by action of the Board of Commissioners or may otherwise be limited by contractual agreement with outside parties.

Prepaid Expenses

Payments made that will benefit periods beyond June 30, 2018 are recorded as prepaid expenses.

EAST SEVIER COUNTY UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2018

Plant in Service

Plant in service is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 50 years.

Allowance for Uncollectible Accounts

Allowance for uncollectible accounts is provided based upon historical trends. Allowance for uncollectible accounts at June 30, 2018 was \$41,000.

NOTE C - CASH

Cash represents money on deposit in various banks.

State of Tennessee law authorizes the District to invest in obligations of the United States of America or its agencies, nonconvertible debt securities of certain federal agencies, other obligations guaranteed as to principal and interest by the United States of America or any of its agencies, secured certificates of deposit and other evidences of deposit in state and federal banks and savings and loan associations, and the Tennessee Department of Treasury Local Government Investment Pool (the LGIP). The LGIP contains investments in certificates of deposit, U.S. Treasury securities and repurchase agreements, backed by the U.S. Treasury securities. The Treasurer of the State of Tennessee administers the investment pool.

All deposits with financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits are required to be secured by one of two methods. Excess funds can be deposited with a financial institution that participates in the State of Tennessee Bank Collateral Pool. For deposits with financial institutions that do not participate in the State of Tennessee 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.

All cash balances at June 30, 2018 were entirely insured through the Federal Deposit Insurance Corporation.

EAST SEVIER COUNTY UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2018

NOTE D - PLANT IN SERVICE

Plant in service activity for the year ended June 30, 2018 was as follows:

	<u>Balance</u> <u>7/1/17</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/18</u>
<u>Capital assets not being depreciated</u>				
Land	\$ 31,658	\$ 0	\$ 0	\$ 31,658
Construction in Progress	0	264,858	(162,450)	102,408
<u>Capital assets being depreciated</u>				
Building	69,236	0	0	69,236
Distribution and collection system	957,574	256,969	0	1,214,543
Machinery and equipment	96,597	1,915	0	98,512
Vehicles	49,208	540	0	49,748
Office equipment	<u>15,308</u>	<u>0</u>	<u>0</u>	<u>15,308</u>
	1,219,581	524,282	0	1,581,413
<u>Accumulated depreciation</u>				
Building	(15,581)	(2,391)	0	(17,971)
Distribution and collection system	(441,982)	(56,958)	0	(498,940)
Machinery and equipment	(82,325)	(2,172)	0	(84,497)
Vehicles	(23,577)	(5,945)	0	(29,522)
Office equipment	<u>(14,772)</u>	<u>(33)</u>	<u>0</u>	<u>(14,805)</u>
	<u>(578,237)</u>	<u>(67,499)</u>	<u>0</u>	<u>(645,736)</u>
	<u>\$ 641,344</u>	<u>\$ 456,783</u>	<u>\$ (162,450)</u>	<u>\$ 935,677</u>

NOTE E - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for all risks of loss, including general liability, workers' compensation coverage and employee dishonesty bonds. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

EAST SEVIER COUNTY UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2018

NOTE F - COMMITMENTS AND CONTINGENCIES

In May 2015, a Consent Order and Assessment from the State of Tennessee Department of Environment and Conservation assessed civil penalties against the District totaling \$129,019 related to operation of the water system. The District paid \$25,800 in penalties during the year ended June 30, 2015. The balance of the penalties has not been recorded as a liability in the financial statements as they are contingent upon the District meeting certain goals within given deadlines as specified in the Order. If these goals are met, the penalties will be forgiven. It is the District's intention to meet the remaining goals within the deadlines.

In August 2017, a Consent Order and Assessment from the State of Tennessee Department of Environment and Conservation assessed civil penalties against the District totaling \$72,627 related to the operation of the sewer system. The District reported \$18,883 as penalties during the year ending June 30, 2018. The balance of the penalties will not be recorded as a liability in the financial statements as they are contingent upon the District meeting certain goals within given deadlines as specified in the Order. The Order requires the District to modify, repair or replace equipment or operations and to assure the structural integrity of the distribution and collection system. There are a series of deadlines that must be met or the full amount of the penalties will be owed. It is the District's intention to meet the goals to reduce this penalty.

During the year ended June 30, 2018, the District contracted for a variety of engineering services related to capital improvements. The contracts totaled \$210,000 and \$96,118 was expended as of June 30, 2018.

EAST SEVIER COUNTY UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2018

NOTE G - LONG-TERM DEBT

Long-term debt at June 30, 2018 consisted of the following:

Water and Sewer Revenue Anticipation Bond, interest rate of 3.25%, principal and interest due on or before November 14, 2020, secured by the capital assets of the District	\$ 238,190
Water and Sewer Revenue Anticipation Bond, interest rate of 2.875%, principal and interest due on or before November 14, 2020, secured by the capital assets of the District	<u>184,014</u>
	<u>\$ 422,204</u>

New repayment terms will be implemented once the underlying capital projects have been completed.

