

**EAST SEVIER COUNTY UTILITY DISTRICT
BOARD OF COMMISSIONERS MEETING**

December 19, 2019

5:30 P.M.

AGENDA

- 1) Call to Order by President Roy Ivey
- 2) Motion to approve the minutes of the November 14, 2019 meeting
- 3) Motion to approve the Accounts Payable Listing in total as submitted

REPORTS:

- 4) Alliance Water Resources – Financial Report / Operations

PERSONS TO BE HEARD:

****ONE AT A TIME AS RECOGNIZED****

When it is your turn to speak, please stand and state your name.

Please be considerate of others that may wish to speak by keeping your comments brief.

- 5) Customers' Comments; Questions; and Concerns

OLD BUSINESS:

- 6) None

NEW BUSINESS:

- 7) Audit draft discussion
- 8) Adjournment – Next regular meeting to be held on Thursday, Jan 9, 2020 – 5:30 p.m.

MINUTES

BOARD OF COMMISSIONERS OF THE EAST SEVIER COUNTY UTILITY DISTRICT

Thursday, November 16, 2019

The Board of Commissioners of the East Sevier County Utility District met at 5:30 p.m. on Thursday, November 14, 2019, in the Office of the East Sevier County Utility District, 1529 Alpine Drive, Sevierville, TN 37876. Commissioners present were Roy Ivey, President; Barbara Darby, Secretary/Treasurer; and Janice Brooks–Headrick.

President Roy Ivey called the meeting to order at 5:30 p.m. for any old or new business.

A motion to approve the minutes of the October 10, 2019, meeting was made by Barbara; Janice seconded the motion. Motion carried.

A motion to approve the Accounts Payable listing in total as submitted was made by Barbara; Janice seconded the motion. Motion carried.

Reports

James Ford, Local Manager, went over various points of the financial report with the Board. Janice motioned to approve the financial report as presented, Barbara seconded the motion. Motion carried.

James then discussed operations. First Horizon Bank’s “Remote Capture” equipment has been installed and is now being used to transmit deposits directly to the bank. We are officially entering a new era in ESCUD’s ability to perform financial transactions within a modern arena. We are researching our options for upgrading internet service at the office.

Treatment at the wells is monitored daily. Water treatment has improved since the installation of the filters at Well C. Last month we installed a blow-off valve on Black Oak. Well C circuit protection was effective during the early October storm. We repaired air moving equipment at the English Mountain WWTP. Water leaks were addressed on Bourne Way and Wilhite.

Customers on Linwood Court were very appreciative of our staff’s response and input regarding a difficult and challenging situation on their property.

Offsite we installed a pump kit at Smoky Mountain Ridge. We repaired a sewer lateral at Douglas Lake Resort and changed out all floats at the WWTP drip field there. Sewer leaks were addressed at Smoky Mountain Ridge and Douglas Lake Resort.

Our October safety meeting covered fire safety. The monthly water and wastewater reports were successfully submitted to the Tennessee Department of Environment and Conservation. Our newest employee is being trained on our offsite activities. Safe driving was the concern for the month. The combination of dark mountain mornings, tourists, and wet weather have created a new set of driving-related challenges for our staff. We have installed emergency lighting on our utility truck to help to protect both the general public and our employees.

Persons to be Heard

Ron Cusack of 1403 Lin Creek asked for forgiveness for an unusually high water bill. He is being charged for 43,110 gallons on his October bill due to a leak on his property. He repaired the leak as soon as it was discovered, and the leak did not involve the sewer. Jan motioned to allow the Cusacks a once-in-twelve-month adjustment, which will bring the bill down to \$262.56. Barbara seconded the motion. Motion carried.

Old Business

None

New Business

We sent a letter to TDEC asking for more time to find a solution for the WWTP situation. We are considering the possibility of taking two basins and using them for flow retention instead of having to install a drip field, which is not feasible in our situation. We are not likely to be granted the extra money to install an additional plant as required. Last month the Board signed off on the final bills for the Water project. The invoice to the contractor was reduced because McGill filed liquidated damages against them due to engineering supervision during excessive delays. \$9,750 that was part of the contractor's initial deal will go to McGill. Evan asked for approval to pay the McGill invoice with USDA grant funds as presented. Janice motioned to approve. Barbara seconded the motion. Motion carried.

