

Financial Statements

EAST SEVIER COUNTY UTILITY DISTRICT

Year Ended June 30, 2019

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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, 2019, 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.

Opinion

In our opinion, 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, 2019 and the change in its financial position and its 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, 2018 to include capital assets and related accumulated depreciation 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 December 19, 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.

December 19, 2019

EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

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, 2019.

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 2019 increased by \$570,200 or 68.9%. \$764,700 of the increase in net position is increase in Net Investment in capital assets.

Total assets increased \$1,181,600 (88.4%) due to increases in current assets and capital assets. Current assets increased by \$133,800 (33.4%) primarily due to increases in cash. Cash increased \$195,800 (112.8%). Accounts receivable decreased \$153,400 (80.1%). Capital assets increased \$1,047,800 (112.0%). Additional information regarding capital asset additions is discussed in the capital assets section of this discussion and analysis.

Total liabilities increased by \$607,700 (125.0%) mainly due to an increase in Current liabilities by \$308,300 (675.4%), due to an increase in accounts payable. Long-term debt increased by \$283,100.

A summary of financial position follows:

EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>For The Years Ended June 30</u>		<u>2019</u>	
	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>Percentage Change</u>
Assets:				
Current assets	\$ 534,563	\$ 400,788	133,775	33.4%
Capital assets	1,983,504	935,677	1,047,827	112.0
Total assets	<u>2,518,066</u>	<u>1,336,464</u>	<u>1,181,602</u>	88.4
Deferred Inflow of Resources:				
Unearned Revenue	<u>26,417</u>	<u>22,709</u>	<u>3,708</u>	16.3
Liabilities:				
Current liabilities	388,524	63,930	324,594	507.7
Long term liabilities, net of current maturities	<u>705,340</u>	<u>422,204</u>	<u>283,136</u>	N/A
Total liabilities	<u>1,093,864</u>	<u>486,134</u>	<u>607,730</u>	125.0
Net Position				
Net investment in capital assets	1,278,164	513,473	764,691	148.9
Unrestricted	<u>119,621</u>	<u>314,147</u>	<u>(194,526)</u>	(61.9)
Total net position	<u>1,397,785</u>	<u>827,620</u>	<u>570,165</u>	68.9
	<u>\$2,518,066</u>	<u>\$1,336,464</u>	<u>1,181,602</u>	88.4%

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Total operating revenues increased by \$151,000 or 19.8%. The increase consists of water and sewer revenues in the amount of \$79,000 or 12.2%. Water sales decreased \$1,300 or 0.6% and sewer charges increased \$80,300 or 19.3%.

Total operating expenses increased by \$74,000 or 10.2%. Operating expenses increased primarily due to cost of management and operations in the amount of \$138,900 which was offset in a reduction of salaries and payroll taxes of \$73,200. 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 \$16,600 primarily due to increase in interest expense.

EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

A summary of changes in net position follows:

	<u>For The Years Ended June 30</u>		<u>2019</u>	
	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>Percentage Change</u>
Operating Revenues:				
Water sales and sewer charges	\$ 727,722	\$ 648,721	79,001	12.2%
Connection fees	30,000	31,700	(1,700)	(5.4)
Late charges	157,422	83,706	73,716	88.1
Total operating revenues	<u>915,144</u>	<u>764,127</u>	<u>151,017</u>	19.8
Operating Expenses:				
Operating expenses	684,648	660,938	23,710	3.6
Depreciation	117,772	67,499	50,273	74.5
Total operating expenses	<u>802,420</u>	<u>728,437</u>	<u>73,983</u>	10.2
Operating Income	112,722	35,690	77,032	215.8
Non-operating income (expenses)	<u>(16,585)</u>	<u>-</u>	<u>(16,585)</u>	N/A
Change in net position before capital contributions	96,137	35,690	60,447	(169.4)
Contributions in aid to construction	<u>-</u>	<u>-</u>	<u>-</u>	0.0
Change in Net Position	96,137	35,690	60,447	(169.4)
Net Position, July 1	1,301,648	791,932	509,716	64.4
Reinstatement	<u>-</u>	<u>-</u>	<u>-</u>	N/A
Net Position, June 30	<u>\$1,397,785</u>	<u>\$ 827,620</u>	<u>570,165</u>	68.9%

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 2019, there was no debt service requirements for the year.

EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

CAPITAL ASSETS

Capital assets, net of depreciation was \$1,983,500 at June 30, 2019 compared to \$935,700 at June 30, 2018 which represents an increase of \$1,047,800 or 112.0%. Depreciation expense for 2019 was \$117,800. 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, 2019.

LONG-TERM LIABILITIES

As of June 30, 2019, the District had total long-term debt outstanding of \$705,340. Principal and interest are deferred until 2020. New repayment terms will be implemented once the underlying capital projects have been completed.

ECONOMIC FACTORS AND FUTURE 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 ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's overall financial position in 2019 increased as compared to prior year. The District continually strives to improve its financial position as reflected in the restatement of the June 30, 2018 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, 2019

PLANT IN SERVICE

Land	\$	31,658
Construction in progress		648,357
Building		69,236
Distribution and collection system		2,126,403
Vehicles and trailer		61,273
Equipment		<u>114,699</u>
		3,051,626
Accumulated depreciation		<u>(1,068,121)</u>
		<u>1,983,504</u>

CURRENT ASSETS

Cash	\$	369,438
Current portion of accounts receivable, net of allowance for uncollectible accounts of \$18,000		95,779
Prepaid expenses		7,119
Inventory		9,787
Deposits		<u>14,370</u>

TOTAL CURRENT ASSETS 496,493

OTHER ASSETS

Accounts receivable, net of current portion		<u>38,070</u>
		<u>\$ 2,518,066</u>

See the accompanying notes to the financial statements.

CURRENT LIABILITIES

Accounts payable	\$ 353,974	
Customer deposits	<u>34,550</u>	

TOTAL CURRENT LIABILITIES 388,524

LONG-TERM DEBT

705,340

DEFERRED INFLOWS OF RESOURCES

Unearned revenue		26,417
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NET POSITION

Net investment in capital assets	\$ 1,278,164	
Unrestricted	<u>119,621</u>	<u>1,397,785</u>

\$ 2,518,066

EAST SEVIER COUNTY UTILITY DISTRICT

STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET POSITION

Year Ended June 30, 2019

OPERATING REVENUE

Water sales	\$ 230,539
Sewer services	497,183
Penalties and interest	9,868
Tap fees and service fees	30,000
Other operating revenue	<u>147,554</u>

TOTAL OPERATING REVENUE 915,144

OPERATING EXPENSES

Salaries	\$ 24,989
Payroll taxes	1,912
Unemployment	550
Contract management	467,279
Insurance	25,726
Plant utilities	47,349
Repairs and maintenance	75,029
Depreciation	117,772
Permits	4,974
Postage	209
Legal fees	15,986
Professional services	7,900
Bond issuance costs	10,715
Dues	450
Miscellaneous	<u>1,580</u>

TOTAL OPERATING EXPENSES 802,420

INCOME FROM OPERATIONS 112,722

NONOPERATING EXPENSE

Interest	<u>16,585</u>
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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, 2019

	CHANGE IN NET POSITION	96,137
NET POSITION AT THE BEGINNING OF THE YEAR, as restated		<u>1,301,648</u>
NET POSITION AT THE END OF THE YEAR		<u><u>\$1,397,785</u></u>

EAST SEVIER COUNTY UTILITY DISTRICT

STATEMENT OF CASH FLOWS

Year Ended June 30, 2019

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

Cash received from customers	\$ 972,771
Cash paid to employees	(26,137)
Cash paid to suppliers	<u>(325,805)</u>

**NET CASH PROVIDED BY
OPERATING ACTIVITIES**

620,829

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

Proceeds from issuance of long-term debt	\$ 283,136
Acquisition of capital assets	(691,571)
Interest paid	<u>(16,585)</u>

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

(425,020)

NET INCREASE IN CASH

195,809

CASH AT THE BEGINNING OF THE YEAR

173,629

CASH AT THE END OF THE YEAR

\$ 369,438

See the accompanying notes to the financial statements.