NOTE H - RESTATEMENT

Net position at June 30, 2017 has been restated to include receivable amounts which were not previously recorded:

Balance at June 30, 2017, as originally reported	\$ 674,032
Unrecorded receivables	<u>117,900</u>
Balance at June 30, 2017, as restated	<u>\$ 791,932</u>

SUPPLEMENTARY INFORMATION

EAST SEVIER COUNTY UTILITY DISTRICT

CUSTOMERS AND UTILITY RATES

June 30, 2018

Tap Fees:

English Mountain subdivision:	
Water	\$ 1,250.00
Sewer	1,250.00
Other subdivisions, where applicable:	
Sewer	750.00

Utility Rates:

Water:	
Residential - first 4,000 gallons	43.00
Commercial - first 4,000 gallons	46.81
Commercial - over 4,000 gallons	187.22

Sewer:	
English Mountain subdivision:	
Residential - first 4,000 gallons	43.00
Commercial - first 4,000 gallons	54.56
Commercial - over 4,000 gallons	218.23
Other subdivisions - unmetered service	43.00

Number of customers 765

See the accompanying independent accountants' audit report.



AWWA Free Water Audit Software: Reporting Worksheet

WAS v5.0
American Water Works Association
Copyright © 2014, All Rights Reserved

Click to access definition
 Click to add a comment

Water Audit Report for: **East Sevier County Utility District (TN0000618)**
Reporting Year: **2018** **7/2017 - 6/2018**

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: 25.362 MG/Yr
Water imported: 0.000 MG/Yr
Water exported: 0.000 MG/Yr

WATER SUPPLIED: 25.111 MG/Yr

Master Meter and Supply Error Adjustments

Enter grading in column 'E' and 'J' ----->
Pcnt: 1.00% MG/Yr
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: 7.639 MG/Yr
Billed unmetered: 6.444 MG/Yr
Unbilled metered: 0.000 MG/Yr
Unbilled unmetered: 0.519 MG/Yr

Unbilled Unmetered volume entered is greater than the recommended default value

AUTHORIZED CONSUMPTION: 14.602 MG/Yr

Click here: for help using option buttons below

Pcnt: Value: 0.519 MG/Yr

Use buttons to select percentage of water supplied OR value

Pcnt: 0.25% Value: MG/Yr

3.25% 0.25% MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption)

10.509 MG/Yr

Apparent Losses

Unauthorized consumption: 0.063 MG/Yr
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies: 0.257 MG/Yr
Systematic data handling errors: 0.019 MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: 0.338 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: **10.170 MG/Yr**

WATER LOSSES: 10.509 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 11.028 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains: 12.0 miles
Number of active AND inactive service connections: 241
Service connection density: 20 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 has been set to zero and a data grading score of 10 has been applied

Average operating pressure: 100.0 psi

COST DATA

Total annual cost of operating water system: \$279,277 \$/Year
Customer retail unit cost (applied to Apparent Losses): \$15.00 \$/1000 gallons (US)
Variable production cost (applied to Real Losses): \$1,206.80 \$/Million gallons Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 65 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: Billed unmetered

See the accompanying independent accountant's audit report.



AWWA Free Water Audit Software: System Attributes and Performance Indicators

WAS v5.0
American Water Works Association.
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Water Audit Report for: East Sevier County Utility District (TN0000618)
 Reporting Year: 2018 7/2017 - 6/2018

***** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 65 out of 100 *****

System Attributes:

	Apparent Losses:	0.338	MG/Yr
+	Real Losses:	10.170	MG/Yr
=	Water Losses:	10.509	MG/Yr

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

Annual cost of Apparent Losses: \$5,077

Annual cost of Real Losses: \$12,274 Valued at **Variable Production Cost**

Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial: { Non-revenue water as percent by volume of Water Supplied: 43.9%
 Non-revenue water as percent by cost of operating system: 6.4% Real Losses valued at Variable Production Cost

Operational Efficiency: { Apparent Losses per service connection per day: 3.85 gallons/connection/day
 Real Losses per service connection per day: N/A gallons/connection/day
 Real Losses per length of main per day*: 2,322.01 gallons/mile/day
 Real Losses per service connection per day per psi pressure: N/A gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): 10.17 million gallons/year

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

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

See the accompanying independent accountant's audit report.

EAST SEVIER COUNTY UTILITY DISTRICT

BOARD OF COMMISSIONERS

June 30, 2018

Roy Ivey

Barbara Darby

Janice Brooks-Headrick

See the accompanying independent accountants' audit report.

INTERNAL CONTROL

AND

COMPLIANCE

INDEPENDENT ACCOUNTANTS' 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
East Sevier County Utility District
Sevierville, 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 of America, the financial statements of East Sevier County Utility District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated February 21, 2019. Our report was modified, due to the accompanying financial statements not including the value of certain assets that were donated by homeowner associations related to agreements for operating and maintaining their sewer system.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of finding, recommendation and management response, we identified a deficiency in internal control that we consider to be a material weakness.