Evan presented paperwork for Draw 5 of the Wastewater Treatment Plant project in the amount of \$4,166.20 from the USDA. Barbara motioned to approve the release of the Wastewater Treatment Plant project funds; Janice seconded the motion. Motion carried.

James invited the Commissioners to a Christmas party hosted by Alliance which will take place at Calhoun's restaurant in Gatlinburg on Friday, December 20, at 5:30 p.m.

The next regular meeting will be held on Thursday, December 12, 2019, at 5:30 p.m.

Adjournment

Roy Ivey motioned, and Barbara Darby seconded the motion, to adjourn at 5:52 p.m. Motion carried.

Secretary-Treasurer

**East Sevier County Utility District
12-Dec-19**

Regular Checking for Consideration	Total
Barbara Darby	Meeting fee \$ 266.05
Janice Brooks-Headrick	Meeting fee \$ 277.05
Roy Ivey	Meeting fee \$ 266.05
Barbara Darby	Insurance payment \$ 350.00
Janice Brooks-Headrick	Insurance payment \$ 350.00
Roy Ivey	Insurance payment \$ 350.00
Alliance Water Resources, Inc	December 2019 Services, Inv# 8615 \$ 40,652.00
First Horizon Bank	Alpine Fund Drive \$ 2,000.00
The Mountain Press	Ad# 30883524 for November 2019 Board meeting ad \$ 25.88
Mark Jendrek	Legal Services, Inv# 15589, 15590, 15591, 15592, 15593 \$ 2,059.00
Orenco Systems, Incorporated	Inv#361408, dated 11/11/19, 4 Pump packages-\$574.63 S&H \$ 9,102.27
Power Pumping	Inv# 8806 dated 11/01/19 \$ 700.00
Big Orange Electric	Inv# 2045, 2046-service calls and installation of pump kits, 08/30-11/25/19 \$ 5,020.00
Drillers Service, Inc.	Order# 10182871-00 dated 12/02/19; 4 cistern pumps \$ 1,251.16
Cory Nester	Refund deposit, 10-70500-2 \$ 105.00
PDS Properties, LLC	Refund deposit and overpayment, 4-14700-2 \$ 109.50
A. Grant Dunn	Inv# 4914 dated 11/10/19-Soil mapping and consulting. \$ 450.00
	Total Regular Checking for Consideration \$ 63,333.96

Charges and Bills Paid from Regular Checking Since November 14, 2019	
Darrell Baker	Repair Vehicle \$ 494.09
Sevier County Electric	Utility \$ 2,864.55
Sevier County Water	Utility \$ 42.25
Appalachian Electric	Utility \$ 102.33
City of Pigeon Forge Water & Sewer	Utility \$ -
USDA	Loan Repayment, November \$ 2,076.00
State of Tennessee	Sales tax \$ 1,861.00
IRS	Payroll tax \$ 382.64
Bank fee	Analysis Service Charge \$ 37.94
	Total Regular Checking Charges and Bills Paid \$ 7,860.80
	Grand Total Regular Checking \$ 71,194.76

Charges and Bills Paid from Alpine Drive fund Since November 14, 2019	
	Total Alpine Drive Fund Checking Charges and Bills Paid \$ -

Charges and Bills Paid from WWTP fund Since November 14, 2019	
McGill Associates, P.A.	Inv# 15.06205-4394 dated 02/28/19, \$1,500; Inv# 15.06205-6051 dated 08/31/19, \$2666.25 WWTP Upgrade and Sewer Line Rehab \$ 4,166.25
	Total WWTP Fund Checking Charges and Bills Paid \$ 4,166.25

