

*Financial Statements*

EAST SEVIER COUNTY UTILITY DISTRICT

Year Ended June 30, 2011

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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, 2011, 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 organization'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, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 to 5 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 performed for the purpose of forming an opinion on the financial statements that collectively comprise East Sevier County Utility District's basic financial statements. The accompanying financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2012 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.

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

January 4, 2012

EAST SEVIER COUNTY UTILITY DISTRICT  
1529 Alpine Drive  
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, 2011. 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>2011</u>	<u>2010</u>
<b>NET ASSETS</b>		
Current assets	\$ 151,484	\$ 136,651
Capital assets	<u>661,154</u>	<u>621,483</u>
Total assets	<u>\$ 812,638</u>	<u>\$ 758,134</u>
Current liabilities	\$ 62,103	\$ 59,511
Long term liabilities	<u>42,393</u>	<u>0</u>
Total liabilities	<u>104,496</u>	<u>59,511</u>
Net assets:		
Invested in capital assets, net of related debt	606,936	616,241
Unrestricted	<u>101,206</u>	<u>82,381</u>
	<u>708,142</u>	<u>698,623</u>
Total liabilities and net assets	<u>\$ 812,638</u>	<u>\$ 758,134</u>
<b>CHANGE IN NET ASSETS</b>		
Operating revenue	\$ 406,469	\$ 377,458
Operating expenses	<u>373,506</u>	<u>349,220</u>
Operating income	\$ 32,964	\$ 28,237
Nonoperating income	1,614	1,177
Nonoperating expenses	<u>(25,058)</u>	<u>(2,408)</u>
Change in net assets	9,520	27,007
Beginning net assets	<u>698,623</u>	<u>671,616</u>
Ending net assets	<u>\$ 708,142</u>	<u>\$ 698,623</u>

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

As can be seen from the summarized financial information, the District's net assets increased by \$9,520 during the year ended June 30, 2011 and increased \$27,007 during the year ended June 30, 2010. Operating revenue increased at a rate of 7.7% (increased by 9% in 2010) while expenses increased at a rate of 7.0% (decreased by 15% in 2010). Operating revenue increased primarily due to the receipt of a contractual fee in the amount of \$18,000 from the Douglas Lake Resort Owners Association, Inc. Operating expenses increased primarily due to increased salary expenses.

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

The District completed the year with net assets of \$708,142 which is \$9,520 more than the prior year's ending net assets of \$698,623.

## **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 \$999,267 with accumulated depreciation of \$338,113. Capital assets include land, distribution and collection systems, and machinery and equipment. During the year ended June 30, 2011 the District had capital asset additions totaling \$99,619 which includes an office building and land purchase for \$62,500.

## **ECONOMIC FACTORS AND FUTURE NEEDS**

The District continues to add new customers subsequent to June 30, 2011. 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 Bouldercrest Villas and Parkside Resort subdivisions. In November, 2011 the District will add 129 customers in the Douglas Lake Resort Owners Association, Inc.

## **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.

Barbara Darby  
Tony Ortiz

EAST SEVIER COUNTY UTILITY DISTRICT

**STATEMENT OF NET ASSETS**

June 30, 2011

**ASSETS**

**PLANT IN SERVICE**

Land	\$	14,525
Building		65,096
Distribution and collection system		802,615
Equipment		<u>117,030</u>
		999,267
Accumulated depreciation		<u>(338,113)</u>
		661,154

**CURRENT ASSETS**

Cash	\$	19,622
Certificate of deposit		64,174
Prepaid insurance		4,127
Accounts receivable, net of allowance for uncollectible accounts of \$23,042		54,435
Deposits		<u>9,125</u>

**TOTAL CURRENT ASSETS**

<u>151,484</u>
<u>\$ 812,638</u>

See the accompanying notes to the financial statements.



**LIABILITIES AND NET ASSETS**

**LONG-TERM DEBT**, net of current portion \$ 42,393

**CURRENT LIABILITIES**

Accounts payable	\$ 3,465
Payroll taxes payable	2,585
Accrued wages	2,216
Deferred revenue	8,842
Customer deposits	33,170
Current portion of long-term debt	<u>11,825</u>

**TOTAL CURRENT LIABILITIES** 62,103

**TOTAL LIABILITIES** 104,496

**NET ASSETS**

Invested in capital assets, net of related debt	606,936	
Unrestricted	<u>101,206</u>	<u>708,142</u>

\$ 812,638

EAST SEVIER COUNTY UTILITY DISTRICT

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

Year Ended June 30, 2011

**OPERATING REVENUE**

Water sales	\$ 136,015
Sewer services	232,773
Tap fees	7,357
Contractual fees	18,650
Penalties and interest	10,225
Miscellaneous	<u>1,450</u>