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 East Sevier County Utility District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as item 2018-001 in the accompanying schedule of findings, recommendations and management responses to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Sevier County Utility District'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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings, recommendations, and management responses as item 2018-002.

East Sevier County Utility District's Responses to Findings

East Sevier County Utility District's responses to the findings identified in our audit is described in the accompanying schedule of findings, recommendations and management responses. East Sevier County Utility District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 East Sevier County Utility District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Sevier County Utility District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



February 21, 2019

EAST SEVIER COUNTY UTILITY DISTRICT

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Year Ended June 30, 2018

Finding Number 2018-001 - Plant in Service Records (*uncorrected from the prior year*)

Finding: East Sevier County Utility District (the District) did not have adequate accounting records relating to its plant in service. Specifically, it did not keep copies of all contracts with homeowner associations for the operation of their sewer system, though it was able to obtain some copies during the year ended June 30, 2015. As a result, management could not determine if ownership of the sewer systems was transferred to the District or if the homeowner associations retained ownership of the assets. If the homeowner associations donated the sewer systems to the District, the fair value of the systems at the date of donation should have been recorded as assets and depreciated over the estimated useful life of the systems. The accompanying financial statements do not include any assets and related depreciation expense related to these sewer systems.

Recommendation: Management should obtain signed copies of all contracts with homeowner associations and determine if the underlying sewer system was transferred to the District. If so, they should determine the fair value at the date of donation and record the asset (and related depreciation) in the general ledger.

Management Response: We concur. Management continues to work towards this goal with the Tennessee Department of Environment & Conservation (TDEC) and the District attorney. It remains the desire of TDEC for the District to own all the public infrastructure related to the Offsite Sewer Contracts. Where this is not the case, TDEC plans to use the permit renewal process to ensure that ownership is with the District or other public entity. Much time has been dedicated to the development of a suitable contract template to be utilized across all offsite locations. TDEC has approved a contract for use with a new development. Management will continue to work with the TDEC and the District attorney to develop similar contracts to be signed by each offsite HOA and/or developer. The timeline for completion is largely dependent on the responsiveness of the offsite representatives. ESCUD's tentative goal for completion is during the 2019 year.

Finding Number 2018-002 – Volume of Water Sold (*uncorrected from the prior year*)

Finding: The District did not have adequate records relating to the number of gallons sold to its customers. Several of its customers, including its largest customer, are billed a flat amount each month without regard to the number of gallons used. Annually, the District is required to report to the State of Tennessee the number of gallons pumped and sold using the American Water Works Association Water (AWWA) Audit Software. The number of gallons sold used in this report was estimated and should be actual usage.

EAST SEVIER COUNTY UTILITY DISTRICT

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

(continued)

Year Ended June 30, 2018

Recommendation: Management should revise its metering system to provide the actual number of gallons used by all its customers, so that accurate reporting can be made to the state.

Management Response: We concur. The District staff has installed meters at all known previously unmetered locations as of December 2018.

East Sevier County Utility District
1529 Alpine Drive
Sevierville, TN 37876
(865) 453-6704

MANAGEMENT'S CORRECTIVE ACTION PLAN

East Sevier County Utility District respectfully submits the following corrective action plan for the year ended June 30, 2018. The findings from the June 30, 2018 schedule of finding, recommendation and management response are discussed below.

No. 2018-001: Material Weakness - Plant in Service Records

Recommendation: Management should obtain signed copies of all contracts with homeowner associations and determine if the underlying sewer system was transferred to the District. If so, they should determine the fair value at the date of donation and record the asset (and related depreciation) in the general ledger.

Action Taken: We concur. Management continues to work towards this goal with the Tennessee Department of Environment & Conservation (TDEC) and the District attorney. It remains the desire of TDEC for the District to own all the public infrastructure related to the Offsite Sewer Contracts. Where this is not the case, TDEC plans to use the permit renewal process to ensure that ownership is with the District or other public entity. Much time has been dedicated to the development of a suitable contract template to be utilized across all offsite locations. TDEC has approved a contract for use with a new development. Management will continue to work with the TDEC and the District attorney to develop similar contracts to be signed by each offsite HOA and/or developer. The timeline for completion is largely dependent on the responsiveness of the offsite representatives. ESCUD's tentative goal for completion is during the 2019 year.

No. 2018-002: Compliance - Volume of Water Sold

Recommendation: Management should revise its metering system to provide the actual number of gallons used by all its customers, so that accurate reporting can be made to the state.

Action Taken: We concur. The District staff has installed meters at all known previously unmetered locations as of December 2018.



Evan Romo
Division Manager
Alliance Water Resources
East Sevier County Utility District

EAST SEVIER COUNTY UTILITY DISTRICT

PRIOR YEAR FINDING AND QUESTIONED COST

Year Ended June 30, 2018

Financial Statement Finding

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2017-001	Plant in Service Records (original finding 2012-001)	Repeated
2017-002	Volume of Water Sold (original finding 2015-002)	Repeated