East Sevier County Utility District
Balance Sheet
October 31, 2019

10/31/19

ASSETS

CURRENT ASSETS

Checking Account - Operations	\$289,562.55
Checking Account - Alpine Rd Funding	84,426.13
Cash on Hand	60.00
Total Cash	374,048.68
Accounts Receivable	150,239.50
Allowance for Doubtful Accts	(23,871.48)
Unbilled Accounts Receivable	6,045.00
Inventory	16,819.70
Prepaid Expenses	10,896.16
Total Current Assets	534,177.56

PROPERTY, PLANT & EQUIPMENT

Land	31,657.80
Distribution & Collection System	2,124,343.47
Buildings	69,235.68
Machinery & Equipment	131,409.26
Vehicles & Trailer(s)	49,747.58
Construction Work in Progress	796,292.22
Less: Accumulated Depreciation	(1,143,641.33)
Net Property, Plant & Equipment	2,059,044.68

RESTRICTED CASH

Construction Account - Waste Wtr Project	833.37
Total Restricted Cash	833.37

OTHER ASSETS

Deposits	14,370.00
Total Other Assets	14,370.00

Total Assets	\$2,608,425.61
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East Sevier County Utility District
Balance Sheet
October 31, 2019

10/31/19

LIABILITIES AND DISTRICT'S EQUITY

CURRENT LIABILITIES

Accounts Payable	\$18,115.73
Sales Tax Payable	1,860.52
Payroll Taxes Payable	382.56
Unearned Revenue	26,417.05
Accrued Interest Payable	8,965.83
Customer Deposits	38,320.00
<i>Total Current Liabilities</i>	<u>94,061.69</u>

LONG-TERM DEBT

USDA 2018 Loan #1	571,608.28
USDA 2017 Loan #2	291,000.00
USDA 2017 Loan #3	266,000.00
<i>Total Long-Term Debt</i>	<u>1,128,608.28</u>

Total Liabilities

1,222,669.97

DISTRICT'S EQUITY

Retained Earnings	1,319,775.29
YTD Net Income	65,980.35
<i>Total District's Equity</i>	<u>1,385,755.64</u>

Total Liabilities and District's Equity

\$2,608,425.61

East Sevier County Utility District
Statements of Revenues and Expenses
For the Four Months Ending October 31, 2019
Actual vs Budget

<u>October</u>			<u>YTD</u>		<u>Annual Budget</u>
<u>Actual</u>	<u>Budget</u>		<u>Actual</u>	<u>Budget</u>	
		Operating Revenues			
\$18,997	\$22,200	Water Sales	\$74,241	\$92,214	\$279,067
45,004	48,143	Sewer Charges	175,695	171,033	495,048
0	0	Connection Fees - Water	0	2,500	2,500
0	1,146	Connection Fees - Sewer	16,250	4,583	13,750
1,037	1,613	Late Charge Fees	3,134	6,451	19,353
4,347	613	Reconnect/Meter Sets/Other Fees	61,881	2,453	7,359
0	200	Miscellaneous Income	0	800	2,400
69,385	73,915	Total Operating Revenues	331,201	280,034	819,477
		Operating Expenses			
159	167	Payroll Taxes	637	667	2,000
40,652	40,652	Management & Operations Contract	162,608	162,608	487,824
4,126	4,000	Utilities	14,991	16,000	48,000
2,312	2,000	Insurance	9,246	8,000	24,000
9,844	4,417	Repairs & Maintenance	20,837	17,667	53,000
0	417	Professional Outside Services	0	1,667	5,000
2,082	2,083	Directors' Fees	8,330	8,333	25,000
2,059	1,000	Legal Expenses	2,059	4,000	12,000
0	0	Accounting	0	0	7,300
1,167	1,167	Bad Debts	4,667	4,667	14,000
0	450	Dues	0	725	825
52	0	Advertising Expense	104	0	0
0	0	Permits	3,412	3,412	5,200
270	250	Miscellaneous Expense	270	1,000	3,000
62,723	56,603	Total Operating Expenses	227,161	228,746	687,149
6,662	17,312	Net Income B/4 Other (Inc) & Exp	104,040	51,288	132,328
		Other Income (Expenses)			
(3,031)	(1,792)	Interest Expense	(13,261)	(7,167)	(21,500)
(6,200)	(6,200)	Depreciation	(24,800)	(24,800)	(74,400)
0	(83)	Bond Issue Costs	0	(333)	(1,000)
(9,231)	(8,075)	Total Other Income (Expenses)	(38,061)	(32,300)	(96,900)
(\$2,569)	\$9,237	Net Income(Loss)	\$65,979	\$18,988	\$35,428