**TOTAL OPERATING REVENUE**

406,469

**OPERATING EXPENSES**

Salaries	\$ 134,183
Payroll taxes	13,671
Health insurance	5,464
Plant utilities	35,661
Plant and line maintenance	64,305
Depreciation	36,285
Vehicle expense	19,504
Mileage expense	2,568
Insurance	19,019
Rent	1,200
Telephone	5,982
Office supplies	6,023
Legal fees	5,491
Audit expense	5,750
Professional fees	6,833
Commissioner fees	3,450
Miscellaneous	<u>8,116</u>

**TOTAL OPERATING EXPENSES**

373,506

**INCOME FROM OPERATIONS**

32,964

EAST SEVIER COUNTY UTILITY DISTRICT

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

(continued)

Year Ended June 30, 2011

**NONOPERATING REVENUE(EXPENSE)**

Interest income	1,614	
Interest expense	(2,046)	
Loss on equipment disposal	<u>(23,012)</u>	<u>(23,444)</u>

**CHANGE IN NET ASSETS** 9,520

**NET ASSETS AT THE BEGINNING OF THE YEAR** 698,623

**NET ASSETS AT THE END OF THE YEAR** \$ 708,142

See the accompanying notes to the financial statements

EAST SEVIER COUNTY UTILITY DISTRICT

**STATEMENT OF CASH FLOWS**

Year Ended June 30, 2011

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

Cash received from customers	\$ 393,808
Cash paid to employees	(138,554)
Cash paid to suppliers	<u>(205,125)</u>

**NET CASH PROVIDED BY  
OPERATING ACTIVITIES**

50,129

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

Acquisition of capital assets	\$ (99,619)
Proceeds on sale of assets	650
Proceeds on long-term debt	62,750
Principal payments on long-term debt	(13,773)
Interest paid	<u>(2,046)</u>

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

(52,038)

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

Interest received	1,614
Increase in certificate of deposit	<u>(15,244)</u>

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

(13,629)

**NET (DECREASE) IN CASH**

(15,538)

**CASH AT THE BEGINNING OF THE YEAR**

35,161

**CASH AT THE END OF THE YEAR**

\$ 19,622

EAST SEVIER COUNTY UTILITY DISTRICT

**STATEMENT OF CASH FLOWS**

(continued)

Year Ended June 30, 2011

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

Income from operations		\$ 32,964
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	\$ 36,285	
(Increase) in:		
Accounts receivable	(10,707)	
Prepaid insurance	(822)	
Deposits	(3,600)	
Increase(decrease) in:		
Accounts payable	(5,143)	
Payroll taxes payable	426	
Accrued wages	(921)	
Deferred revenue	(140)	
Customer deposits	1,785	17,165
		<u>17,165</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		<b><u>\$ 50,129</u></b>

See the accompanying notes to the financial statements.

## EAST SEVIER COUNTY UTILITY DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

#### **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**

##### Financial Reporting

The District follows all pronouncements of the Governmental Accounting Standards Board (GASB) and only 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.

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

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

EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2011

The District prepares its financial statements in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments*. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting reporting purposes into the following three net 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, 2011 has been calculated as follows:

Capital assets	\$ 999,267
Accumulated depreciation	(338,113)
Principal balance on long-term debt	<u>(54,218)</u>
	<u>\$ 606,936</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, 2011.

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 of Commissioners 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, 2011 are recorded as prepaid expenses.

EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2011

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, 2011 was \$23,042.

**NOTE C - CASH**

Cash represents money on deposit in various banks.

State of Tennessee law authorizes the District to invest in obligations of the United States or its agencies, nonconvertible 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 local government investment pool.

All deposits with financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits are required to be secured by one of two methods. Excess funds can be deposited with a financial institution that participates in the State of Tennessee Bank Collateral Pool. For deposits with financial institutions that do not participate in the State of Tennessee Bank Collateral Pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits.

All cash balances at June 30, 2011 were entirely insured through the Federal Deposit Insurance Corporation.



EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2011

**NOTE D - PLANT IN SERVICE**

Plant in service activity for the year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>7/1/10</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/11</u>
<u>Capital assets not being depreciated</u>				
Land	\$ 3,325	\$ 11,200	\$ 0	\$ 14,525
<u>Capital assets being depreciated</u>				
Building	0	65,096	0	65,096
Collection system	294,003	0	0	294,003
Distribution system	505,386	20,628	(17,401)	508,613
Machinery and equipment	114,983	1,200	(15,200)	100,983
Office equipment	<u>14,553</u>	<u>1,495</u>	<u>0</u>	<u>16,048</u>
	928,924	88,419	(32,601)	984,742
<u>Accumulated depreciation</u>				
Building	(0)	(1,512)	0	(1,512)
Collection system	(78,580)	(6,216)	0	(84,796)
Distribution system	(150,958)	(21,117)	2,255	(169,820)
Machinery and equipment	(73,786)	(4,798)	6,684	(71,901)
Office equipment	<u>(7,440)</u>	<u>(2,642)</u>	<u>0</u>	<u>(10,082)</u>
	<u>(310,766)</u>	<u>(36,285)</u>	<u>8,939</u>	<u>(338,112)</u>
	<u>\$ 621,483</u>	<u>\$ 63,334</u>	<u>\$ (23,662)</u>	<u>\$ 661,154</u>

EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2011

**NOTE E - LONG-TERM DEBT**

Long-term debt at June 30, 2011, consisted of the following:

Note payable, due in monthly installments of \$1,172 including interest at 4.5% per annum, balance due in full on September 9, 2015 secured by certificate of deposit.	\$ 54,218
Less current maturities	<u>(11,825)</u>
	<u>\$ 42,393</u>

Future maturities of long-term debt as of June 30, 2011 are as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 11,825	\$ 2,235	\$ 14,060
2013	12,382	1,678	14,060
2014	12,959	1,101	14,060
2015	13,563	497	14,060
2016	<u>3,489</u>	<u>27</u>	<u>3,516</u>
	<u>\$ 54,218</u>	<u>\$ 5,538</u>	<u>\$ 59,756</u>

Changes in long-term debt were as follows:

	<u>Balance</u> <u>7/1/10</u>	<u>Issued</u>	<u>Paid</u>	<u>Balance</u> <u>6/30/11</u>
Notes Payable:				
Capital outlay note	\$ 5,241	\$ 0	\$ 5,241	\$ 0
Note payable	<u>0</u>	<u>62,750</u>	<u>8,532</u>	<u>54,218</u>
	<u>\$ 5,241</u>	<u>\$ 62,750</u>	<u>\$ 13,773</u>	<u>\$ 54,218</u>

EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2011

**NOTE F - RISK MANAGEMENT**

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

**NOTE G - SUBSEQUENT EVENT**

On November 1, 2011, the District took on 129 new customers from the Douglas Lake Resort Owners Association, Inc. The District received a one-time payment of \$750 in tap fees from each new customer and thereafter will receive monthly fees for water and sewer service.

SUPPLEMENTARY INFORMATION

EAST SEVIER COUNTY UTILITY DISTRICT

**INSURANCE COVERAGE**

June 30, 2011

<u>Description</u>	<u>Insurer</u>	<u>Expiration Date</u>	<u>Amount of Coverage</u>
Property, equipment, office contents, and other assets	Selective Insurance Company	2/12/12	\$ 3,360,400
Automobile liability and physical damage	Selective Insurance Company	2/12/12	1,000,000
General liability	Selective Insurance Company	2/12/12	2,000,000
Employee dishonesty	Selective Insurance Company	2/12/12	10,000
Public officials liability	Mt. Vernon Fire Insurance Company	5/13/12	1,000,000
Workers compensation	Selective Insurance Company	2/12/12	500,000

See the accompanying independent accountants' audit report.

EAST SEVIER COUNTY UTILITY DISTRICT

CUSTOMERS AND UTILITY RATES

June 30, 2011

**Tap Fees:**

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

**Utility Rates:**

Water:	
Residential - first 3,000 gallons	26.75
Commercial - first 3,000 gallons	46.81
Commercial - over 3,000 gallons	187.22
Sewer:	
English Mountain subdivision:	
Residential - first 3,000 gallons	31.18
Commercial - first 3,000 gallons	54.56
Commercial - over 3,000 gallons	218.23
Other subdivisions - unmetered service	35.00

**Number of customers** 496

See the accompanying independent accountants' audit report.

EAST SEVIER COUNTY UTILITY DISTRICT

**UNACCOUNTED FOR WATER**

June 30, 2011

*(All amounts in gallons)*

**Water Treated and Purchased:**

Water pumped (potable)	35,349,000
Water purchased	<u>0</u>

**Total Water Treated and Purchased** 35,349,000

**Accounted for Water:**

Water sold	9,122,833
Metered for consumption (in house usage)	2,215
Fire department usage	5,000
Flushing	0
Tank cleaning and filling	0
Street cleaning	0
Bulk sales	0
Water bill adjustments	<u>616,910</u>

**Total Accounted for Water** 9,746,958

**Unaccounted for Water** 25,602,042

**Percent Unaccounted for Water** 72%

**Other:** 0

Explain Other: None

All amounts included in this schedule are supported by documentation on file at the District. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

See the accompanying independent accountants' audit report.

EAST SEVIER COUNTY UTILITY DISTRICT

**BOARD OF COMMISSIONERS**

June 30, 2011

Steve Tackett (deceased November 27, 2011)

Barbara Darby

Patrick Williston (resigned February 7, 2011)

Tony Ortiz (appointed August 3, 2011)

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, 2011 and have issued our report thereon dated January 4, 2012. 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

Management of East Sevier County Utility District is responsible for establishing and maintaining effective 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 an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of East Sevier County Utility District's internal control 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 East Sevier County Utility District'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 the management of East Sevier County Utility District in a separate letter dated January 4, 2012.

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*

January 4, 2012