

*Financial Statements*

EAST SEVIER COUNTY UTILITY DISTRICT

Year Ended June 30, 2009

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Board of Commissioners  
East Sevier County Utility District  
Sevierville, Tennessee

We have audited the accompanying statement of net assets of East Sevier County Utility District as of June 30, 2009, and the related statement of revenue, expenses, and change in net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the District's management. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of East Sevier County Utility District as of June 30, 2009, and the changes in its financial position and its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2010 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Mitchell Emert & Hill*

February 15, 2010

EAST SEVIER COUNTY UTILITY DISTRICT  
1081 Cove Road, Suite 2  
Sevierville, TN 37876  
865-453-6704

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the East Sevier County Utility District, we offer readers of the District's financial statements this narrative overview and analysis of the District's performance during the fiscal year ending June 30, 2009. Please read it in conjunction with the District's financial statements, which follow this section.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report includes this management's discussion and analysis report, the independent auditors report and the basic financial statements of the District. The financial statements also include notes that explain in more detail some of the information in the financial statements.

### **REQUIRED FINANCIAL STATEMENTS**

The financial statements of the District report information using accounting methods similar to those used by private companies. These statements offer both short-term and long-term financial information about its activities. The Statement of Net Assets includes all of the District's assets and liabilities and provides information about where the District has invested its resources (assets) and the obligations to the District's credit (liabilities).

All of the current year's revenue and expenses are accounted for in the Statement of Revenue, Expenses and Change in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all of its expenses through customer fees.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balances during the reporting period.

### **FINANCIAL ANALYSIS OF THE DISTRICT**

One of the most important questions asked about the District's finances is "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenue, Expenses and Change in Net Assets report information about the District's activities in a way that will help answer this question. The statements report the difference between assets and liabilities as one way to measure financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. A summary of the District's net assets and change in them is presented below:

## **SUMMARIZED FINANCIAL INFORMATION**

	<u>2009</u>	<u>2008</u>
<b>NET ASSETS</b>		
Current assets	\$ 113,275	\$ 173,723
Capital assets	<u>641,471</u>	<u>639,391</u>
Total assets	<u>\$ 754,746</u>	<u>\$ 813,115</u>
Current liabilities	\$ 78,148	\$ 59,928
Long term liabilities	<u>4,982</u>	<u>18,120</u>
Total liabilities	<u>83,130</u>	<u>78,048</u>
Net assets:		
Invested in capital assets, net of related debt	621,876	604,772
Unrestricted	<u>49,740</u>	<u>130,295</u>
	<u>671,616</u>	<u>735,067</u>
Total liabilities and net assets	<u>\$ 754,746</u>	<u>\$ 813,115</u>
<b>CHANGE IN NET ASSETS</b>		
Operating revenue	\$ 346,019	\$ 407,356
Operating expenses	<u>409,387</u>	<u>398,801</u>
Operating (loss)income	(63,368)	8,555
Non-operating revenue	1,911	3,905
Non-operating expense	<u>(1,994)</u>	<u>(12,294)</u>
Change in net assets	(63,450)	166
Beginning net assets	<u>735,067</u>	<u>734,901</u>
Ending net assets	<u>\$ 671,616</u>	<u>\$ 735,067</u>

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

As can be seen from the summarized financial information, the District's net assets decreased by \$63,450 during the year ended June 30, 2009 and increased \$166 during the year ended June 30, 2008. Operating revenue decreased at a rate of 15% (increased by 4% in 2008) while expenses increased at a rate of 3% (20% in 2008). Operating revenue decreased primarily due to the District changing the utility rate structure during the current year from billing based on water line size to billing based on consumption.

## **THE DISTRICT'S NET ASSETS**

The District completed the year with net assets of \$671,616 which is \$63,450 less than the prior year's ending net assets of \$735,067.

## **BUDGETARY HIGHLIGHTS**

The District adopts an annual operating budget, which includes proposed expenses and the means for paying these expenses. As conditions change during the year, the budget may be amended to prevent budget overruns.

## **CAPITAL ASSETS**

The District's investment in capital assets amounts to \$918,567 with accumulated depreciation of \$277,096. Capital assets include land, distribution and collection systems, and machinery and equipment. During the year ended June 30, 2009 the District had capital asset additions totaling \$36,617.

## **ECONOMIC FACTORS AND FUTURE NEEDS**

The District continues to add new customers subsequent to June 30, 2009. In addition to water and sewer service provided to the English Mountain subdivision including The Preserve, sewer service is provided to the Sherwood Forest, Bear Creek Crossing, Smoky Mountain Ridge, Lashbrooke and Parkside Resort subdivisions.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

The discussion and analysis is designed to provide our customers with a general view of the District's finances and to show the District's accountability for the money it receives. If you have any questions or need additional information, contact the following commissioners at the address on the letterhead.

