

**EAST SEVIER COUNTY UTILITY DISTRICT  
SEVIERVILLE, TENNESSEE  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2020**

**EAST SEVIER COUNTY UTILITY DISTRICT**  
**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**For the Year Ended June 30, 2020**

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## **INTRODUCTORY SECTION**

**EAST SEVIER COUNTY UTILITY DISTRICT  
BOARD OF COMMISSIONERS AND MANAGEMENT  
JUNE 30, 2020**

**COMMISSIONERS**

Roy Ivey

Barbara Darby

Janice-Brooks-Headrick

**GENERAL MANAGER**

John Haak

Alliance Water Resources

## **FINANCIAL SECTION**

# *The MG Group, P.C.*

**CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

## **INDEPENDENT AUDITOR'S REPORT**

To the 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, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise East Sevier County Utility District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a

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**515 NW Atlantic Street, Tullahoma, Tennessee 37388**

**16053 Rankin Avenue, Dunlap, Tennessee 37327**

**Phone (931) 393-3307      Fax (931) 563-5585**

basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Sevier County Utility District as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise East Sevier County Utility District's basic financial statements. The introductory section, schedule of expenditures of federal awards, and other information section are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory section and the other information section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2020 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, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

*MG Group, P.C.*

Tullahoma, Tennessee  
November 12, 2020



**EAST SEVIER COUNTY UTILITY DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

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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, 2020.

**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 statement of net position provides 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 statement 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 statement 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 2020 increased by \$562,700 or 40.3% due to revenues exceeding expenses and the receipt of \$443,000 in contributed capital .

Total assets increased \$267,400 or 10.6% due to increases in current assets and capital assets. Current assets increased by \$93,800 or 17.5% mainly due to increases in cash, accounts receivable and prepaid expenses. Cash increased \$51,500 or 14% due to an increase in customer payments. Accounts receivable increased \$21,800 or 16.3%. Prepaid expenses increased \$14,000 or 196.5% primarily due to an increase in the property insurance for the capital assets adjustment to record assets not previously recorded. Capital assets increased \$173,600 or 8.8%. Additional information regarding capital asset additions is discussed in the capital assets section of this discussion and analysis.

Total liabilities decreased by \$299,400 or 27.4% mainly due to a decrease in current liabilities of \$287,500 or 74%, due to a decrease in accounts payable. The decrease in accounts payable comes from the Alpine Drive water system improvement project and Well C improvement projects being completed during the fiscal year. Long-term debt decreased by \$11,915 or 1.7% as a result of current year payments on long-term debt \$7,900 and the recording of \$8,200 in current portion of long-term debt for payments due in the next year. This increase was partially offset by \$4,200 for a draw on USDA loan #1 during the fiscal year.

A summary of financial position follows:

**EAST SEVIER COUNTY UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>For The Years Ended June 30</u>			<u>2020</u>	
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>Percentage Change</u>
<b>Assets:</b>					
Current assets	\$ 628,354	\$ 534,563	\$ 400,788	93,791	17.5%
Capital assets	2,157,074	1,983,504	935,677	173,570	8.8
Total assets	<u>2,785,428</u>	<u>2,518,066</u>	<u>1,336,464</u>	<u>267,362</u>	10.6
<b>Deferred Inflow of Resources:</b>					
Unearned Revenue	30,421	26,417	22,709	4,004	15.2
<b>Liabilities:</b>					
Current liabilities	101,064	388,524	63,930	(287,460)	(74.0)
Long term liabilities, net of current maturities	693,425	705,340	422,204	(11,915)	(1.7)
Total liabilities	<u>794,489</u>	<u>1,093,864</u>	<u>486,134</u>	<u>(299,375)</u>	(27.4)
<b>Net Position</b>					
Net investment in capital assets	1,455,484	1,278,164	513,473	177,320	13.9
Unrestricted	505,034	119,621	314,147	385,413	322.2
Total net position	<u>1,960,518</u>	<u>1,397,785</u>	<u>827,620</u>	<u>562,733</u>	40.3
	<u>\$2,785,428</u>	<u>\$2,518,066</u>	<u>\$1,336,464</u>	<u>267,362</u>	10.6%

