

*Financial Statements*

EAST SEVIER COUNTY UTILITY DISTRICT

Year Ended June 30, 2017

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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, 2017, and the related statement of revenue, expenses and change in net position and the 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 the 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 the 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 auditors' 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, 2017, 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 4 to 6 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 April 2, 2018, 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 solely 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 operating effectiveness of East Sevier County Utility District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Sevier County Utility District's internal control over financial reporting and compliance.

*Mitchell Ewert + Hill*

April 2, 2018

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, 2017. 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>2017</u>	<u>2016</u>
<b>NET POSITION</b>		
Current assets	\$ 80,436	\$ 111,083
Capital assets	<u>641,344</u>	<u>608,685</u>
	<u>\$ 721,780</u>	<u>\$ 719,768</u>
Current liabilities	\$ 34,621	\$ 59,708
Deferred inflow of resources	13,127	12,778
Net position:		
Investment in capital assets	641,344	608,685
Unrestricted	<u>32,688</u>	<u>38,597</u>
	<u>647,032</u>	<u>647,282</u>
	<u>\$ 721,780</u>	<u>\$ 719,768</u>
<b>CHANGE IN NET POSITION</b>		
Operating revenue	\$ 621,110	\$ 677,432
Operating expenses	<u>593,813</u>	<u>639,244</u>
Operating income	27,297	38,188
Nonoperating expenses	<u>(547)</u>	<u>0</u>
Change in net position	26,750	38,188
Beginning net position	<u>647,282</u>	<u>609,094</u>
Ending net position	<u>\$ 674,032</u>	<u>\$ 647,282</u>

## ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

As can be seen from the summarized financial information, the District's net position increased by \$26,750 during the year ended June 30, 2017 and increased \$38,188 during the year ended June 30, 2016. Operating revenue decreased at a rate of 8% for the year ended June 30, 2017 (increased by 29% in 2016) while expenses decreased at a rate of 7% for the year ended June 30, 2017 (increased by 3% in 2016).

## **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 \$1,219,581 with accumulated depreciation of \$578,237. Capital assets include land, distribution and collection systems and equipment. During the year ended June 30, 2017 the District had capital asset additions totaling \$85,852.

## **ECONOMIC FACTORS AND FUTURE NEEDS**

In addition to water and sewer services provided to the English Mountain and the Preserve at English Mountain subdivisions, sewer services are provided to the Sherwood Forest, Bear Creek Crossing, Smoky Mountain Ridge, Lashbrooke, Douglas Lake Resort, Bouldercrest Villas, and Parkside Resort subdivisions.

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

This 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, 2017

**PLANT IN SERVICE**

Land		\$ 31,658
Building		69,236
Distribution and collection system		957,574
Equipment		161,113
		<u>1,219,581</u>
Accumulated depreciation		<u>(578,237)</u>
		641,344

**CURRENT ASSETS**

Cash	\$ 24,854
Accounts receivable, net of allowance for uncollectible accounts of \$15,000	24,237
Prepaid expenses	19,970
Deposits	<u>11,375</u>

**TOTAL CURRENT ASSETS** 80,436

\$ 721,780

**CURRENT LIABILITIES**

Accounts payable	\$ 1,478
Payroll taxes payable	573
Customer deposits	<u>32,570</u>

**TOTAL CURRENT LIABILITIES** 34,621

**DEFERRED INFLOWS OF RESOURCES**

Unearned revenue	13,127
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**NET POSITION**

Investment in capital assets	\$ 641,344
Unrestricted	<u>32,688</u>
	<u>674,032</u>
	<u>\$ 721,780</u>

See the accompanying notes to the financial statements.