**East Sevier County Utility District, TN
Treasury Report**

Billing Charges For the Month of:	Oct-19	
Water Revenue		18,996.67
Sewer Revenue		46,017.42
Installment Billing -Offsite Sewer Arrears		1,012.97
Sales Taxes		1,860.74
Late Charges		1,037.20
Installation Fees-Water		-
Installation Fees-Sewer		-
Other Miscellaneous Fees		4,346.71
Returned Checks		100.00
Deposits Applied/Adjustments		(210.00)
Customer Refunds Paid		411.38
Total Billing Charges		<u>73,573.09</u>
Water Gallons Billed		<u>929,854</u>
Water Customers Billed		<u>247</u>
Sewer Gallons Billed		<u>543,460</u>
Sewer Customers Billed		<u>777</u>

Accounts Receivable	Oct-19	
Beginning Balance		117,572.67
Billing Charges		73,573.09
Bad Debt Recoveries (Write Offs)		-
Accounts Receivable Collections		(88,105.53)
End of Month Accounts Receivable		<u>103,040.23</u>

Water Revenue Checking	Oct-19	
Beginning Balance		282,172.36
Deposits:		
Accounts Receivable Collections		88,105.53
Customer Deposits		1,155.00
		<u>89,260.53</u>
Disbursements:		
Accounts Payable Checks		(72,030.35)
Auto Debit Charges-Utilities		(3,268.82)
USDA Loan Payment		(2,076.00)
Transfer to Alpine Road Funding		(2,000.00)
TN TAP - Sales Tax		(1,662.00)
Payroll Taxes		(382.64)
Returned Checks		(245.03)
Refund Checks		(205.50)
End of Month Balance		<u>289,562.55</u>

Cash Receipts Collected To Date in:	Nov-19	65,818.91
Auto Debited Utilities in:	Nov-19	(3,009.13)
Bills Submitted for Payment in:	Nov-19	(52,926.16)
Available Balance		<u><u>299,446.17</u></u>

East Sevier County Utility District, TN
Treasury Report
Summary of Cash and Investments
October 31, 2019

Bank Account / Security	Maturity Date	Beginning Balance	Deposits	Interest Earned	Payments	Ending Balance
Checking Acct-Operations		282,172.36	89,260.53	-	(81,870.34)	289,562.55
Checking Acct-Alpine Road Funding		241,223.66	2,000.00	-	(158,797.53)	84,426.13
Checking Acct-Waste Water Plant		833.37	-	-	-	833.37
Cash on Hand		60.00	-	-	-	60.00
Total Cash and Investments		524,289.39	91,260.53	-	(240,667.87)	374,882.05

**EAST SEVIER COUNTY UTILITY DISTRICT
BILLING SUMMARY**

DATE	WATER REVENUE		WATER GALLONS (000s)		NO. OF CUSTMRS
	TOTAL	YTD TOTAL	TOTAL	YTD TOTAL	
Oct-19	19,447	58,365	930	2,891	247
Sep-19	19,745	58,365	964	2,891	246
Aug-19	19,662	38,620	950	1,927	246
Jul-19	18,958	18,958	977	977	246
Jun-19	18,888	221,506	894	8,978	249
May-19	17,763	202,618	783	8,084	250
Apr-19	17,463	184,855	668	7,301	250
Mar-19	17,535	167,392	627	6,633	250
Feb-19	19,679	149,857	723	6,006	243
Jan-19	22,743	130,178	748	5,283	241
Dec-18	17,023	107,435	606	4,535	246
Nov-18	16,729	90,411	560	3,929	244
Oct-18	18,202	73,683	813	3,369	245
Sep-18	18,540	55,481	824	2,556	242