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

Total operating revenues increased by \$62,700 or 6.8%. The increase primarily consists of water and sewer revenues in the amount of \$39,200 or 5.4%, connection fees of \$14,200 or 47.5%, and other operating revenues of \$12,500 or 8.5%. Water sales increased \$21,800 or 10.5% and sewer charges increased \$18,000 or 3.5%. Connection fees increased due to an increase in sewer customers. Other operating revenues increased mainly due to an increase in service charges for maintenance.

Total operating expenses increased by \$22,100 or 2.8%. Operating expenses increased primarily due to inflationary increases in management and operations contract, as well as increases in insurance, repairs and maintenance, and permits offset by a reduction in legal expenses and utilities. Depreciation increased \$6,800 or 5.8%. The non-operating income (expense) changed \$16,900 due to an increase in interest expense of \$5,300 and loss on disposal of capital assets \$11,600.

A summary of changes in net position follows:

**EAST SEVIER COUNTY UTILITY DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	<u>For The Years Ended June 30</u>			<u>2020</u>	
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>Percentage Change</u>
<b>Operating Revenues:</b>					
Water sales and sewer charges	\$ 766,876	\$ 727,722	\$ 648,721	39,154	5.4%
Connection fees	44,250	30,000	31,700	14,250	47.5
Late charges	6,612	9,868	7,698	(3,256)	(33.0)
Other operating revenue	160,060	147,554	76,008	12,506	8.5
Total operating revenues	<u>977,798</u>	<u>915,144</u>	<u>764,127</u>	<u>62,654</u>	6.8
<b>Operating Expenses:</b>					
Operating expenses	699,993	684,648	660,938	15,345	2.2
Depreciation	124,548	117,772	67,499	6,776	5.8
Total operating expenses	<u>824,541</u>	<u>802,420</u>	<u>728,437</u>	<u>22,121</u>	2.8
<b>Operating Income</b>	153,257	112,722	35,689	40,535	36.0
Non-operating income (expenses)	<u>(33,524)</u>	<u>(16,585)</u>	<u>-</u>	<u>(16,939)</u>	102.1
<b>Change in net position before capital contributions</b>	119,733	96,137	35,689	23,596	(24.5)
Contributions in aid to construction	<u>443,000</u>	<u>-</u>	<u>-</u>	<u>443,000</u>	N/A
<b>Change in Net Position</b>	562,733	96,137	35,689	466,596	(485.3)
Net Position, July 1	1,397,785	1,301,648	791,932	96,137	7.4
*Reinstatement	<u>-</u>	<u>-</u>	<u>474,027</u>	<u>-</u>	N/A
<b>Net Position, June 30</b>	<u>\$1,960,518</u>	<u>\$1,397,785</u>	<u>\$1,301,648</u>	<u>562,733</u>	40.3%

\*Reinstatement of net position as of June 30, 2018 to include capital assets and related accumulated depreciation amounts which were not previously recorded.

**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. In 2020, the District did not accomplish this objective. The District increased rates in July 2020 to help with realizing this objective in the future.

**CAPITAL ASSETS**

Capital assets, net of depreciation was \$2,157,074 on June 30, 2020 compared to \$1,983,504 on June 30, 2019 which represents an increase of \$173,570 or 8.8%. Depreciation expense for 2020 was \$124,548. System additions primarily consisted of new services, water system improvements, new water line, treatment building construction and various equipment purchases.

**EAST SEVIER COUNTY UTILITY DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

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**RESTRICTED ASSETS**

Restricted assets were \$43,786 in 2020. The District did not have any restricted assets recorded as of June 30, 2019. The District's restricted assets consist of the amount of the District's customer deposits.