EAST SEVIER COUNTY UTILITY DISTRICT

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

Year Ended June 30, 2017

**OPERATING REVENUE**

Water sales	\$ 204,492
Sewer services	377,656
Tap fees and service fees	30,949
Penalties and interest	<u>8,013</u>

**TOTAL OPERATING REVENUE** 621,110

**OPERATING EXPENSES**

Salaries	\$ 229,347
Payroll taxes	18,853
Insurance	33,604
Plant utilities	49,695
Repairs and maintenance	93,878
Depreciation	52,146
Vehicle and equipment expense	48,294
Mileage expense	1,022
Permits	4,974
Lab services	11,017
Telephone	6,670
Office supplies	4,608
Postage	3,331
Legal fees	11,698
Audit	7,075
Professional services	10,952
Miscellaneous	<u>6,649</u>

**TOTAL OPERATING EXPENSES** 593,813

**INCOME FROM OPERATIONS** 27,297

**NONOPERATING (EXPENSE)**

Loss on disposal of assets	<u>(547)</u>
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See the accompanying notes to the financial statements.

EAST SEVIER COUNTY UTILITY DISTRICT

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

(continued)

Year Ended June 30, 2017

<b>CHANGE IN NET POSITION</b>	26,750
<b>NET POSITION AT THE BEGINNING OF THE YEAR</b>	<u>647,282</u>
<b>NET POSITION AT THE END OF THE YEAR</b>	<u>\$ 674,032</u>

EAST SEVIER COUNTY UTILITY DISTRICT

**STATEMENT OF CASH FLOWS**

Year Ended June 30, 2017

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

Cash received from customers	\$ 611,725
Cash paid to employees	(229,347)
Cash paid to suppliers	<u>(316,755)</u>

**NET CASH PROVIDED BY  
OPERATING ACTIVITIES**

65,623

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

Acquisition of capital assets	<u>(85,852)</u>
-------------------------------	-----------------

**NET (DECREASE) IN CASH**

(20,229)

**CASH AT THE BEGINNING OF THE YEAR**

45,083

**CASH AT THE END OF THE YEAR**

\$ 24,854

See the accompanying notes to the financial statements.

EAST SEVIER COUNTY UTILITY DISTRICT

**STATEMENT OF CASH FLOWS**

(continued)

Year Ended June 30, 2017

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

Income from operations		\$	27,297
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Depreciation	\$	52,146	
Loss on disposal		547	
Decrease in:			
Accounts receivable		9,385	
Prepaid expenses		985	
Increase(decrease) in:			
Accounts payable		114	
Payroll taxes payable		(4,339)	
Accrued wages		(17,846)	
Deferred revenue		349	
Customer deposits		(3,015)	
			<u>38,326</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		\$	<u>65,623</u>

EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2017

**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. Water revenue is recorded when billed to the customers, based on a monthly meter reading cycle. Sewer revenue is recorded when billed, based on the underlying contract.

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, 2017

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:

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, 2017 has been calculated as follows:

Capital assets	\$ 1,219,581
Accumulated depreciation	<u>(578,237)</u>
	<u>\$ 641,344</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. 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, 2017.

Unrestricted

This category includes net position that are not subject to externally imposed stipulations and that do not meet the definition of “restricted” or “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 that will benefit periods beyond June 30, 2017 are recorded as prepaid expenses.

EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

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 5 to 50 years.

Allowance for Uncollectible Accounts

Allowance for uncollectible accounts is provided based upon historical trends. Allowance for uncollectible accounts at June 30, 2017 was \$15,000.

**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, 2017 were entirely insured through the Federal Deposit Insurance Corporation.



EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

**NOTE D - PLANT IN SERVICE**

Plant in service activity for the year ended June 30, 2017 was as follows:

	<u>Balance</u> <u>7/1/16</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/17</u>
<u>Capital assets not being depreciated</u>				
Land	\$ 31,658	\$ 0	\$ 0	\$ 31,658
<u>Capital assets being depreciated</u>				
Building	69,236	0	0	69,236
Distribution and collection system	876,615	80,959	0	957,574
Machinery and equipment	146,407	4,893	(5,495)	145,805
Office equipment	<u>15,308</u>	<u>0</u>	<u>0</u>	<u>15,308</u>
	1,139,224	85,852	(5,495)	1,219,581
<u>Accumulated depreciation</u>				
Building	(13,174)	(2,407)	0	(15,581)
Distribution and collection system	(401,714)	(40,268)	0	(441,982)
Machinery and equipment	(100,911)	(9,440)	4,449	(105,902)
Office equipment	<u>(14,739)</u>	<u>(32)</u>	<u>0</u>	<u>(14,772)</u>
	<u>(530,539)</u>	<u>(52,147)</u>	<u>4,449</u>	<u>(578,237)</u>
	<u>\$ 608,685</u>	<u>\$ 33,705</u>	<u>\$ (1,046)</u>	<u>\$ 641,344</u>