EAST SEVIER COUNTY UTILITY DISTRICT

STATEMENT OF CASH FLOWS

(continued)

Year Ended June 30, 2019

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

Change in net position		\$ 112,722
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Depreciation	\$ 117,772	
(Increase)decrease in:		
Accounts receivable	57,627	
Inventory	(4,140)	
Prepaid expenses	8,546	
Increase(decrease) in:		
Accounts payable	308,322	
Accrued wages	(1,148)	
Deferred revenue	3,708	
Customer deposits	17,420	508,107
		<u>508,107</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		<u>\$ 620,829</u>

EAST SEVIER COUNTY UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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. The contract is in effect until June 30, 2026.

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, 2019

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, 2019 has been calculated as follows:

Capital assets	\$ 3,051,626
Accumulated depreciation	(1,068,121)
Principal balance on long-term debt	<u>(705,340)</u>
	<u>\$ 1,278,165</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, 2019.

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, 2019 are recorded as prepaid expenses.

EAST SEVIER COUNTY UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2019

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, 2019 was \$18,000.

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, 2019 were entirely insured through the Federal Deposit Insurance Corporation.

EAST SEVIER COUNTY UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2019

NOTE D - PLANT IN SERVICE

Plant in service activity for the year ended June 30, 2019 was as follows:

	<u>Balance</u> <u>7/1/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/19</u>
<u>Capital assets not being depreciated</u>				
Land	\$ 31,658	\$ 0	\$ 0	\$ 31,658
Construction in Progress	102,408	545,949	0	648,357
<u>Capital assets being depreciated</u>				
Building	69,236	0	0	69,236
Distribution and collection system	1,993,184	133,219	0	2,126,403
Machinery and equipment	98,512	0	0	98,512
Vehicles	49,748	11,525	0	61,273
Office equipment	<u>15,308</u>	<u>878</u>	<u>0</u>	<u>16,186</u>
	2,360,054	691,571	0	3,051,626
<u>Accumulated depreciation</u>				
Building	(17,971)	(2,378)	0	(20,349)
Distribution and collection system	(803,553)	(110,107)	0	(913,660)
Machinery and equipment	(84,497)	(1,240)	0	(85,737)
Vehicles	(29,522)	(4,014)	0	(33,536)
Office equipment	<u>(14,805)</u>	<u>(33)</u>	<u>0</u>	<u>(14,838)</u>
	<u>(950,348)</u>	<u>(117,772)</u>	<u>0</u>	<u>(1,068,121)</u>
	<u>\$1,409,705</u>	<u>\$ 573,799</u>	<u>\$ 0</u>	<u>\$1,983,504</u>

The balances at July 1, 2018 have been restated to include six sewer systems owned by the District.

EAST SEVIER COUNTY UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2019

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.

NOTE F - COMMITMENTS AND CONTINGENCIES

During the year ended June 30, 2019, the District contracted for a variety of construction and engineering services related to capital improvements. The contracts totaled \$658,338 and \$241,192 was unexpended as of June 30, 2019.