**LONG-TERM LIABILITIES**

The District paid principal payments of \$7,917 in 2020 and added \$4,166 in principal to their balance in 2020. As of June 30, 2020, the District had total long-term debt outstanding of \$701,589 of which \$8,164 is due in the next year.

**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, Hibernation Station, The Preserve, Timberlake and Parkside Resort subdivisions.

**OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS**

The District's overall financial position in 2020 increased by \$562,733 as compared to the prior year. The District continually strives to improve its financial position as reflected by the rate increases effective in July 2020.

**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, 2020**

**ASSETS**

Current Assets:	
Cash and cash equivalents	\$ 377,193
Restricted assets - customer deposits	43,786
Accounts receivable, net	155,649
Inventory	16,246
Prepaid items	21,110
Deposits	14,370
Total current assets	628,354
Noncurrent Assets:	
Capital Assets:	
Land	31,658
Construction in progress	147,079
Distribution and collection system	2,925,357
Buildings	69,236
Equipment	159,300
Less: accumulated depreciation	(1,175,556)
Total noncurrent assets	2,157,074
Total assets	2,785,428

**LIABILITIES**

Current Liabilities:	
Accounts payable	36,742
Accrued interest payable	8,897
Sales tax payable	3,475
Customer deposits	43,786
Current portion of bonds payable	8,164
Total current liabilities	101,064
Bonds payable, net of current portion	693,425
Total liabilities	794,489

**DEFERRED INFLOWS OF RESOURCES**

Unearned revenue	30,421
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**NET POSITION**

Net investment in capital assets	1,455,484
Unrestricted	505,034
Total net position	\$ 1,960,518

The accompanying notes are an integral part of this statement

**East Sevier County Utility District**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2020**

<b>Operating revenues:</b>		
Water sales	\$	228,706
Sewer charges		538,170
Water and sewer tap fees		44,250
Other operating fees		<u>166,672</u>
Total operating revenues		<u>977,798</u>
 <b>Operating expenses:</b>		
Salaries		24,989
Payroll taxes		1,912
Contract management		493,669
Utilities		45,114
Insurance		28,224
Repairs and maintenance		77,071
Professional services		19,449
Permits		7,262
Supplies and office		172
Miscellaneous		2,131
Depreciation		<u>124,548</u>
Total operating expenses		<u>824,541</u>
Operating Income		<u>153,257</u>
 <b>Nonoperating revenues (expenses):</b>		
Loss on disposal of capital assets		(11,640)
Interest expense		<u>(21,884)</u>
Total nonoperating revenues (expenses)		<u>(33,524)</u>
Income before capital contributions		119,733
Capital contributions		<u>443,000</u>
Change in net position		562,733
Net position - beginning		<u>1,397,785</u>
Net position - ending		<u>\$ 1,960,518</u>

The accompanying notes are an integral part of this statement

**East Sevier County Utility District  
Statement of Cash Flows  
For the Year Ended June 30, 2020**

**Cash flows from operating activities:**

Cash received from customers	\$ 955,998
Cash payments for goods and services	(1,012,063)
Net cash used for operating activities	(56,065)

**Cash flows from capital and related financing activities:**

Principal repayments on long-term debt	(7,917)
Acquisition of capital assets	(309,759)
Capital grants	443,000
Proceeds from issuance of long-term debt	4,166
Interest paid	(21,884)
Net cash provided by capital and related financing activities	107,606

**Cash flows from investing activities:**

Net cash provided by investing activities	-
Net increase in cash and cash equivalents	51,541

Cash and cash equivalents, beginning of year	369,438
Cash and cash equivalents, end of year	\$ 420,979