EAST SEVIER COUNTY UTILITY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

**NOTE E - 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 F - COMMITMENTS AND CONTINGENCIES**

In May 2015, a Consent Order and Assessment from the State of Tennessee Department of Environment and Conservation assessed civil penalties against the District totaling \$129,019 related to operation of the water system. The District paid \$25,800 in penalties during the year ended June 30, 2015. The balance of the penalties has not been recorded as a liability in the financial statements as they are contingent upon the District meeting certain goals within given deadlines as specified in the Order. If these goals are met, the penalties will be forgiven. It is the District's intention to meet the remaining goals within the deadlines.

In August 2017, a Consent Order and Assessment from the State of Tennessee Department of Environment and Conservation assessed civil penalties against the District totaling \$72,627 related to the operation of the sewer system. The District will pay \$18,883 in penalties during the year ending June 30, 2018. The balance of the penalties will not be recorded as a liability in the financial statements as they are contingent upon the District meeting certain goals within given deadlines as specified in the Order. The Order requires the District to modify, repair or replace equipment or operations and to assure the structural integrity of the distribution and collection system. There are a series of deadlines that must be met or the full amount of the penalties will be owed. It is the District's intention to meet the goals to reduce this penalty.

**NOTE G – SUBSEQUENT EVENTS**

On September 12, 2017 the District entered into a contract with Alliance Water Resources beginning October 9, 2017 to perform management, operation and maintenance services for the District. Also on September 12, 2017, the Board of Commissioners authorized the issuance of \$557,000 of revenue bonds related to the water improvements noted in Note F.

SUPPLEMENTARY INFORMATION

EAST SEVIER COUNTY UTILITY DISTRICT

**CUSTOMERS AND UTILITY RATES**

June 30, 2017

**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 4,000 gallons	43.00
Commercial - first 4,000 gallons	46.81
Commercial - over 4,000 gallons	187.22

Sewer:	
English Mountain subdivision:	
Residential - first 4,000 gallons	43.00
Commercial - first 4,000 gallons	54.56
Commercial - over 4,000 gallons	218.23
Other subdivisions - unmetered service	43.00

**Number of customers** 623

See the accompanying independent accountants' audit report.



# AWWA Free Water Audit Software: Reporting Worksheet

WAS v5.0  
American Water Works Association.  
Copyright © 2014. All Rights Reserved.

	Click to access definition
	Click to add a comment

Water Audit Report for: **East Sevier County Utility District (0000618)**  
 Reporting Year: **2017** / **7/2016 - 6/2017**

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

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

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

### WATER SUPPLIED

Volume from own sources:			<input type="text" value="7"/>	<input type="text" value="27.544"/>	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

Master Meter and Supply Error Adjustments

Pcnt:	<input type="text" value="1.00%"/>	<input checked="" type="radio"/>	<input type="radio"/>	Value:	<input type="text"/>	MG/Yr
		<input type="radio"/>	<input checked="" type="radio"/>		<input type="text"/>	MG/Yr
		<input type="radio"/>	<input type="radio"/>		<input type="text"/>	MG/Yr

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

**WATER SUPPLIED:**  MG/Yr

### AUTHORIZED CONSUMPTION

Billed metered:			<input type="text" value="4"/>	<input type="text" value="7.697"/>	MG/Yr
Billed unmetered:			<input type="text" value="4"/>	<input type="text" value="6.444"/>	MG/Yr
Unbilled metered:			<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
Unbilled unmetered:			<input type="text" value="10"/>	<input type="text" value="0.519"/>	MG/Yr

