

**EAST SEVIER COUNTY UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2022 & 2021**

EAST SEVIER COUNTY UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
For the Years Ended June 30, 2022 & 2021

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INTRODUCTORY SECTION

**EAST SEVIER COUNTY UTILITY DISTRICT
BOARD OF COMMISSIONERS AND MANAGEMENT
JUNE 30, 2022**

COMMISSIONERS

Roy Ivey

Barbara Darby

Janice Brooks-Headrick

GENERAL MANAGER

Jason Damron

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 Audits of the Financial Statements

Opinion

We have audited the financial statements of East Sevier County Utility District (the District), as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the net position of the District as of June 30, 2022 and 2021, and the changes in its net position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of East Sevier County Utility District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material

misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 and state financial assistance is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and other information sections but does not include the financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2022, on our consideration of the 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 the 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 the District's internal control over financial reporting and compliance.

MG Group, P.C.

Tullahoma, Tennessee
December 28, 2022

EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

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, 2022.

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 2022 increased by \$422,739 or 21.2% due to revenues exceeding expenses and \$445,000 in grant income.

Total assets increased \$679,800 or 21.1% due to increases in current assets and capital assets. Current assets increased by \$25,700 or 4.4% mainly due to increases in cash offset by a decrease in accounts receivable. Cash increased \$41,500 or 9.9% due to an increase in customer payments and customer deposits. Accounts receivable decreased \$17,300 or 16.7%. Capital assets increased \$654,100 or 24.8%. Additional information regarding capital asset additions is discussed in the capital assets section of this discussion and analysis.

Total liabilities increased by \$254,400 or 21.4% due to an increase in current liabilities of \$56,300 or 27.7% and long-term liabilities of \$198,100 or 20.1%. Current liabilities increased due to increases in retainage payable and customer deposits offset by a decrease in accrued interest payable. The increase in customer deposits is due to collections of deposits from customers. The increase in retainage payable is due to construction project invoice payments for the wastewater treatment plant. Long-term debt increased as a result of draws from the USDA loan #1 and the USDA 2022 loan for the wastewater treatment plant upgrade project. This increase was partially offset by current year payments of long-term debt \$10,600.

A summary of financial position follows:

EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

	For The Years Ended June 30			2022	
	2022	2021	2020	Change	Percentage Change
Assets:					
Current assets	\$ 603,887	\$ 578,201	\$ 628,354	25,686	4.4%
Capital assets	3,294,567	2,640,479	2,157,074	654,088	24.8%
Total assets	3,898,454	3,218,680	2,785,428	679,774	21.1%
Deferred Inflow of Resources:					
Unearned Revenue	35,675	33,070	30,421	2,605	7.9%
Liabilities:					
Current liabilities	259,499	203,174	101,064	56,325	27.7%
Long term liabilities, net of current maturities	1,184,661	986,556	693,425	198,105	20.1%
Total liabilities	1,444,160	1,189,730	794,489	254,430	21.4%
Net Position					
Net investment in capital assets	2,097,212	1,645,506	1,455,484	451,706	27.5%
Unrestricted	321,407	350,374	505,034	(28,968)	(8.3)%
Total net position	2,418,619	1,995,880	1,960,518	422,739	21.2%
	\$3,898,454	\$3,218,680	\$2,785,428	679,774	21.1%

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Total operating revenues increased by \$199,400 or 20.3%. The increase consists of water and sewer revenues in the amount of \$24,000 or 2.8%, connection fees of \$39,500 or 120.6%, late charges of \$7,500, and other operating revenues of \$128,400 or 151.7%. Water sales decreased \$1,100 or 0.45% and sewer charges increased \$25,100 or 4%. Connection fees increased due to an increase in new water and sewer connections compared to the prior year. Late charges increased due to the reinstatement of late charges after the pandemic. Other operating revenues increased mainly due to an increase in service charges for maintenance.

Total operating expenses increased by \$234,000 or 25.4%. Operating expenses increased primarily due to inflationary increases in management and operations contract, as well as increases in utilities, insurance, repairs and maintenance, professional services and depreciation offset by decreases in permits and miscellaneous expense. Depreciation increased \$30,500 or 21.1%. The non-operating income (expense) changed by \$23,000 or 91.7% due to increases in interest expense of \$13,200 or 60.5% and bond issue costs of \$13,300 or 100% offset by a change in gain (loss) on sale of assets of \$3,500.