**Reconciliation of operating income to net cash used for operating activities:**

Operating income	\$ 153,257
Adjustments to reconcile operating income to net cash used for operating activities	
Depreciation expense	124,548
Decrease (increase) in accounts receivable	(21,800)
Decrease (increase) in inventory	(6,459)
Decrease (increase) in prepaid items	(13,991)
Increase (decrease) in accounts payable	(317,232)
Increase (decrease) in accrued interest payable	8,897
Increase (decrease) in sales tax payable	3,475
Increase (decrease) in other current liabilities	13,240
Total adjustments	(209,322)
Net cash used for operating activities	\$ (56,065)

The accompanying notes are an integral part of this statement

**East Sevier County Utility District, Sevierville, Tennessee**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 1. THE REPORTING ENTITY**

The East Sevier County Utility District was created under the authority of Title 7, Chapter 82 pursuant to the Tennessee Utility District Act of 1937 for the purpose of supplying water and sewer services in Sevier County, Tennessee. Sevier County does not have any fiscal or budgetary control over the District.

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 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Measurement Focus, Basis of Accounting, and Basis of Presentation***

The District's financial statements are reported using the *economic resources* measurement focus and the accrual basis of accounting. The accrual basis of accounting recognizes income as it is earned and expenses as they are incurred, regardless of the timing of the related cash flow.

The District distinguishes operating revenues and expenses from nonoperating items. The principal operating revenues of the District are charges to customers for water and sewer services. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

***Cash Equivalents***

Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, certificates of deposit, and debt security investments with a maturity at purchase of three months or less.

***Receivables***

Accounts receivable are the result of ordinary transactions in the normal course of business. The District has established an allowance for doubtful accounts based on amounts determined uncollectible by analysis of all past due customers. Water revenues are recognized on the accrual basis as earned. The District board adopts and adjusts a formal rate structure for services that is designed to meet operational costs, capital improvement and replacements, debt service, and rational reserves.



## **East Sevier County Utility District Notes to Financial Statements (Cont.)**

### ***Inventories***

Inventories of materials and supplies used for new taps and repairs to the distribution system are counted annually by the district. The inventory is valued at the lower of cost or market based on a first-in, first out basis.

### ***Capital Assets***

Fixed assets are capitalized at the time of purchase at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are completed and placed in service.

Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,000.00 and an estimated useful life in excess of two years. Expenditures for maintenance and repairs, which do not improve or extend the life of the asset, are charged to expenses as incurred.

The capital assets of the District are depreciated using the straight-line method over their estimated lives which range from 5 to 50 years.

### ***Management Estimates***

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

### ***Capital Contributions***

Capital contributions are recognized in the statement of revenues, expenses, and changes in net position after nonoperating revenues and expenses. Capital contributions include capital grants, tap fees in excess of tap connection expense, and customer/developer contributions of system expansion projects. Water lines and sewer systems are recorded as capital contributions when they pass inspection by the District. The estimated costs, which approximate fair value, are capitalized as cost of plant in service.

### ***Restricted Assets***

Restricted Assets are comprised of cash maintained in accordance with debt covenants, loan agreements, and/or grantor requirements. Customer deposits are also accounted for as restricted assets.

## **East Sevier County Utility District Notes to Financial Statements (Cont.)**

### ***Equity Classification***

The District classifies net position into three components; (1) net investment in capital assets (2) restricted, and (3) unrestricted. These classifications are defined as follows:

- 1) Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation for invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- 2) Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The District currently does not have a restricted net position component.
- 3) Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

As noted earlier in the summary of significant accounting policies, it is the District's policy to consider restricted net position to have been depleted before unrestricted is applied.

### ***Revenues and Expenses***

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

### ***Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will

## **East Sevier County Utility District Notes to Financial Statements (Cont.)**

not be recognized as an inflow of resources (revenue) until that time. The District currently classifies certain unearned revenues from customer billing as a deferred inflow of resources.

### ***Statement of Cash Flows***

For purposes of the statement of cash flows, the District considers all currency, demand deposits, money market accounts and certificates of deposit with banks or other financial institutions to be cash equivalents.