Unbilled Unmetered volume entered is greater than the recommended default value

**AUTHORIZED CONSUMPTION:**  MG/Yr

Click here:

for help using option buttons below

Pcnt:	<input type="text" value="0.25%"/>	<input type="radio"/>	<input checked="" type="radio"/>	Value:	<input type="text" value="0.519"/>	MG/Yr
-------	------------------------------------	-----------------------	----------------------------------	--------	------------------------------------	-------

Use buttons to select percentage of water supplied OR value

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

MG/Yr

#### Apparent Losses

Unauthorized consumption:   |  | MG/Yr |

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

Customer metering inaccuracies:			<input type="text" value="5"/>	<input type="text" value="0.259"/>	MG/Yr
Systematic data handling errors:			<input type="text" value="5"/>	<input type="text" value="0.019"/>	MG/Yr

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

**Apparent Losses:**  MG/Yr

Pcnt:	<input type="text" value="0.25%"/>	<input checked="" type="radio"/>	<input type="radio"/>	Value:	<input type="text"/>	MG/Yr
-------	------------------------------------	----------------------------------	-----------------------	--------	----------------------	-------

<input type="text" value="3.25%"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="text"/>	MG/Yr
<input type="text" value="0.25%"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="text"/>	MG/Yr

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

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

**WATER LOSSES:**  MG/Yr

### NON-REVENUE WATER

**NON-REVENUE WATER:**  MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

### SYSTEM DATA

Length of mains:			<input type="text" value="3"/>	<input type="text" value="12.0"/>	miles
Number of <u>active AND inactive</u> service connections:			<input type="text" value="6"/>	<input type="text" value="243"/>	
Service connection density:			<input type="text" value="20"/>	<input type="text" value="20"/>	conn./mile main

Are customer meters typically located at the curbstops or property line?  (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line:   |  |

Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure:   |  | psi |

### COST DATA

Total annual cost of operating water system:			<input type="text" value="7"/>	<input type="text" value="\$279,277"/>	\$/Year
Customer retail unit cost (applied to Apparent Losses):			<input type="text" value="7"/>	<input type="text" value="\$6.03"/>	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):			<input type="text" value="7"/>	<input type="text" value="\$1,206.80"/>	\$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

### WATER AUDIT DATA VALIDITY SCORE:

**\*\*\* YOUR SCORE IS: 61 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: Billed metered
- 3: Billed unmetered

See the accompanying independent accountants' audit report.



# AWWA Free Water Audit Software: System Attributes and Performance Indicators

WAS v5.0  
American Water Works Association,  
Copyright © 2014, All Rights Reserved.

Water Audit Report for: **East Sevier County Utility District (0000618)**  
Reporting Year: **2017** | **7/2016 - 6/2017**

**\*\*\* YOUR WATER AUDIT DATA VALIDITY SCORE IS: 61 out of 100 \*\*\***

**System Attributes:**

	Apparent Losses:	0.346	MG/Yr
	+ Real Losses:	12.265	MG/Yr
	= <b>Water Losses:</b>	<b>12.611</b>	MG/Yr

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

Annual cost of Apparent Losses: \$2,086

Annual cost of Real Losses: \$14,802 Valued at **Variable Production Cost**  
Return to Reporting Worksheet to change this assumption

**Performance Indicators:**

Financial: { Non-revenue water as percent by volume of Water Supplied: 48.1%  
Non-revenue water as percent by cost of operating system: 6.3% Real Losses valued at Variable Production Cost

Operational Efficiency: { Apparent Losses per service connection per day: 3.90 gallons/connection/day  
Real Losses per service connection per day: N/A gallons/connection/day  
Real Losses per length of main per day\*: 2,800.30 gallons/mile/day  
Real Losses per service connection per day per psi pressure: N/A gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): 12.27 million gallons/year

? Infrastructure Leakage Index (ILI) [CARL/UARL]:

\* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

See the accompanying independent accountants' audit report.