A summary of changes in net position follows:

**EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

	<u>For The Years Ended June 30</u>			<u>2022</u>	
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>Percentage Change</u>
Operating Revenues:					
Water sales and sewer charges	\$ 888,344	\$ 864,336	\$ 766,876	24,008	2.8%
Connection fees	72,250	32,750	44,250	39,500	120.6%
Late charges	7,461	(9)	6,612	7,470	83003.8%
Other operating revenue	213,042	84,630	160,060	128,412	151.7%
Total operating revenues	<u>1,181,097</u>	<u>981,707</u>	<u>977,798</u>	<u>199,390</u>	20.3%
Operating Expenses:					
Operating expenses	979,677	776,215	699,993	203,462	26.2%
Depreciation	175,563	145,029	124,548	30,534	21.1%
Total operating expenses	<u>1,155,240</u>	<u>921,244</u>	<u>824,541</u>	<u>233,996</u>	25.4%
Operating Income	25,857	60,463	153,257	(34,606)	(57.2)%
Non-operating income (expenses)	<u>(48,118)</u>	<u>(25,101)</u>	<u>(33,524)</u>	<u>(23,017)</u>	91.7%
Change in net position before capital contributions	(22,261)	35,362	119,733	(57,623)	163.0%
Contributions in aid to construction	<u>445,000</u>	<u>-</u>	<u>443,000</u>	<u>445,000</u>	N/A
Change in Net Position	422,739	35,362	562,733	387,377	(1095.5)%
Net Position, July 1	1,995,880	1,960,518	1,397,785	35,362	1.8%
Net Position, June 30	<u>\$ 2,418,619</u>	<u>\$ 1,995,880</u>	<u>\$ 1,960,518</u>	<u>422,739</u>	21.2%

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 2022, the District accomplished this objective.

CAPITAL ASSETS

Capital assets, net of depreciation was \$3,294,566 on June 30, 2022, compared to \$2,640,479 on June 30, 2021, which represents an increase of \$654,087 or 24.8%. Depreciation expense for 2022 was \$175,563. System additions primarily consisted of new services, water system improvements, new pumps, a generator for a well, meter setters, a datto backup appliance, computer, and the purchase of a trailer.

EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

RESTRICTED ASSETS

Restricted assets were \$98,746 on June 30, 2022, compared to \$69,378 as of June 30, 2021. The District's restricted assets consist of the amount of the District's customer deposits.

LONG-TERM LIABILITIES

The District paid principal payments of \$10,564 in 2022 and added \$212,946 to their principal balance in 2022. As of June 30, 2022, the District had total long-term debt outstanding of \$1,197,355 of which \$12,694 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 2022 increased by \$422,739 as compared to the prior year. The District continually strives to improve its financial position.

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).

Basic Financial Statements

East Sevier County Utility District
Statements of Net Position
June 30, 2022 and 2021

	2022	2021
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 360,410	\$ 348,290
Restricted assets - customer deposits	98,746	69,378
Accounts receivable, net	86,194	103,522
Inventory	20,669	20,669
Prepaid items	22,923	21,397
Deposits	14,945	14,945
Total current assets	603,887	578,201
Capital Assets:		
Land	76,658	76,658
Construction in progress	1,177,973	510,335
Distribution and Collection System	3,242,558	3,086,428
General buildings	70,785	69,236
Equipment	195,748	209,547
Less: accumulated depreciation	(1,469,155)	(1,311,725)
Net capital assets	3,294,567	2,640,479
Total assets	3,898,454	3,218,680
LIABILITIES		
Current Liabilities:		
Accounts payable	97,403	94,257
Accrued interest payable	1,116	13,966
Retainage Payable	47,192	15,200
Other liabilities	488	-
Sales tax payable	1,965	1,956
Customer deposits	98,641	69,378
Current portion of bonds payable	12,694	8,417
Total current liabilities	259,499	203,174
Bonds payable, net of current portion	1,184,661	986,556
Total liabilities	1,444,160	1,189,730
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue	35,675	33,070
NET POSITION		
Net Investment in capital assets	2,097,212	1,645,506
Restricted for debt service		
Unrestricted	321,407	350,374
Total net position	\$ 2,418,619	\$ 1,995,880