EAST SEVIER COUNTY UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2019

NOTE G - LONG-TERM DEBT

Long-term debt at June 30, 2019 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	\$ 291,000
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	148,340
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>266,000</u>
	<u>\$ 705,340</u>

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

NOTE H - RESTATEMENT

Net position at June 30, 2018 has been restated to capitalize sewer systems which were not previously recognized:

Balance at June 30, 2018, as originally reported	\$ 827,620
Sewer systems, net of accumulated depreciation	<u>474,028</u>
Balance at June 30, 2018, as restated	<u>\$ 1,301,648</u>

SUPPLEMENTARY INFORMATION

EAST SEVIER COUNTY UTILITY DISTRICT

CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE

June 30, 2019

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue
<u>BONDS PAYABLE</u>			
Water and Sewer Anticipation Bond	\$ 291,000	3.25 %	Various
Water and Sewer Anticipation Bond	266,000	2.875	Various
Water and Sewer Anticipation Bond	<u>555,000</u>	3.25	Various
	<u>\$ 1,112,000</u>		

TBD - maturity will be determined when the final loan documents are prepared.

See the accompanying independent accountant's audit report.

Last Maturity Date	Outstanding 7/1/2018	Issued During Period	Paid and/or Matured During Period	Refunded During Period	Outstanding 6/30/2019
TBD	\$ 238,190	\$ 52,810	\$ 0	\$ 0	\$ 291,000
TBD	184,014	81,986	0	0	266,000
TBD	<u>0</u>	<u>148,340</u>	<u>0</u>	<u>0</u>	<u>148,340</u>
	<u>\$ 422,204</u>	<u>\$ 283,136</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 705,340</u>

EAST SEVIER COUNTY UTILITY DISTRICT

CUSTOMERS AND UTILITY RATES

June 30, 2019

Tap Fees:

English Mountain subdivision:	
Water	\$ 1,250.00
Sewer	1,250.00
Other subdivisions, where applicable:	
Sewer	750.00
Commercial - \$2,650 per acre or \$1,250 per unit, whichever is greater	

Utility Rates:

Water:	
Residential - first 3,000 gallons	\$53.00
Commercial - first 3,000 gallons	\$53.00
- over 3,000 gallons	\$3.00 per 1,000
Sewer:	
English Mountain subdivision:	
Residential - first 3,000 gallons	\$45.00
Commercial - first 3,000 gallons	\$45.00
- over 3,000 gallons	\$3.10 per 1,000
Other subdivisions – depending on bedrooms	\$45.00 - \$165.00

Deposit – 3 times the current monthly rate on the date of account creation

Tap Fees - \$750

Number of customers

Water	246
Sewer	774

See the accompanying independent accountants' audit report.



AWWA Free Water Audit Software: Reporting Worksheet

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

Water Audit Report for: **East Sevier County Utility District (TN0000618)**
Reporting Year: **2019** **7/2018 - 6/2019**

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.

Master Meter and Supply Error Adjustments

WATER SUPPLIED

		<----- Enter grading in column 'E' and 'J' ----->			
Volume from own sources:	<input type="button" value="+"/> <input type="button" value="?"/> 9	28.659	MG/Yr	<input type="button" value="+"/> <input type="button" value="?"/> 3	1.00%
Water imported:	<input type="button" value="+"/> <input type="button" value="?"/> n/a	0.000	MG/Yr	<input type="button" value="+"/> <input type="button" value="?"/>	<input type="radio"/> <input type="radio"/>
Water exported:	<input type="button" value="+"/> <input type="button" value="?"/> n/a	0.000	MG/Yr	<input type="button" value="+"/> <input type="button" value="?"/>	<input type="radio"/> <input type="radio"/>

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

WATER SUPPLIED: 28.375 MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	<input type="button" value="+"/> <input type="button" value="?"/> 9	8.978	MG/Yr
Billed unmetered:	<input type="button" value="+"/> <input type="button" value="?"/> 9	0.000	MG/Yr
Unbilled metered:	<input type="button" value="+"/> <input type="button" value="?"/> 9		MG/Yr
Unbilled unmetered:	<input type="button" value="+"/> <input type="button" value="?"/> 9	0.519	MG/Yr

Unbilled Unmetered volume entered is greater than the recommended default value

AUTHORIZED CONSUMPTION: 9.497 MG/Yr

Click here: for help using option buttons below

Pcnt: Value: MG/Yr

Use buttons to select percentage of water supplied
OR
value

Pcnt: Value: MG/Yr

MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption)