**EAST SEVIER COUNTY UTILITY DISTRICT
BILLING SUMMARY**

DATE	SEWER REVENUE		SEWER GALLONS (000s)		NO. OF CUSTMRS	W&S CUSTMR RECEIPTS
	TOTAL	YTD TOTAL	TOTAL	YTD TOTAL		
Oct-19	46,455	135,947	543	1,708	777	88,106
Sep-19	46,158	135,947	522	1,708	774	83,813
Aug-19	45,454	89,790	510	1,186	769	78,394
Jul-19	44,335	44,335	676	676	762	88,359
Jun-19	46,421	553,474	574	6,709	758	100,207
May-19	44,839	507,053	604	6,135	757	65,173
Apr-19	43,934	462,214	491	5,531	751	73,177
Mar-19	44,021	418,279	499	5,040	750	72,003
Feb-19	42,340	374,258	443	4,541	741	84,087
Jan-19	52,706	331,918	553	4,098	735	82,323
Dec-18	43,711	279,212	475	3,545	734	84,499
Nov-18	43,187	235,501	423	3,070	732	85,252
Oct-18	44,670	192,314	617	2,647	741	94,066
Sep-18	48,090	147,644	644	2,030	722	78,157



OUR MISSION

We partner with communities to deliver the finest water and wastewater services available at a competitive price. We are committed to keeping water safe and clean while serving people and taking care of communities with improved technical operations, careful management and financial oversight, and ensured regulatory compliance.

Alliance Water Resources, Inc.

**206 S. Keene
St. Columbia,
MO 65201**

(573)874-8080

OPERATIONS REPORT – East Sevier County Utility District

November 2019

Administrative

Staff have been coordinating with Alliance accounting department to ensure another successful audit and a continued quality relationship with the state comptroller's office.

Treatment

Treatment at the wells is monitored daily. Water treatment has improved since the installation of the filters at well C.

Treatment at the wastewater plant is effective. All monthly parameters were within permit limits.

Collection/Distribution

Filters were changed at Well A/B

The entire mountain was flushed

Staff assisted fire department during a Rich Mountain house fire

Two pump kits were installed at Sherwood Forest

Repair made at Douglas Lake backflow prevention assembly

Replaced pump at Bear Creek Crossing WWTP

Customer Service

Staff correctly troubleshot septic tank situation and made necessary corrections. Customer stated that his house was going to be full for the Thanksgiving weekend, and was very appreciative of our performance.

Project Updates

We are still awaiting a response from TDEC regarding the proposed WWTP.



OPERATIONS REPORT – East Sevier County Utility District

Safety

Our November meeting was on chlorine safety.

Regulatory

Monthly Water and Wastewater reports were successfully submitted to the Tennessee Department of Environment and Conservation.

Training

A staff member passed the collections exam and has been awarded a “Collections II” license, the highest collections license available.

Concerns for the Month

With the holiday season in full swing, driving safety and awareness continue to be a priority for the ESCUD staff.

Positives for the Month

Because of our improvement project, only three customers were without water during the Black Oak main break repair. There was a time when a break in the same location would have resulted in dozens of customers losing service.

Leak Repairs

Water leaks were addressed on Black Oak Drive and Rich Mountain. Sewer leaks were addressed on English Mountain, and at two offsite resort communities.

DRAFT - FOR DISCUSSION ONLY

Financial Statements

EAST SEVIER COUNTY UTILITY DISTRICT

Year Ended June 30, 2019

DRAFT - FOR DISCUSSION ONLY

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DRAFT - FOR DISCUSSION ONLY

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, 2019, 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.

DRAFT - FOR DISCUSSION ONLY

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

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, 2019 and the change in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note H to the financial statements, East Sevier County Utility District has restated its net position as of June 30, 2018 to include capital assets and related accumulated depreciation amounts which were not previously recorded. Our opinion is not modified with respect to this matter.

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 7 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.

DRAFT - FOR DISCUSSION ONLY

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2019, 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.

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

December 3, 2019

EAST SEVIER COUNTY UTILITY DISTRICT
DRAFT - FOR DISCUSSION ONLY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

As management of East Sevier County Utility District (the District), we offer readers of the District's audited financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2019.

