

*Financial Statements*

EAST SEVIER COUNTY UTILITY DISTRICT

Year Ended June 30, 2013

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Board of Commissioners  
East Sevier County Utility District  
Sevierville, Tennessee

**Report on the Financial Statements**

We have audited the accompanying financial statements of East Sevier County Utility District, which comprise the statement of net position as of June 30, 2013, and the related statement of revenue, expenses and change in net position and related statement of cash flows for the year then ended and the related notes to the financial statements.

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

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

***Auditors' Responsibility***

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Basis for Qualified Opinion***

The accompanying financial statements do not include the value of certain assets that were donated by homeowner associations related to agreements for operating and maintaining their sewer system. Quantification of the effects on the financial statements is not practical.

### ***Qualified Opinion***

In our opinion, except for the possible effects of the matter described in the “Basis for Qualified Opinion” paragraph, 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, 2013, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3 to 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considered it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s response to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2014, on our consideration of East Sevier County Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to 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* in considering East Sevier County Utility District's internal control over financial reporting and compliance.

*Mitchell Emert + Hill*

May 22, 2014

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 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the District's performance during the fiscal year ended June 30, 2013. 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 accountant's audit 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 position 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 position. 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. This 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 position and the statement of revenue, expenses and change in net position report information about the District's activities in a way that will help answer this question. These 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 position are one indicator of whether its financial health is improving or deteriorating. A summary of the District's net position and change in it is presented below:

## **SUMMARIZED FINANCIAL INFORMATION**

	<u>2013</u>	<u>2012</u>
<b>NET POSITION</b>		
Current assets	\$ 216,783	\$ 222,593
Capital assets	<u>621,917</u>	<u>629,922</u>
Total assets	<u>\$ 838,700</u>	<u>\$ 852,515</u>
Current liabilities	\$ 106,482	\$ 83,354
Long-term liabilities	<u>17,628</u>	<u>30,023</u>
Total liabilities	<u>124,110</u>	<u>113,377</u>
Net position:		
Net invested in capital assets	591,907	587,517
Unrestricted	<u>122,683</u>	<u>151,621</u>
	<u>714,590</u>	<u>739,138</u>
Total liabilities and net position	<u>\$ 838,700</u>	<u>\$ 852,515</u>
<b>CHANGE IN NET POSITION</b>		
Operating revenue	\$ 510,596	\$ 499,067
Operating expenses	<u>535,306</u>	<u>467,658</u>
Operating income	(24,709)	31,409
Nonoperating income	1,828	1,834
Nonoperating expenses	<u>(1,665)</u>	<u>(2,247)</u>
Change in net position	(24,547)	30,996
Beginning net position	<u>739,138</u>	<u>708,142</u>
Ending net position	<u>\$ 714,590</u>	<u>\$ 739,138</u>

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

As can be seen from the summarized financial information, the District's net position decreased by \$24,547 during the year ended June 30, 2013 and increased \$30,996 during the year ended June 30, 2012. Operating revenue increased at a rate of 2.3% for the year ended June 30, 2013 (increased by 22.8% in 2012) while expenses increased at a rate of 14.5% for the year ended June 30, 2013 (increased by 25.2% in 2012). Operating expenses increased primarily due to increased salary and plant utilities expenses.

## **THE DISTRICT'S NET POSITION**

The District completed the year with net position of \$714,590 which is \$24,547 less than the prior year's ending net position of \$739,138.

## **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 \$1,036,013 with accumulated depreciation of \$414,096. Capital assets include land, distribution and collection systems and equipment. During the year ended June 30, 2013 the District had capital asset additions totaling \$31,327.

## **ECONOMIC FACTORS AND FUTURE NEEDS**

The District experienced a small increase (15) in new customers during the year ended June 30, 2013. In addition to water and sewer services provided to the English Mountain, the Preserve at English Mountain, and Douglas Lake Resort subdivisions, sewer services are provided to the Sherwood Forest, Bear Creek Crossing, Smoky Mountain Ridge, Lashbrooke, Bouldercrest Villas, and Parkside Resort subdivisions. On December 1, 2012, the District terminated providing water service to the Douglas Lake Resort (126 customers).