The accompanying notes are an integral part of this statement

East Sevier County Utility District
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2022 and 2021

	2022	2021
Operating revenues:		
Water sales	\$ 236,046	\$ 237,115
Sewer charges	652,298	627,221
Late charges	7,461	-
Connection fees	72,250	32,750
Water and sewer tap fees	200,787	32,750
Other operating fees	12,255	51,871
Total operating revenues	1,181,097	981,707
Operating expenses:		
Salaries	24,989	24,288
Payroll taxes	1,912	1,858
Contract management	625,962	542,025
Utilities	58,613	52,787
Insurance	31,386	29,988
Repairs and maintenance	203,563	90,405
Professional Services	23,527	21,255
Permits	4,190	7,264
Supplies and office	393	231
Miscellaneous	5,142	6,114
Depreciation	175,563	145,029
Total operating expenses	1,155,240	921,244
Operating Income	25,857	60,463
Nonoperating revenues (expenses):		
Bond issue costs	(13,260)	-
Gain (loss) on disposal of capital assets	168	(3,283)
Interest expense	(35,026)	(21,818)
Total nonoperating revenues (expenses)	(48,118)	(25,101)
Income (loss) before capital contributions	(22,261)	35,362
Capital contributions	445,000	-
Change in net position	422,739	35,362
Net position - beginning	1,995,880	1,960,518
Net position - ending	\$ 2,418,619	\$ 1,995,880

The accompanying notes are an intergral part of this statement

East Sevier County Utility District
Statements of Cash Flows
For the Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Receipts from customers	\$ 1,226,097	\$ 1,028,552
Payments to suppliers, employees and service providers	(949,498)	(671,709)
Net cash provided by operating activities	276,599	356,843
 Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(10,564)	(8,164)
Acquisition and construction of capital assets	(847,467)	(631,719)
Capital Grants	445,000	-
Proceeds from issuance of long-term debt	212,946	301,547
Interest paid on long-term debt	(35,026)	(21,818)
Net cash used in capital and related financing activities	(235,111)	(360,154)
 Net increase (decrease) in cash and cash equivalents	41,488	(3,311)
 Cash and cash equivalents, beginning of year	417,668	420,979
Cash and cash equivalents, end of year	\$ 459,156	\$ 417,668
 Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 25,857	\$ 60,463
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	175,563	145,029
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	17,328	52,127
Decrease (increase) in inventory	-	(4,422)
Decrease (increase) in prepaid items	1,526	(287)
Decrease (increase) in deposits	-	(575)
Increase (decrease) in accounts payable	3,146	57,515
Increase (decrease) in accrued interest payable	(12,850)	5,069
Increase (decrease) in sales tax payable	9	(1,519)
Increase (decrease) in other current liabilities	66,020	43,443
Net cash provided by operating activities	\$ 276,599	\$ 356,843

The accompanying notes are an integral part of this statement

East Sevier County Utility District
Notes to Financial Statements
June 30, 2022 and 2021

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.

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.

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.

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

Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,000 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 when earned. Contributions include capital grants, tap fees in excess of tap connection expense, and customer contributions from system expansion projects. Water lines 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.

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 investment 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. 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, 2022.
- 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".

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.

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

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. The District currently has no deferred outflows.

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

Statements of Cash Flows

For purposes of the Statements 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.

Recently Adopted New Accounting Pronouncements

In 2021, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized based on the payment provisions of the contract. The District currently expects the adoption of GASB 87 will not have a material effect on its financial statements.

Major Customers

The District has a single customer that generates approximately 11% of their total revenue. English Mountain Condominiums average monthly billing rate is \$8,149.

NOTE 3. CASH AND CASH EQUIVALENTS

The District is authorized to invest funds in financial institutions and direct obligations of the Federal Government. During the years ended June 30, 2022 and 2021, 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 federal depositor insurance, 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.

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

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, 2022 and 2021, no deposits were exposed to custodial risk.