18.878 MG/Yr

Apparent Losses

Unauthorized consumption: 0.071 MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies: 9 0.302 MG/Yr

Systematic data handling errors: 0.022 MG/Yr

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

Apparent Losses: 0.395 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: **18.483** MG/Yr

WATER LOSSES: 18.878 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 19.397 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	<input type="button" value="+"/> <input type="button" value="?"/> 5	12.0	miles
Number of active AND inactive service connections:	<input type="button" value="+"/> <input type="button" value="?"/> 7	250	
Service connection density:	<input type="button" value="?"/>	21	conn./mile main

Are customer meters typically located at the curbstop 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: 7 100.0 psi

COST DATA

Total annual cost of operating water system:	<input type="button" value="+"/> <input type="button" value="?"/> 9	\$300,000	\$/Year
Customer retail unit cost (applied to Apparent Losses):	<input type="button" value="+"/> <input type="button" value="?"/> 9	\$6.33	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	<input type="button" value="+"/> <input type="button" value="?"/> 9	\$1,267.14	\$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 84 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: Unauthorized consumption
- 3: Systematic data handling errors

See the accompanying independent accountants' 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: **2019** | **7/2018 - 6/2019**

***** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 84 out of 100 *****

System Attributes:

Apparent Losses:	0.395	MG/Yr
+	Real Losses:	18.483
=	Water Losses:	18.878

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

Annual cost of Apparent Losses: \$2,500

Annual cost of Real Losses: \$23,421 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: 68.4%
Non-revenue water as percent by cost of operating system: 8.9% Real Losses valued at Variable Production Cost

Operational Efficiency: { Apparent Losses per service connection per day: 4.33 gallons/connection/day
Real Losses per service connection per day: N/A gallons/connection/day
Real Losses per length of main per day*: 4,219.93 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): 18.48 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 accountants' audit report.

EAST SEVIER COUNTY UTILITY DISTRICT

BOARD OF COMMISSIONERS

June 30, 2019

Roy Ivey

Barbara Darby

Janice Brooks-Headrick

See the accompanying independent accountants' audit report.

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, 2019, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2019.

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.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 finding, recommendation, and management response as item 2019-001.

Item 2018-001 reported for the prior year was either corrected during the year ended June 30, 2019 or was no longer considered a significant deficiency.

East Sevier County Utility District's Response to Finding

East Sevier County Utility District's response to the finding identified in our audit is described in the accompanying schedule of finding, recommendation and management response. East Sevier County Utility District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.



December 19, 2019

EAST SEVIER COUNTY UTILITY DISTRICT

FINDING, RECOMMENDATION AND MANAGEMENT RESPONSE

Year Ended June 30, 2019

Finding Number 2019-001 – 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. Its largest customer is 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. During the year ended June 30, 2019, a new meter was installed for this customer so the number of gallons used can be measured.

Recommendation: Management should revise its billing system to be based on 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 installed meters at customer locations throughout the year completing the project in May of 2019. All District customers are now metered. All residential meters are billed based on usage. Commercial customers will be billed based on usage once usage data is established.

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, 2019. The findings from the June 30, 2019 schedule of finding, recommendation and management response are discussed below.

No. 2019-001: Compliance - Volume of Water Sold

Recommendation: Management should revise its billing system to provide billing based on the actual number of gallons used so that accurate reporting can be made to the state.

Action Taken: We concur. In May of 2019, the District completed the task of installing meters at every customer location. The District is now tracking gallons sold to all customers. Local Manager, James Ford, intends to gather a year of usage data and institute flow based billing by the end of the 2019-2020 fiscal year.

EAST SEVIER COUNTY UTILITY DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended June 30, 2019

Financial Statement Finding

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2018-001	Plant in Service Records (original finding 2012-001)	Corrected
2018-002	Volume of Water Sold (original finding 2015-002)	Repeated