## **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.

Roy Ivey  
Barbara Darby  
Janice Brooks-Headrick



EAST SEVIER COUNTY UTILITY DISTRICT

**STATEMENT OF NET POSITION**

June 30, 2013

**ASSETS**

**PLANT IN SERVICE**

Land	\$	14,525
Building		68,380
Distribution and collection system		822,628
Equipment		<u>130,480</u>
		1,036,013
Accumulated depreciation		<u>(414,096)</u>
		621,917

**CURRENT ASSETS**

Cash	\$	3,002
Certificates of deposit		126,739
Prepaid insurance		4,141
Accounts receivable, net of allowance for uncollectible accounts of \$45,000		67,081
Deposits		<u>15,820</u>

**TOTAL CURRENT ASSETS**

<u>216,783</u>
<u>\$ 838,700</u>

See the accompanying notes to the financial statements.

**LIABILITIES AND NET POSITION**

<b>LONG-TERM DEBT</b> , net of current portion		\$ 17,051
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 41,568	
Payroll taxes payable	3,370	
Accrued wages	3,113	
Deferred revenue	11,724	
Customer deposits	34,325	
Current portion of long-term debt	<u>12,959</u>	
	<b>TOTAL CURRENT LIABILITIES</b>	<u>107,059</u>
	<b>TOTAL LIABILITIES</b>	124,110
<b>NET POSITION</b>		
Net investment in capital assets	591,907	
Unrestricted	<u>122,683</u>	<u>714,590</u>
		<u>\$ 838,700</u>

EAST SEVIER COUNTY UTILITY DISTRICT

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

Year Ended June 30, 2013

**OPERATING REVENUE**

Water sales	\$ 170,148
Sewer services	316,999
Tap fees and service fees	6,498
Penalties and interest	<u>16,952</u>

**TOTAL OPERATING REVENUE**

510,596

**OPERATING EXPENSES**

Salaries	\$ 186,663
Payroll taxes	14,116
Health insurance	13,432
Uniforms	4,664
Plant utilities	46,090
Repairs and maintenance	122,441
Depreciation	39,331
Vehicle expense	32,075
Mileage expense	1,645
Insurance	27,657
Permits	4,140
Telephone	8,128
Office supplies	708
Postage	2,928
Legal fees	5,372
Audit expense	6,225
Professional fees	6,438
Commissioner fees	9,600
Miscellaneous	<u>3,651</u>

**TOTAL OPERATING EXPENSES**

535,306

**(LOSS) FROM OPERATIONS**

(24,709)

EAST SEVIER COUNTY UTILITY DISTRICT

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

(continued)

Year Ended June 30, 2013

**NONOPERATING REVENUE(EXPENSE)**

Interest income	1,828	
Interest expense	<u>(1,665)</u>	<u>162</u>

**CHANGE IN NET POSITION** (24,547)

**NET POSITION AT THE BEGINNING OF THE YEAR** 739,138

**NET POSITION AT THE END OF THE YEAR** \$ 714,590

See the accompanying notes to the financial statements

EAST SEVIER COUNTY UTILITY DISTRICT

**STATEMENT OF CASH FLOWS**

Year Ended June 30, 2013

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

Cash received from customers	\$ 499,949
Cash paid to employees	(196,263)
Cash paid to suppliers	<u>(278,452)</u>

**NET CASH PROVIDED BY  
OPERATING ACTIVITIES**

25,235

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

Acquisition of capital assets	\$ (31,327)
Principal payments on long-term debt	(12,395)
Interest paid	<u>(1,665)</u>

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

(45,387)

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

Interest received	1,828
Decrease in certificate of deposit	<u>14,182</u>

**NET CASH PROVIDED BY  
INVESTING ACTIVITIES**

16,010

**NET (DECREASE) IN CASH**

(4,143)

**CASH AT THE BEGINNING OF THE YEAR**

7,144

**CASH AT THE END OF THE YEAR**

\$ 3,002

EAST SEVIER COUNTY UTILITY DISTRICT

**STATEMENT OF CASH FLOWS**

(continued)

Year Ended June 30, 2013

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

(Loss) from operations		\$ (24,709)
Adjustments to reconcile (loss) from operations to net cash provided by operating activities:		
Depreciation	\$ 39,331	
(Increase) in:		
Accounts receivable	(10,647)	
Prepaid insurance	(1,866)	
Increase in:		
Accounts payable	17,750	
Payroll taxes payable	807	
Accrued wages	988	
Deferred revenue	2,742	
Customer deposits	840	49,945
		<hr/>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		<b><u>\$ 25,235</u></b>

See the accompanying notes to the financial statements.

EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2013

**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 uses the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included in the statement of net position. The statement of revenue, expenses and change in net position presents increases (revenue) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenue is recognized in the period in which it is earned while expenses are recognized in the period in which the liability is incurred. 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 is revenue that is generated from the primary operations of the District. The principal operating revenue of the District is charges to customers for water sales and sewer services. The District also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Revenue from sewer only customers is recognized in the month service is provided. Sewer only customers are billed a flat rate one month in advance which is reported as deferred revenue. All other revenue is reported as nonoperating revenue. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All other expenses are reported as nonoperating expenses.

EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2013

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

Net investment in capital assets

This category includes capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net investment in capital assets at June 30, 2013 has been calculated as follows:

Capital assets	\$ 1,036,013
Accumulated depreciation	(414,096)
Principal balance on long-term debt	<u>(30,010)</u>
	<u>\$ 591,907</u>

Restricted

This category includes net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of the District pursuant to those stipulations or that expire by the passage of time. Restricted net position 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 position at June 30, 2013.

Unrestricted

This category includes net position that are not subject to externally imposed stipulations and that do not meet the definition of “restricted” or “net investment in capital assets.” Unrestricted net position may be designated for specific purposes by action of the Board of Commissioners or may otherwise be limited by contractual agreement with outside parties.

Prepaid Expenses

Payments made for insurance premiums that will benefit periods beyond June 30, 2013 are recorded as prepaid expenses.



EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2013

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, 2013 was \$45,000.

**NOTE C - CASH**

Cash represents money on deposit in various banks.

State of Tennessee law authorizes the District to invest in obligations of the United States of America or its agencies, nonconvertible debt securities of certain federal agencies, other obligations guaranteed as to principal and interest by the United States of America or any of its agencies, secured certificates of deposit and other evidences of deposit in state and federal banks and savings and loan associations, and the Tennessee Department of Treasury Local Government Investment Pool (the LGIP). The LGIP contains investments in certificates of deposit, U.S. Treasury securities and repurchase agreements, backed by the U.S. Treasury securities. The Treasurer of the State of Tennessee administers the investment pool.

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

All cash balances at June 30, 2013 were entirely insured through the Federal Deposit Insurance Corporation.

EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2013

**NOTE D - PLANT IN SERVICE**

Plant in service activity for the year ended June 30, 2013 was as follows:

	<u>Balance</u> <u>7/1/12</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/13</u>
<u>Capital assets not being depreciated</u>				
Land	\$ 14,525	\$ 0	\$ 0	\$ 14,525
<u>Capital assets being depreciated</u>				
Building	65,096	3,284	0	68,380
Distribution and collection system	808,035	14,593	0	822,628
Machinery and equipment	100,983	13,450	0	114,432
Office equipment	<u>16,048</u>	<u>0</u>	<u>0</u>	<u>16,048</u>
	990,162	31,327	0	1,021,489
<u>Accumulated depreciation</u>				
Building	(3,682)	(2,201)	0	(5,883)
Distribution and collection system	(282,290)	(30,520)	0	(312,810)
Machinery and equipment	(75,970)	(4,752)	0	(80,722)
Office equipment	<u>(12,823)</u>	<u>(1,859)</u>	<u>0</u>	<u>(14,683)</u>
	<u>(374,765)</u>	<u>(39,331)</u>	<u>0</u>	<u>(414,096)</u>
	<u>\$ 629,923</u>	<u>\$ (8,004)</u>	<u>\$ 0</u>	<u>\$ 621,918</u>

EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2013

**NOTE E - LONG-TERM DEBT**

Long-term debt at June 30, 2013 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.	\$ 30,010
Less current maturities	<u>(12,959)</u>
	<u>\$ 17,051</u>