NOTE 4. CAPITAL ASSETS

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

<u>2022</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land	\$ 76,658	\$ -	\$ -	\$ 76,658
Construction in progress	510,335	667,637	-	1,177,972
Total capital assets not being depreciated	586,993	667,637	-	1,254,630
<u>Capital assets being depreciated:</u>				
Distribution and collection system	3,086,428	156,130	-	3,242,558
Buildings	69,236	1,549	-	70,785
Machinery and equipment	209,547	4,766	(18,565)	195,748
Total capital assets being depreciated	3,365,211	162,445	(18,565)	3,509,091
<u>Less: accumulated depreciation</u>	(1,311,725)	(175,563)	18,133	(1,469,155)
Total capital assets being depreciated, net	2,053,486	(13,118)	(432)	2,039,936
Capital assets, net	\$ 2,640,479	\$ 654,519	\$ (432)	\$ 3,294,566

<u>2021</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land	\$ 31,658	\$ 45,000	\$ -	\$ 76,658
Construction in progress	147,079	363,256	-	510,335
Total capital assets not being depreciated	178,737	408,256	-	586,993
<u>Capital assets being depreciated:</u>				
Distribution and collection system	2,925,357	171,464	(10,393)	3,086,428
Buildings	69,236	-	-	69,236
Machinery and equipment	159,300	51,998	(1,751)	209,547
Total capital assets being depreciated	3,153,893	223,462	(12,144)	3,365,211
<u>Less: accumulated depreciation</u>	(1,175,556)	(145,029)	8,860	(1,311,725)
Total capital assets being depreciated, net	1,978,337	78,433	(3,284)	2,053,486
Capital assets, net	\$ 2,157,074	\$ 486,689	\$ (3,284)	\$ 2,640,479

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

NOTE 5. LONG-TERM DEBT

Long-term debt at June 30, 2022 consisted of the following:

USDA Loan, Series 91-02, interest rate of 3.25%, principal and interest of \$1,115 payable monthly, secured by water and sewer revenues of the District. The principal balance of the loan is \$278,658 at June 30, 2022.

USDA Loan, Series 91-03, interest rate of 2.88%, principal and interest of \$961 payable monthly, secured by water and sewer revenues of the District. The principal balance of the loan is \$253,846 at June 30, 2022.

On August 25, 2021, the District issued a \$555,000 Water and Sewer Revenue Bond, Series 2018 to finalize a previous loan (Series 91-01) financed by the USDA for the construction of a wastewater treatment plant. The revenue bond bears an interest rate of 1.75% and will be payable at \$1,667/month for 456 months. The principal balance of the loan is \$553,333 at June 30, 2022.

On March 15, 2022, the District issued an \$112,000 Water and Sewer Revenue Bond, Series 2022, financed by the USDA for updates to their wastewater treatment plant. The revenue bond bears an interest rate of 1.75% and will be payable at \$325/month for 480 months. The principal balance of the loan is \$111,518 at June 30, 2022.

A summary of long-term debt activity for the years ended June 30th is as follows:

<u>2022</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
USDA Loan, Series 91-02	\$ 282,906	\$ -	\$ 4,248	\$ 278,658	\$ 4,389
USDA Loan, Series 91-03	258,013	-	4,167	253,846	4,290
USDA Loan Series 2018 (91-01)	454,054	100,946	1,667	553,333	2,051
USDA Loan, Series 2022	-	112,000	482	111,518	1,964
Total	<u>\$ 994,973</u>	<u>\$ 212,946</u>	<u>\$ 10,564</u>	<u>\$ 1,197,355</u>	<u>\$ 12,694</u>

<u>2021</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
USDA Loan, Series 91-02	\$ 287,019	\$ -	\$ 4,113	\$ 282,906	\$ 4,248
USDA Loan, Series 91-03	262,064	-	4,051	258,013	4,169
USDA Loan, Series 91-01	152,506	301,548	-	454,054	-
Total	<u>\$ 701,589</u>	<u>\$ 301,548</u>	<u>\$ 8,164</u>	<u>\$ 994,973</u>	<u>\$ 8,417</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
2023	12,693	26,849
2024	20,774	26,375
2025	21,429	25,888
2026	21,931	25,389
2027	22,445	24,877
2028-2032	120,425	116,238
2033-2037	135,419	101,325
2038-2042	152,457	84,380
2043-2047	171,822	65,113
2048-2052	193,873	43,172
2053-2057	215,204	18,140
2058-2060	108,884	1,391
	\$ 1,197,355	\$ 559,138

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 risk, 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 with the construction of a wastewater treatment plant and anticipates completion before the end of the next fiscal year.