### ***Budgets***

The District's Board of Commissioners reviews and adopts an annual operating budget prepared by management. The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America and that basis is consistent with the basis used in preparing the District's financial statements.

### ***Major Customers***

Sales to no single customer exceeded 10% of total operating revenues.

### **NOTE 3. CASH AND CASH EQUIVALENTS**

The District is authorized to invest funds in financial institutions and direct obligations of the Federal Government. During 2020, the District invested in short-term savings accounts. Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. The district's policy requires that deposits be either: (i) secured and collateralized by the institutions at 105% of the value of the deposits placed in the institutions less the amount protected by the Federal Deposit Insurance Corporation (FDIC), or (ii) that deposits be placed in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee.

Institutions participating in the collateral pool determine the aggregated balance of their public funds amounts. The amounts of collateral required to secure these public deposits must be at least 105% of the average daily balance of public deposits held. On June 30, 2020, no deposits were exposed to custodial risk.

**East Sevier County Utility District  
Notes to Financial Statements (Cont.)**

**NOTE 4. CAPITAL ASSETS**

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2020 follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated</u>				
Land	\$ 31,658	\$ -	\$ -	\$ 31,658
Construction in progress	647,523	192,352	692,796	147,079
Total capital assets not being depreciated	<u>679,181</u>	<u>192,352</u>	<u>692,796</u>	<u>178,737</u>
<u>Capital assets being depreciated</u>				
Distribution and collection system	2,126,403	805,385	6,431	2,925,357
Buildings	69,236	-	-	69,236
Equipment	175,972	6,651	23,323	159,300
Total capital assets being depreciated	<u>2,371,611</u>	<u>812,036</u>	<u>29,754</u>	<u>3,153,893</u>
<u>Less: accumulated depreciation</u>	<u>(1,068,120)</u>	<u>(124,548)</u>	<u>(17,112)</u>	<u>(1,175,556)</u>
Net capital assets being depreciated	<u>1,303,491</u>	<u>687,488</u>	<u>12,642</u>	<u>1,978,337</u>
Net capital assets	<u>\$ 1,982,672</u>	<u>\$ 879,840</u>	<u>\$ 705,438</u>	<u>\$ 2,157,074</u>

Depreciation expense incurred during the year was \$124,548.

**NOTE 5. LONG-TERM DEBT**

A summary of long-term debt activity for the year ended June 30, 2020 is as follows:

	<u>Balance July 01 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30 2020</u>	<u>Amounts Due Within One Year</u>
USDA Loan, Series 91-02	\$ 291,000	\$ -	\$ (3,981)	\$ 287,019	\$ 4,113
USDA Loan, Series 91-03	266,000	-	(3,936)	262,064	4,051
USDA Loan, Series 91-01	148,340	4,166	-	152,506	-
	<u>\$ 705,340</u>	<u>\$ 4,166</u>	<u>\$ (7,917)</u>	<u>\$ 701,589</u>	<u>\$ 8,164</u>

**East Sevier County Utility District  
Notes to Financial Statements (Cont.)**

Principal and interest payments for long-term debt are as follows:

Years Ending June 30	Principal	Interest
2021	\$ 8,164	\$ 16,748
2022	8,417	16,495
2023	8,679	16,233
2024	8,949	15,964
2025	9,227	15,685
2026-2030	50,620	73,940
2031-2035	58,999	65,561
2036-2040	68,770	55,790
2041-2045	80,167	44,393
2046-2050	93,460	31,100
2051-2055	108,968	15,592
2056-2057	44,663	1,337
	\$ 549,083	\$ 368,838

Each of the outstanding bonds are secured by and are payable from a pledge of and lien on the net revenues of the water and sewer system of the District.

**NOTE 6. RISK MANAGEMENT**

The District is exposed to various risks of loss relating to theft, and damage to, and destruction of assets. Furthermore, there is exposure to risks of loss relating to natural disasters, errors and omissions, and torts. To insure against casualty risks, the District purchases insurance coverage through an independent insurance agency. Settled claims have not exceeded the commercial coverage in the past three fiscal years.