Future maturities of long-term debt as of June 30, 2013 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	\$ 12,959	\$ 1,101	\$ 14,060
2015	13,563	497	14,060
2016	<u>3,488</u>	<u>27</u>	<u>3,515</u>
	<u>\$ 30,010</u>	<u>\$ 1,625</u>	<u>\$ 31,635</u>

Changes in long-term debt were as follows:

	<u>Balance 7/1/12</u>	<u>Issued</u>	<u>Paid</u>	<u>Balance 6/30/13</u>
Note payable	<u>\$ 42,405</u>	<u>\$ 0</u>	<u>\$ 12,395</u>	<u>\$ 30,010</u>

This loan was paid in full on September 11, 2013 by liquidating the certificate of deposit that was pledged to secure it.

EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2013

**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.

SUPPLEMENTARY INFORMATION

EAST SEVIER COUNTY UTILITY DISTRICT

CUSTOMERS AND UTILITY RATES

June 30, 2013

**Tap Fees:**

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

**Utility Rates:**

Water:	
Residential - first 3,000 gallons	43.00
Commercial - first 3,000 gallons	46.81
Commercial - over 3,000 gallons	187.22

Sewer:	
English Mountain subdivision:	
Residential - first 3,000 gallons	43.00
Commercial - first 3,000 gallons	54.56
Commercial - over 3,000 gallons	218.23
Other subdivisions - unmetered service	43.00

**Number of customers** 625

See the accompanying independent accountants' audit report.

[?](#) Click to access definition

Water Audit Report for: **East Sevier County Utility District**

Reporting Year: **2013** 7/2012 - 6/2013

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

**WATER SUPPLIED**

<< Enter grading in column 'E'

Volume from own sources:	<input type="text" value="3"/>	<input type="text" value="37.612"/>	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	<input type="text" value="3"/>	<input type="text" value="0.376"/>	under-registered MG/Yr
Water imported:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
Water exported:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
<b>WATER SUPPLIED:</b>		<b>37.988</b>	MG/Yr

**AUTHORIZED CONSUMPTION**

Billed metered:	<input type="text" value="6"/>	<input type="text" value="5.322"/>	MG/Yr
Billed unmetered:	<input type="text" value="7"/>	<input type="text" value="2.763"/>	MG/Yr
Unbilled metered:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
Unbilled unmetered:	<input type="text" value="5"/>	<input type="text" value="0.475"/>	MG/Yr
<b>AUTHORIZED CONSUMPTION:</b>		<b>8.560</b>	MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

Click here: [?](#) for help using option buttons below

Pcnt:  Value:

Use buttons to select percentage of water supplied OR value

**WATER LOSSES (Water Supplied - Authorized Consumption)** **29.428** MG/Yr

**Apparent Losses**

Unauthorized consumption:	<input type="text" value="5"/>	<input type="text" value="0.095"/>	MG/Yr
Customer metering inaccuracies:	<input type="text" value="10"/>	<input type="text" value="0.054"/>	MG/Yr
Systematic data handling errors:	<input type="text" value="5"/>	<input type="text" value="0.537"/>	MG/Yr
<b>Apparent Losses:</b>		<b>0.686</b>	

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

Pcnt:  Value:

Choose this option to enter a percentage of billed metered consumption. This is NOT a default value

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

Real Losses = Water Losses - Apparent Losses:	<input type="text" value="5"/>	<input type="text" value="28.742"/>	MG/Yr
<b>WATER LOSSES:</b>		<b>29.428</b>	MG/Yr

**NON-REVENUE WATER**

<b>NON-REVENUE WATER:</b>	<input type="text" value="5"/>	<input type="text" value="29.903"/>	MG/Yr
---------------------------	--------------------------------	-------------------------------------	-------

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

**SYSTEM DATA**

Length of mains:	<input type="text" value="3"/>	<input type="text" value="50.0"/>	miles
Number of active AND inactive service connections:	<input type="text" value="7"/>	<input type="text" value="292"/>	
Connection density:	<input type="text" value="6"/>	<input type="text" value="6"/>	conn./mile main
Average length of customer service line:	<input type="text" value="10"/>	<input type="text" value="0.0"/>	ft (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	<input type="text" value="3"/>	<input type="text" value="80.0"/>	psi