OVERVIEW OF THE AUDITED FINANCIAL STATEMENTS

The financial statements presented in this report consist of the *statement of net position*, the *statement of revenues, expenses and changes in net position*, and the *statement of cash flows*. The statements of net position provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for assessing the liquidity and financial flexibility of the District. The current year's revenues and expenses are accounted for in the statements of revenues, expenses and changes in net position. This statement reports the revenues and expenses during the time period indicated and can be used to determine whether the District has successfully recovered all its costs through user fees and other charges. The primary purpose of the statements of cash flows is to provide information about the District's cash receipts and cash payments. This statement reports cash receipts, cash payments, and net changes in cash resulting from activities related to operations, capital and related financing, investing, and noncash capital and related financing activities.

STATEMENT OF NET POSITION

The District's total net position in 2019 increased by \$570,165 or 40.8%. \$474,028 of the increase in net position is a result of a restatement of the 2018 financials for unrecorded sewer systems.

Total assets increased \$1,181,602 (88.4%) due to increases in current assets and capital assets. Current assets increased by \$133,775 (33.3%) primarily due to increases in cash and billed and unbilled receivables. Cash increased \$195,809 (112.8%) due to a reimbursement from the USDA loan of \$404,700 due to expenses incurred in previous years. Accounts receivable decreased \$57,628 (30.0%) due to the billing of offsite sewer customers. Capital assets increased \$1,047,827 (112%). Additional information regarding capital asset additions is discussed in the capital assets section of this discussion and analysis.

Total liabilities increased by \$607,730 (125%) mainly due to an increased in long-term debt of \$283,136. Current liabilities increased by \$324,594 (711%), due to an increase in accounts payable.

A summary of financial position follows:

EAST SEVIER COUNTY UTILITY DISTRICT
DRAFT - FOR DISCUSSION ONLY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>For The Years Ended June 30</u>		<u>2018</u>	
	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>Percentage Change</u>
Assets:				
Current assets	\$ 400,788	\$ 80,436	320,352	398.3%
Capital assets	935,677	641,344	294,333	45.9
Total assets	<u>1,336,464</u>	<u>721,780</u>	<u>614,684</u>	85.2
Deferred Inflow of Resources:				
Unearned Revenue	<u>22,709</u>	<u>13,127</u>	<u>9,582</u>	73.0
Liabilities:				
Current liabilities	63,930	34,621	29,309	84.7
Long term liabilities, net of current maturities	<u>422,204</u>	<u>-</u>	<u>422,204</u>	N/A
Total liabilities	<u>486,134</u>	<u>34,621</u>	<u>451,513</u>	1304.2
Net Position				
Net investment in capital assets	513,473	641,344	(127,871)	(19.9)
Unrestricted	<u>314,147</u>	<u>32,688</u>	<u>281,459</u>	861.0
Total net position	<u>827,620</u>	<u>674,032</u>	<u>153,588</u>	22.8

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Total operating revenues increased by \$151,017 or 19.8%. The increase consists of water and sewer revenues in the amount of \$79,001 or 12.2%. Water sales decreased \$1,299 or 1% and sewer charges increased \$80,300 or 19.3%.

Total operating expenses increased by \$90,569 or 12.4%. Operating expenses increased primarily due to cost of management and operations in the amount of \$138,936 which was offset in a reduction of salaries and payroll taxes of \$50,145 and professional services of \$30,307. Prior to the partnership with Alliance Water Resources, Inc., the District incurred penalties, related to the operation of the sewer system, of \$18,900 which were assessed from the State of Tennessee Department of Environment and Conservation. The non-operating income (expense) changed \$547 primarily due to a loss on the disposal of an asset in 2017.

EAST SEVIER COUNTY UTILITY DISTRICT
DRAFT - FOR DISCUSSION ONLY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

Alliance discovered that a significant amount of revenue was not being collected from the operations of off-site sewer facilities. There were approximately 150 customers being served who did not have accounts set up. This has been corrected. This will add approximately \$81,00 per year in annual revenue. In addition, going back the allowed amount of three years, these customers had a combined arrears amount totaling approximately \$187,000. To capture this lost revenue, new accounts were created for all identified customers. Arrearage letters were distributed offering terms of 5 years at 10% interest (state allowed amount) to pay off any outstanding balance. Many individuals have elected to pay the balance off in full. To date, \$106,611 has been collected through the arrearage programs.