**NOTE 7. COMMITMENTS AND CONTINGENCIES**

The District continues its efforts to obtain approval for construction of a wastewater treatment plant.

**NOTE 8. EARLY IMPLEMENTATION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD PRONOUNCEMENTS**

Beginning with the fiscal year ended June 30, 2020, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 89 *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. The statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.

**East Sevier County Utility District**  
**Notes to Financial Statements (Cont.)**

Management asserts that the requirements of this Statement will improve financial reporting and enhance the comparability of information about capital assets and the cost of borrowing. The Statement requires that the provisions be applied prospectively; thus, no restatement of prior periods will be necessary.

**NOTE 9. SUBSEQUENT EVENTS**

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about the conditions that existed at the date of the statement of net position are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the date of the Statement of Net Position require disclosure in the accompanying notes. Management evaluated the activity of the District through November 12, 2020 (the date the financial statements were available to be issued) and concluded that no events should be disclosed as a subsequent event.

## **SUPPLEMENTARY INFORMATION SECTION**

**EAST SEVIER COUNTY UTILITY DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2020**

<u>Federal Grantor Program Title</u>	<u>Federal CFDA#</u>	<u>Project or Grant Number</u>	<u>Cash Disbursements</u>
<b>U.S Department of Agriculture</b>			
Rural Utilities Service	10.760	N/A	\$ 443,000
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 443,000</b>

NOTE A - Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of East Sevier County Utility District under programs of the federal government for the year ended June 30, 2020. Because the schedule presents only a selected portion of the activities of the District, it is not intended to and does not present the financial position or change in net assets of the District.

NOTE B - Summary of Significant Accounting Policies:

1. Expenditures reported on the schedule are presented on the accrual basis of accounting and are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
2. The District has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - Outstanding Loans:

The District has outstanding loans of \$701,589 with USDA obtained through the Rural Utilities Service.



## **OTHER INFORMATION SECTION**

**East Sevier County Utility District  
Schedule of Utility Rate Structure and Number of Customers  
For the Year Ended June 30, 2020**

**Number of Active Customers**

Water	247
Sewer	841

**Water Rates**

*Residential Customers*

First 3,000 gallons	\$	53.00
Each additional 1,000 gallons or portion thereof	\$	3.00

*Commercial Customers*

First 3,000 gallons	\$	53.00
Each additional 1,000 gallons or portion thereof	\$	3.00

**Sewer Rates**

**English Mountain Subdivision**

*Residential Customers*

First 3,000 gallons	\$	49.50
Each additional 1,000 gallons or portion thereof	\$	3.10

*Commercial Customers*

First 3,000 gallons	\$	49.50
Each additional 1,000 gallons or portion thereof	\$	3.10

**Other Subdivisions**

Charges based on number of bedrooms per unit (range)	<b>min</b>	\$	45.00
	<b>max</b>	\$	195.00

**Tap Fees**

**English Mountain Subdivision**

Water	\$	1,250.00
Sewer	\$	1,250.00

**Other Subdivisions, as applicable**

Sewer	\$	750.00
-------	----	--------

**Commercial - Greater of:**

Per acre	\$	2,650.00
Per unit	\$	1,250.00

**East Sevier County Utility District**  
**Schedule of Long-Term Debt, Principal, and Interest Requirements by Fiscal Year**  
**June 30, 2020**