**COST DATA**

Total annual cost of operating water system:	<input type="text" value="9"/>	<input type="text" value="\$188,100"/>	\$/Year
Customer retail unit cost (applied to Apparent Losses):	<input type="text" value="8"/>	<input type="text" value="\$51.36"/>	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	<input type="text" value="8"/>	<input type="text" value="\$1,138.92"/>	\$/Million gallons

**PERFORMANCE INDICATORS**

**Financial Indicators**

Non-revenue water as percent by volume of Water Supplied:	<input type="text" value="78.7%"/>
Non-revenue water as percent by cost of operating system:	<input type="text" value="36.4%"/>
Annual cost of Apparent Losses:	<input type="text" value="\$35,219"/>
Annual cost of Real Losses:	<input type="text" value="\$32,735"/>

**Operational Efficiency Indicators**

Apparent Losses per service connection per day:	<input type="text" value="6.43"/>	gallons/connection/day
Real Losses per service connection per day*:	<input type="text" value="N/A"/>	gallons/connection/day
Real Losses per length of main per day*:	<input type="text" value="1,574.93"/>	gallons/mile/day
Real Losses per service connection per day per psi pressure:	<input type="text" value=""/>	gallons/connection/day/psi
<input type="text" value="5"/> Unavoidable Annual Real Losses (UARL):	<input type="text" value="Not Valid"/>	
*** UARL cannot be calculated as either average pressure, number of connecions or length of mains is too small: SEE UARL DEFINITION ***		
From Above, Real Losses = Current Annual Real Losses (CARL):	<input type="text" value="28.74"/>	
<input type="text" value="5"/> Infrastructure Leakage Index (ILI) [CARL/UARL]:	<input type="text" value=""/>	

\* only the most applicable of these two indicators will be calculated

**WATER AUDIT DATA VALIDITY SCORE:**

**\*\*\* YOUR SCORE IS: 57 out of 100 \*\*\***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

**PRIORITY AREAS FOR ATTENTION:**

Based on the information provided, audit accuracy can be improved by addressing the following components:

- 1: Volume from own sources
- 2: Master meter error adjustment
- 3: Billed metered

[For more information, click here to see the Grading Matrix worksheet](#)

EAST SEVIER COUNTY UTILITY DISTRICT

**BOARD OF COMMISSIONERS**

June 30, 2013

Roy Ivey

Barbara Darby

Janice Brooks-Headrick

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of East Sevier County Utility District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated May 22, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered East Sevier County Utility District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of finding, recommendation and management response, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described as item 2013-A-1 in the accompanying schedule of finding, recommendation and management response to be a material weakness.

## **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*.

## **East Sevier County Utility District's Response to Finding**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of East Sevier County Utility District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Sevier County Utility District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



May 22, 2014

EAST SEVIER COUNTY UTILITY DISTRICT

**FINDING, RECOMMENDATION AND MANAGEMENT RESPONSE**

Year Ended June 30, 2013

Finding Number 2013-A-1 - Plant in Service Records (*uncorrected from the prior year*)

*Finding:* East Sevier County Utility District (the District) did not have adequate accounting records relating to its plant in service. Specifically, it did not keep copies of contracts with homeowner associations for the operation of their sewer system. As a result, management could not determine if ownership of the sewer systems was transferred to the District or if the homeowner associations retained ownership of the assets. If the homeowner associations donated the sewer systems to the District, the fair value of the systems at the date of donation should have been recorded as assets and depreciated over the estimated useful life of the systems. The accompanying financial statements do not included any assets and related depreciation expense related to these sewer systems.

*Recommendation:* Management should obtain copies of all contracts with homeowner associations and determine if the underlying sewer system was transferred to the District. If so, they should determine the fair value at the date of donation and record the asset (and related depreciation) in the general ledger.

*Management's Response:* We concur. Management attempted through written request to the respective homeowner associations to obtain necessary information and received no responses. We are continuing to search for the contracts. If we determine that the plant in service should be recorded as an asset of the District, we will determine the value and record the asset and related depreciation.