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

NOTE 8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 28, 2022, which is the date the financial statements were available to be issued. The full impact of the COVID-19 outbreak continues to evolve and, as such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition and future results of operations. Management is actively monitoring the situation on its financial condition, liquidity, operations, suppliers, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, there is no estimate as to the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for the fiscal year 2023.

OTHER INFORMATION SECTION

EAST SEVIER COUNTY UTILITY DISTRICT
Schedule of Changes in Long-term Debt by Individual Issue
June 30, 2022

Description of Indebtedness	Original Amount Of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding July 01, 2021	Issued During Period	Paid and/or Matured During Period	Outstanding June 30, 2022
<u>Loans Payable</u>								
USDA 2019, Loan #2	\$ 291,000	3.25%	2017	2057	\$ 282,906	\$ -	\$ 4,248	\$ 278,658
USDA 2019, Loan #3	266,000	2.875%	2017	2057	258,013	-	4,167	253,846
USDA Series 2020 (formerly Series 91-01)	555,000	1.750%	2021	2060	454,054	100,946	1,667	553,333
USDA, Series 2022	112,000	1.750%	2022	2060	-	112,000	482	111,518
Total Loans Payable					\$ 994,973	\$ 212,946	\$ 10,564	\$ 1,197,355

East Sevier County Utility District
Schedule of Long-Term Debt, Principal and Interest Requirements by Fiscal Year
June 30, 2022

Fiscal Year	<u>USDA Loan 91-02</u>		<u>USDA Loan 91-03</u>		<u>USDA Series 2020</u>		<u>USDA Series 2022</u>		<u>Total</u>	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2023	4,388	8,991	4,290	7,242	2,051	8,680	1,964	1,936	12,693	26,849
2024	4,533	8,847	4,415	7,117	9,827	8,510	1,999	1,901	20,774	26,375
2025	4,683	8,697	4,544	6,988	10,000	8,337	2,202	1,866	21,429	25,888
2026	4,837	8,543	4,676	6,856	10,177	8,160	2,241	1,830	21,931	25,389
2027	4,997	8,383	4,812	6,720	10,356	7,981	2,280	1,793	22,445	24,877
2028	5,162	8,218	4,953	6,579	10,539	7,798	2,321	1,756	22,975	24,351
2029	5,332	8,048	5,097	6,435	10,725	7,612	2,362	1,719	23,516	23,814
2030	5,508	7,872	5,245	6,287	10,914	7,423	2,403	1,680	24,070	23,262
2031	5,690	7,690	5,398	6,134	11,107	7,230	2,446	1,641	24,641	22,695
2032	5,877	7,503	5,555	5,977	11,302	7,035	2,489	1,601	25,223	22,116
2033	6,071	7,309	5,717	5,815	11,502	6,835	2,533	1,560	25,823	21,519
2034	6,272	7,108	5,884	5,648	11,705	6,632	2,577	1,519	26,438	20,907
2035	6,478	6,902	6,055	5,477	11,911	6,426	2,623	1,477	27,067	20,282
2036	6,692	6,688	6,232	5,300	12,121	6,216	2,669	1,434	27,714	19,638
2037	6,913	6,467	6,413	5,119	12,335	6,002	2,716	1,391	28,377	18,979
2038	7,141	6,239	6,600	4,932	12,553	5,784	2,768	1,343	29,062	18,298
2039	7,377	6,003	6,792	4,740	12,774	5,563	2,813	1,302	29,756	17,608
2040	7,620	5,760	6,990	4,542	13,000	5,337	2,862	1,256	30,472	16,895
2041	7,871	5,509	7,194	4,338	13,229	5,108	2,913	1,209	31,207	16,164
2042	8,131	5,249	7,403	4,129	13,462	4,875	2,964	1,162	31,960	15,415
2043	8,399	4,981	7,619	3,913	13,700	4,637	3,017	1,113	32,735	14,644
2044	8,676	4,704	7,841	3,691	13,941	4,396	3,070	1,064	33,528	13,855
2045	8,962	4,418	8,069	3,463	14,187	4,150	3,124	1,014	34,342	13,045
2046	9,258	4,122	8,304	3,228	14,438	3,899	3,179	963	35,179	12,212
2047	9,564	3,816	8,546	2,986	14,692	3,645	3,235	911	36,037	11,358
2048	9,879	3,501	8,795	2,737	14,952	3,385	3,292	859	36,918	10,482
2049	10,205	3,175	9,052	2,480	15,215	3,122	3,350	805	37,822	9,582
2050	10,542	2,838	9,315	2,217	15,484	2,853	3,409	751	38,750	8,659
2051	10,889	2,491	9,587	1,945	15,757	2,580	3,470	695	39,703	7,711
2052	11,249	2,131	9,866	1,666	16,035	2,302	3,531	638	40,681	6,737
2053	11,620	1,760	10,153	1,379	16,318	2,019	3,593	581	41,684	5,739
2054	12,003	1,377	10,449	1,083	16,606	1,731	3,657	522	42,715	4,713
2055	12,399	981	10,754	778	16,899	1,438	3,721	463	43,773	3,660
2056	12,807	572	11,067	465	17,222	1,115	3,787	402	44,883	2,554
2057	10,633	155	10,164	141	17,500	837	3,853	340	42,150	1,473
2058	-	-	-	-	17,809	528	3,921	278	21,730	806
2059	-	-	-	-	18,123	214	3,991	214	22,114	428
2060	-	-	-	-	62,867	8	2,173	149	65,040	157
	\$ 278,658	\$ 187,048	\$ 253,846	\$ 148,547	\$ 553,333	\$ 180,405	\$ 111,518	\$ 43,138	\$ 1,197,355	\$ 559,138