EAST SEVIER COUNTY UTILITY DISTRICT

**BOARD OF COMMISSIONERS**

June 30, 2017

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, 2017, and the related notes to the financial statements, and have issued our report thereon dated April 2, 2018. Our report was modified, due to the accompanying financial statements not including the value of certain assets that were donated by homeowner associations related to agreements for operating and maintaining their sewer system.

**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 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. 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 2017-001 in the accompanying schedule of findings, recommendations and management responses 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings, recommendations, and management responses as item 2017-002.

## **East Sevier County Utility District's Responses to Findings**

East Sevier County Utility District's responses to the findings identified in our audit is described in the accompanying schedule of findings, recommendations and management responses. East Sevier County Utility District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **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.

A handwritten signature in cursive script that reads "Mitchell Emert + Hill".

April 2, 2018

EAST SEVIER COUNTY UTILITY DISTRICT

**FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

Year Ended June 30, 2017

Finding Number 2017-001 - 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 all contracts with homeowner associations for the operation of their sewer system, though it was able to obtain some copies during the year ended June 30, 2015. 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 include any assets and related depreciation expense related to these sewer systems.

*Recommendation:* Management should obtain signed 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 Response:* We concur. Management, along with the District's attorney, have drafted a contract that is to be the standard by which all offsite sewer treatment contracts will be renewed. The new contract will show the sewer treatment facility and the land it sits on to be donated to the District. Once TDEC has approved the contract, management will pursue renewals with all clients that will resolve this issue. Evan Romo, Division Manager, is the individual responsible for the implementation of this plan.

Finding Number 2017-002 – Volume of Water Sold (*uncorrected from the prior year*)

*Finding:* The District did not have adequate records relating to the number of gallons sold to its customers. Several of its customers, including its largest customer, are billed a flat amount each month without regard to the number of gallons used. Annually, the District is required to report to the State of Tennessee the number of gallons pumped and sold using the American Water Works Association Water (AWWA) Audit Software. The number of gallons sold used in this report was estimated and should be actual usage.

EAST SEVIER COUNTY UTILITY DISTRICT

**FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

(continued)

Year Ended June 30, 2017

*Recommendation:* Management should revise its metering system to provide the actual number of gallons used by all its customers, so that accurate reporting can be made to the state.

*Management Response:* We concur. The District is working through a water improvement project this year. As part of the project, management intends to install water meters for all locations that are currently unmetered. We anticipate completion of this project by the end of June 2018. Evan Romo, Division Manager, is the individual responsible for the implementation of this plan.

## **CORRECTIVE ACTION PLAN**

East Sevier County Utility District respectfully submits the following corrective action plan for the year ended June 30, 2017. The findings from the June 30, 2017 schedule of finding, recommendation and management response are discussed below.

### **No. 2017-001: Material Weakness - Plant in Service Records**

*Recommendation:* Management should obtain signed 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.

*Action Taken:* We concur. Management, along with the District's attorney, have drafted a contract that is to be the standard by which all offsite sewer treatment contracts will be renewed. The new contract will show the sewer treatment facility and the land it sits on to be donated to the District. Once TDEC has approved the contract, management will pursue renewals with all clients that will resolve this issue. Evan Romo, Division Manager, is the individual responsible for the implementation of this plan.

### **No. 2017-002: Compliance - Volume of Water Sold**

*Recommendation:* Management should revise its metering system to provide the actual number of gallons used by all its customers, so that accurate reporting can be made to the state.

*Action Taken:* We concur. The District is working through a water improvement project this year. As part of the project, management intends to install water meters for all locations that are currently unmetered. We anticipate completion of this project by the end of June 2018. Evan Romo, Division Manager, is the individual responsible for the implementation of this plan.

EAST SEVIER COUNTY UTILITY DISTRICT

**PRIOR YEAR FINDING AND QUESTIONED COST**

Year Ended June 30, 2017

Financial Statement Finding

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2017-001	Plant in Service Records (original finding 2012-001)	Repeated
2017-002	Volume of Water Sold (original finding 2015-002)	Repeated