Steve Tackett  
Sam Hassen  
Patrick Williston

EAST SEVIER COUNTY UTILITY DISTRICT

**STATEMENT OF NET ASSETS**

June 30, 2009

**ASSETS**

**PLANT IN SERVICE**

Land		\$ 3,325
Distribution and collection system		786,336
Equipment		<u>128,907</u>
		918,567
Accumulated depreciation		<u>(277,096)</u>
		641,471

**CURRENT ASSETS**

Cash	\$ 11,928	
Certificate of deposit	47,843	
Prepaid insurance	4,254	
Accounts receivable, net of allowance for uncollectible accounts of \$29,587	44,225	
Deposits	<u>5,025</u>	

**TOTAL CURRENT ASSETS**

<u>113,275</u>
<u>\$ 754,746</u>

See the accompanying notes to the financial statements.

**LIABILITIES AND NET ASSETS**

**LONG-TERM DEBT** \$ 4,982

**CURRENT LIABILITIES**

Accounts payable	\$ 17,162
Payroll taxes payable	2,307
Accrued wages	2,383
Deferred revenue	8,828
Customer deposits	32,855
Current portion of long-term debt	<u>14,613</u>

**TOTAL CURRENT LIABILITIES** 78,148

**TOTAL LIABILITIES** 83,130

**NET ASSETS**

Invested in capital assets, net of related debt	621,876	
Unrestricted	<u>49,740</u>	<u>671,616</u>

\$ 754,746

EAST SEVIER COUNTY UTILITY DISTRICT

**STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS**

Year Ended June 30, 2009

**OPERATING REVENUE**

Water sales	\$ 101,380
Sewer services	215,179
Tap fees	1,750
Contractual fees	18,150
Penalties and interest	<u>9,560</u>

**TOTAL OPERATING REVENUE** 346,019

**OPERATING EXPENSES**

Salaries	\$ 161,592
Payroll taxes	16,418
Health insurance	5,108
Plant utilities	40,471
Plant and line maintenance	65,097
Depreciation	34,538
Vehicle expense	17,471
Mileage expense	2,006
Insurance	18,850
Rent	4,350
Telephone	7,688
Office supplies	3,288
Legal fees	653
Audit expense	5,200
Professional fees	18,722
Commissioner fees	1,700
Miscellaneous	<u>6,236</u>

**TOTAL OPERATING EXPENSES** 409,387

**(LOSS) FROM OPERATIONS** (63,368)

EAST SEVIER COUNTY UTILITY DISTRICT

**STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS**

(continued)

Year Ended June 30, 2009

**NON-OPERATING REVENUE(EXPENSE)**

Interest income

1,911

Interest expense

(1,994)

(82)

**CHANGE IN NET ASSETS**

(63,450)

**NET ASSETS AT THE BEGINNING OF THE YEAR**

735,067

**NET ASSETS AT THE END OF THE YEAR**

\$ 671,616

See the accompanying notes to the financial statements

EAST SEVIER COUNTY UTILITY DISTRICT

**STATEMENT OF CASH FLOWS**

Year Ended June 30, 2009

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

Cash received from customers	\$ 337,904
Cash paid to employees	(160,909)
Cash paid to suppliers	<u>(187,364)</u>

**NET CASH (USED) BY  
OPERATING ACTIVITIES** (10,369)

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

Acquisition of capital assets	\$ (36,617)
Principal payments on long-term debt	(15,025)
Interest paid	<u>(1,994)</u>

**NET CASH (USED) BY CAPITAL AND  
RELATED FINANCING ACTIVITIES** (53,636)

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

Interest received	1,911
Increase in certificate of deposit	<u>(1,557)</u>

**NET CASH PROVIDED BY  
INVESTING ACTIVITIES** 355

**NET (DECREASE) IN CASH** (63,651)

**CASH AT THE BEGINNING OF THE YEAR** 75,578

**CASH AT THE END OF THE YEAR** \$ 11,928

EAST SEVIER COUNTY UTILITY DISTRICT

**STATEMENT OF CASH FLOWS**

(continued)

Year Ended June 30, 2009

**RECONCILIATION OF (LOSS) FROM OPERATIONS  
TO NET CASH (USED) BY OPERATING  
ACTIVITIES**

(Loss) from operations		\$ (63,368)
Adjustments to reconcile (loss) from operations to net cash (used) by operating activities:		
Depreciation	\$ 34,538	
(Increase)decrease in:		
Accounts receivable	(8,115)	
Prepaid insurance	7,319	
Deposits	(850)	
Increase(decrease) in:		
Accounts payable	8,418	
Payroll taxes payable	(467)	
Accrued wages	2,383	
Deferred revenue	8,828	
Customer deposits	945	53,000
	<hr/>	<hr/>
<b>NET CASH (USED) BY OPERATING ACTIVITIES</b>		<b><u>\$ (10,369)</u></b>

See the accompanying notes to the financial statements.

EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2009

**NOTE A - DESCRIPTION OF ORGANIZATION**

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

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The District uses the accrual basis of accounting. Revenue for water and sewer customers is recognized when billed. Revenue from sewer only customers is recognized in the month service is provided. Sewer only customers are billed a flat rate one month in advance which is reported as deferred revenue. Expenses are recognized when incurred. The District is on a cycle billing basis with its customers. Operating revenue is revenue that is generated from the primary operations of the District. All other revenue is reported as non-operating revenue. Operating expenses are those expenses that are essential to the primary operations. All other expenses are reported as non-operating expenses.

The District follows all pronouncements of the Governmental Accounting Standards Board (GASB) and pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989. The District has not elected to follow FASB pronouncements issued after November 30, 1989.

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments* as amended by Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus* establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting reporting purposes into the following three net assets groups:

**Invested in capital assets, net of related debt**

This category includes capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Invested in capital assets, net of related debt at June 30, 2009 has been calculated as follows:

EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2009

Capital assets	\$ 918,567
Accumulated depreciation	(277,096)
Principal balance on long-term debt	<u>(19,595)</u>
	<u>\$ 621,876</u>

Restricted

This category includes net assets whose use is subject to externally imposed stipulations that can be fulfilled by actions of the District pursuant to those stipulations or that expire by the passage of time. Restricted net assets of the District consist of funds restricted for debt payments and future construction. 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 assets at June 30, 2009.

Unrestricted

This category includes net assets that are not subject to externally imposed stipulations and that do not meet the definition of "restricted" or "invested in capital assets, net of related debt". Unrestricted net assets may be designated for specific purposes by action of the board or may otherwise be limited by contractual agreement with outside parties.

Prepaid Expenses

Payments made for insurance premiums that will benefit periods beyond June 30 are recorded as prepaid expenses.

Plant in Service

Plant in Service is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 7 to 50 years.

Allowance for Uncollectible Accounts

Allowance for uncollectible accounts is provided based upon historical trends. Allowance for uncollectible accounts at June 30, 2009 is \$29,587.

EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2009

**NOTE C - CASH AND INVESTMENTS**

Cash and cash equivalents consist of cash, savings and short-term certificates of deposit with an original maturity of three months or less.

State of Tennessee law authorizes the District to invest in obligations of the United States or its agencies, non-convertible debt securities of certain federal agencies, other obligations guaranteed as to principal and interest by the United States or any of its agencies, secured certificates of deposit and other evidences of deposit in state and federal banks and savings and loan associations, and the state treasurer's investment pool. The pool contains investments in certificates of deposit, U.S. Treasury securities and repurchase agreements, backed by the U.S. Treasury securities. The Treasurer of the State of Tennessee administers the investment pool. Although the District may participate in the state investment pool, it elects not to.

District policy dictates that collateral meet certain requirements, such as be deposited in an institution which participates in the state collateral pool or be deposited in an escrow account in another institution for the benefit of the District and must be a minimum of 105% of the value of the deposits placed in the institution less the amount protected by federal deposit insurance. The state collateral pool is administered by the State of Tennessee. Members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional agreement, public fund accounts covered by the pool are considered to be classified as category one insured credit risk in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*.

All of the District's accounts are fully insured through the Federal Deposit Insurance Corporation.

**NOTE D - COMMITMENTS**

The District rents its office on a month-to-month lease. Rent expense for the year ended June 30, 2009 was \$4,350.

EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2009

**NOTE E - PLANT IN SERVICE**

	<u>Balance 7/1/08</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/09</u>
<u>Capital assets not being depreciated</u>				
Land	\$ 3,325	\$ 0	\$ 0	\$ 3,325
<u>Capital assets being depreciated</u>				
Collection system	294,003	0	0	294,003
Distribution system	467,020	25,313	0	492,333
Machinery and equipment	103,050	11,304	0	114,354
Office equipment	14,553	0	0	14,553
	<u>878,626</u>	<u>36,617</u>	<u>0</u>	<u>915,242</u>
<u>Accumulated depreciation</u>				
Collection system	(66,148)	(6,216)	0	(72,364)
Distribution system	(111,860)	(19,208)	-	(131,068)
Machinery and equipment	(61,994)	(6,671)	0	(68,665)
Office equipment	(2,554)	(2,443)	0	(4,997)
	<u>(242,559)</u>	<u>(34,538)</u>	<u>0</u>	<u>(277,096)</u>
	<u>\$ 639,391</u>	<u>\$ 2,080</u>	<u>\$ 0</u>	<u>\$ 641,471</u>

EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2009

**NOTE F - LONG-TERM DEBT**

Capital outlay note, due in monthly installments  
of \$1,500 including interest at 3.90% per annum,  
balance due in full on October 16, 2009 secured  
by certificate of deposit.

Less current maturities

\$ 19,595  
(14,613)  
  
\$ 4,982

Future maturities of long-term debt as of June 30, 2009 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 14,613	\$ 452	\$ 15,065
2011	<u>4,982</u>	<u>41</u>	<u>5,023</u>
	<u>\$ 19,595</u>	<u>\$ 493</u>	<u>\$ 20,088</u>

Changes in long-term debt were as follows:

Balance, July 1, 2008	\$ 34,620
Principal payments	<u>( 15,025)</u>
Balance, June 30, 2009	<u>\$ 19,595</u>

Subsequent to June 30, 2009, the District refinanced its capital outlay note due October 16, 2009 with a note due October 16, 2010. The maturities reported above reflect the new re-financing terms.

**NOTE G - RISK MANAGEMENT**

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

SUPPLEMENTARY INFORMATION

EAST SEVIER COUNTY UTILITY DISTRICT

**INSURANCE COVERAGE**

June 30, 2009

<u>Description</u>	<u>Insurer</u>	<u>Expiration Date</u>	<u>Amount of Coverage</u>
Property, equipment, office contents, and other assets	Brookwood Insurance Company	2/12/10	\$ 693,000
Automobile liability and physical damage	Brookwood Insurance Company	2/12/10	500,000
General liability	Brookwood Insurance Company	2/12/10	1,000,000
Employee dishonesty	Brookwood Insurance Company	2/12/10	10,000
Public officials liability	Mt. Vernon Fire Insurance Company	5/13/10	1,000,000
Workers compensation	Companion Property and Casualty Insurance Company	2/12/10	500,000

See the accompanying independent accountants' audit report.

EAST SEVIER COUNTY UTILITY DISTRICT

CUSTOMERS AND UTILITY RATES

June 30, 2009

**Tap Fees:**

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

**Utility rates:**

Water:	
Residential	24.88
Commercial	43.54 to 174.16

Sewer:	
English Mountain subdivision:	
Residential	29.00
Commercial	50.75 to 203.00
Other subdivisions	35.00

**Number of customers** 493

See the accompanying independent accountants' audit report.

EAST SEVIER COUNTY UTILITY DISTRICT

UNACCOUNTED FOR WATER

June 30, 2009

**Water treated and purchased:**

Water pumped (potable)	48,545,900
Water purchased	<u>0</u>
Total water treated and purchased	48,545,900

**Accounted for water:**

Water sold	12,895,709
Metered for Consumption (in house usage)	0
Fire department(s) usage	0
Flushing	0
Tank cleaning/filling	0
Street cleaning	0
Bulk Sales	0
Water bill adjustments	<u>0</u>
Total accounted for water	<u>12,895,709</u>
Unaccounted for water	<u>35,650,191</u>
Percentage unaccounted for water	73%

See the accompanying independent accountants' audit report.

EAST SEVIER COUNTY UTILITY DISTRICT

**BOARD OF COMMISSIONERS**

June 30, 2009

Steve Tackett

Sam Hassen

Douglas Berry (July 1, 2008 to April 30, 2009)

Patrick Williston (appointed July 6, 2009)

See the accompanying independent accountants' audit report.

INTERNAL CONTROL

AND

COMPLIANCE

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

Board of Commissioners  
East Sevier County Utility District  
Sevierville, Tennessee

We have audited the financial statements of East Sevier County Utility District as of and for the year ended June 30, 2009 and have issued our report thereon dated February 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered East Sevier County Utility District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of East Sevier County Utility District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

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

However, we noted certain matters that we reported to management of East Sevier County Utility District in a separate letter dated February 15, 2010.

This report is intended solely for the information and use of management and government regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Mitchell Emert & Hill*

February 15, 2010