**East Sevier County Utility District
Schedule of Utility Rate Structure and Number of Customers
For the Year Ended June 30, 2022**

Number of Active Customers

Water	248
Sewer	883

Water Rates

Residential Customers

First 3,000 gallons		\$ 53.00
Each 1,000 gallons or portion thereof		\$ 3.00
After 7,200 gallons	\$12.60 fee	\$ 8.00

Commercial Customers

First 3,000 gallons		\$ 53.00
Each 1,000 gallons or portion thereof		\$ 3.00
After 7,200 gallons	\$12.60 fee	\$ 8.00

Sewer Rates

English Mountain Subdivision

Residential Customers

First 3,000 gallons		\$ 49.50
Each 1,000 gallons or portion thereof		\$ 3.10
After 7,200 gallons	\$13.86 fee	\$ 8.80

Commercial Customers

First 3,000 gallons		\$ 49.50
Each 1,000 gallons or portion thereof		\$ 3.10
After 7,200 gallons	\$13.86 fee	\$ 8.80

Other Subdivisions

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

Tap Fees

English Mountain Subdivision

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

Other Subdivisions, as applicable

Sewer	\$ 750.00
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Commercial-Greater of:

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

**GOVERNMENT AUDITING
STANDARDS SECTION**

**EAST SEVIER COUNTY UTILITY DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	ASSISTANCE LISTING NUMBER	IDENTIFYING NUMBER	EXPENDITURES
<u>FEDERAL AWARDS</u>			
U.S Department of Agriculture			
<u>Direct Funding:</u>			
Water & Waste Disposal Systems for Rural Communities	10.760	N/A	\$ 445,000
Total U.S Department of Agriculture			445,000
TOTAL FEDERAL AWARDS			\$ 445,000

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards summarizes the expenditures of East Sevier County Utility District under programs of the federal government for the year ended June 30, 2022. The schedule is presented using the modified accrual basis of accounting. The District did not elect to use the 10% *de minimis* indirect cost rate.

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 as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise East Sevier County Utility District's basic financial statements, and have issued our report thereon dated December 28, 2022.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 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. 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Sevier County Utility District's financial statements are free from material misstatement, we performed tests of its compliance

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with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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
December 28, 2022

**East Sevier County Utility District
Summary Schedule of Prior Year Findings
Year Ended June 30, 2022**

Prior-year Financial Statement Findings

Prior Year Finding Number	Title of Finding	Status/Current Year Finding Number
2021-001	RETAINAGE IN CONSTRUCTION PROJECT (original finding # 2021-001)	Corrected
2021-002	DISPOSAL OF SURPLUS PROPERTY (original finding # 2021-002)	Corrected