Fiscal Year Ending June 30	<u>USDA Loan 91-02</u>		<u>USDA Loan 91-03</u>		<u>Total Requirements</u>		<u>Total Requirements</u>
	Principal	Interest	Principal	Interest	Principal	Interest	
2021	4,113	9,267	4,051	7,481	8,164	16,748	24,912
2022	4,248	9,132	4,169	7,363	8,417	16,495	24,912
2023	4,388	8,991	4,290	7,242	8,678	16,233	24,911
2024	4,533	8,847	4,415	7,117	8,948	15,964	24,912
2025	4,683	8,697	4,544	6,988	9,227	15,685	24,912
2026	4,837	8,543	4,676	6,856	9,513	15,399	24,912
2027	4,997	8,383	4,812	6,720	9,809	15,103	24,912
2028	5,162	8,218	4,953	6,579	10,115	14,797	24,912
2029	5,332	8,048	5,097	6,435	10,429	14,483	24,912
2030	5,508	7,872	5,245	6,287	10,753	14,159	24,912
2031	5,690	7,690	5,398	6,134	11,088	13,824	24,912
2032	5,877	7,503	5,555	5,977	11,432	13,480	24,912
2033	6,071	7,309	5,717	5,815	11,788	13,124	24,912
2034	6,272	7,108	5,884	5,648	12,156	12,756	24,912
2035	6,478	6,902	6,055	5,477	12,533	12,379	24,912
2036	6,692	6,688	6,232	5,300	12,924	11,988	24,912
2037	6,913	6,467	6,413	5,119	13,326	11,586	24,912
2038	7,141	6,239	6,600	4,932	13,741	11,171	24,912
2039	7,377	6,003	6,792	4,740	14,169	10,743	24,912
2040	7,620	5,760	6,990	4,542	14,610	10,302	24,912
2041	7,871	5,509	7,194	4,338	15,065	9,847	24,912
2042	8,131	5,249	7,403	4,129	15,534	9,378	24,912
2043	8,399	4,981	7,619	3,913	16,018	8,894	24,912
2044	8,676	4,704	7,841	3,691	16,517	8,395	24,912
2045	8,962	4,418	8,069	3,463	17,031	7,881	24,912
2046	9,258	4,122	8,304	3,228	17,562	7,350	24,912
2047	9,564	3,816	8,546	2,986	18,110	6,802	24,912
2048	9,879	3,501	8,795	2,737	18,674	6,238	24,912
2049	10,205	3,175	9,052	2,480	19,257	5,655	24,912
2050	10,542	2,838	9,315	2,217	19,857	5,055	24,912
2051	10,889	2,491	9,587	1,945	20,476	4,436	24,912
2052	11,249	2,131	9,866	1,666	21,115	3,797	24,912
2053	11,620	1,760	10,153	1,379	21,773	3,139	24,912
2054	12,003	1,377	10,449	1,083	22,452	2,460	24,912
2055	12,399	981	10,754	778	23,153	1,759	24,912
2056	12,807	572	11,067	465	23,874	1,037	24,911
2057	10,633	155	10,159	143	20,792	298	21,090
<b>Total</b>	<b>\$ 287,019</b>	<b>\$ 205,447</b>	<b>\$ 262,064</b>	<b>\$ 163,391</b>	<b>\$ 549,083</b>	<b>\$ 368,838</b>	<b>\$ 917,920</b>

**East Sevier County Utility District  
Schedule of Changes in Long-Term Debt by Individual Issue  
June 30, 2020**

Description of Indebtedness	Original Amount Of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding July 1, 2019	Issued During Period	Paid and/or Matured During Period	Outstanding June 30, 2020
USDA 2019 Loan 91-02	\$ 291,000	3.25%	2017	2057	\$ 291,000	\$ -	\$ 3,981	\$ 287,019
USDA 2019 Loan 91-03	\$ 266,000	2.875%	2017	2057	266,000	-	3,936	262,064
USDA 2020 Loan 91-01	\$ 148,340	3.250%	2018	TBD	148,340	4,166	-	152,506
					<u>\$ 705,340</u>	<u>\$ 4,166</u>	<u>\$ 7,917</u>	<u>\$ 701,589</u>

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: **2020** / 7/2019 - 6/2020

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.

----- Enter grading in column 'E' and 'J' ----->

Master Meter and Supply Error Adjustments

**WATER SUPPLIED**

Volume from own sources:	<input type="button" value="+"/>	<input type="button" value="9"/>	32.530	MG/Yr
Water imported:	<input type="button" value="+"/>	<input type="button" value="n/a"/>	0.000	MG/Yr
Water exported:	<input type="button" value="+"/>	<input type="button" value="n/a"/>	0.000	MG/Yr

<input type="button" value="+"/>	<input type="button" value="3"/>	1.00%	<input type="radio"/>	<input type="radio"/>	MG/Yr
<input type="button" value="+"/>	<input type="button" value="9"/>		<input type="radio"/>	<input type="radio"/>	MG/Yr
<input type="button" value="+"/>	<input type="button" value="9"/>		<input type="radio"/>	<input type="radio"/>	MG/Yr

**WATER SUPPLIED:** **32.208** MG/Yr

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

**AUTHORIZED CONSUMPTION**

Billed metered:	<input type="button" value="+"/>	<input type="button" value="9"/>	12.013	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:** **12.532** MG/Yr

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

Use buttons to select percentage of water supplied OR value

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

**19.676** MG/Yr

**Apparent Losses**

Unauthorized consumption:   **0.081** MG/Yr

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

Customer metering inaccuracies:	<input type="button" value="+"/>	<input type="button" value="9"/>	0.404	MG/Yr
Systematic data handling errors:	<input type="button" value="+"/>	<input type="button" value="9"/>	0.030	MG/Yr

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

**Apparent Losses:** **0.514** MG/Yr

Pcnt:  Value:  MG/Yr

3.25%   MG/Yr  
 0.25%  MG/Yr

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

Real Losses = Water Losses - Apparent Losses:  **19.162** MG/Yr

**WATER LOSSES:** **19.676** MG/Yr

**NON-REVENUE WATER**

**NON-REVENUE WATER:**  **20.195** 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"/>	249	
Service connection density:	<input type="button" value="9"/>		21	conn./mile main

Are customer meters typically located at the curbside or property line?

Average length of customer service 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:    psi

**COST DATA**

Total annual cost of operating water system:	<input type="button" value="+"/>	<input type="button" value="9"/>	\$279,067	\$/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



## 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: **2020**    **7/2019 - 6/2020**

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

### System Attributes:

	Apparent Losses:	0.514	MG/Yr
+	Real Losses:	19.162	MG/Yr
=	<b>Water Losses:</b>	<b>19.676</b>	MG/Yr

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

Annual cost of Apparent Losses: **\$3,254**

Annual cost of Real Losses: **\$24,281** 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:	62.7%	
		Non-revenue water as percent by cost of operating system:	10.1%	Real Losses valued at Variable Production Cost

Operational Efficiency:	{	Apparent Losses per service connection per day:	5.66	gallons/connection/day
		Real Losses per service connection per day:	N/A	gallons/connection/day
		Real Losses per length of main per day*:	4,374.85	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): **19.16** 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

## **INTERNAL CONTROL AND COMPLIANCE SECTION**

# *The MG Group, P.C.*

## CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

To the Board of 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, the financial statements of East Sevier County Utility District ("the District") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 12, 2020.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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**515 NW Atlantic Street, Tullahoma, Tennessee 37388**

**16053 Rankin Avenue, Dunlap, Tennessee 37327**

**Phone (931) 393-3307      Fax (931) 563-5585**



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

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

*MG Group P.C.*

Tullahoma, Tennessee  
November 12, 2020

**East Sevier County Utility District  
Summary Schedule of Prior Year Findings  
Year Ended June 30, 2020**

***Financial Statement Findings***

<b>Prior Year Finding Number</b>	<b>Finding Title</b>	<b>Status/Current Year Finding Number</b>
<b>2019-001</b>	<b>Volume of Water Sold (original finding # 2015-002)</b>	<b>Corrected</b>