A summary of changes in net position follows:

	<u>For The Years Ended June 30</u>		<u>2018</u>	
	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>Percentage Change</u>
Operating Revenues:				
Water sales and sewer charges	\$ 648,721	\$ 582,148	66,573	11.4%
Connection fees	31,700	30,949	751	2.4
Late charges	83,706	8,013	75,693	944.6
Total operating revenues	<u>764,127</u>	<u>621,110</u>	<u>143,017</u>	23.0
Operating Expenses:				
Operating expenses	660,938	541,667	119,271	22.0
Depreciation	67,499	52,146	15,353	29.4
Total operating expenses	<u>728,437</u>	<u>593,813</u>	<u>134,624</u>	22.7
Operating Income	35,689	27,297	8,392	30.7
Non-operating income (expenses)	<u>-</u>	<u>(547)</u>	<u>547</u>	N/A
Change in net position before capital contributions	35,689	26,750	8,939	(33.4)
Contributions in aid to construction	<u>-</u>	<u>-</u>	<u>-</u>	0.0
Change in Net Position	35,689	26,750	8,939	(33.4)
Net Position, July 1	791,932	647,282	144,650	22.3
Reinstatement	<u>-</u>	<u>117,900</u>	<u>(117,900)</u>	N/A
Net Position, June 30	<u>\$ 827,620</u>	<u>\$ 791,932</u>	<u>35,688</u>	4.5%

STATEMENTS OF CASH FLOWS

The District's rate structure is designed to collect sufficient revenues to pay debt service and recover operating and maintenance expenses. The net cash provided by operating activities was used to fund some capital assets additions. In 2019, there was no debt service requirements for the year.

CAPITAL ASSETS

Capital assets, net of depreciation was \$1,983,504 at June 30, 2019 compared to \$935,677 at June 30, 2018 which represents an increase of \$1,047,827 or 112% primarily due to the addition of sewer systems. Depreciation expense for 2019 was \$117,772. System additions primarily consisted of new services and various equipment purchases.

RESTRICTED ASSETS

The District did not have any restricted assets as of June 30, 2019.

LONG-TERM LIABILITIES

As of June 30, 2019, the District had total long-term debt outstanding of \$705,340. Principal and interest are deferred until 2020. New repayment terms will be implemented once the underlying capital projects have been completed.

ECONOMIC FACTORS AND FUTUE 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.

OVERALL ANAYLYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's overall financial position in 2019 increased as compared to prior year. The District continually strives to improve its financial position as reflected in the restatement of the June 30, 2018 net position to capitalize sewer systems which were note previously recognized.

REQUEST FOR INFORMATION

This report is designed to provide our customers, debt holders, and other interested parties with a general overview of the financial position of the District and to indicate accountability for the revenues received. Questions about this report or requests for additional information should be directed to the office located at 1529 Alpine Drive, Sevierville, TN 37876 or (865-453-6704).

DRAFT - FOR DISCUSSION ONLY

EAST SEVIER COUNTY UTILITY DISTRICT

STATEMENT OF NET POSITION

June 30, 2019

PLANT IN SERVICE

Land	\$	31,658
Construction in progress		648,357
Building		69,236
Distribution and collection system		2,126,403
Vehicles and trailer		61,273
Equipment		<u>114,699</u>
		3,051,626
Accumulated depreciation		<u>(1,068,121)</u>
		<u>1,983,504</u>

CURRENT ASSETS

Cash	\$	369,438
Current portion of accounts receivable, net of allowance for uncollectible accounts of \$18,000		95,779
Prepaid expenses		7,119
Inventory		9,787
Deposits		<u>14,370</u>

TOTAL CURRENT ASSETS 496,493

OTHER ASSETS

Accounts receivable, net of current portion		<u>38,070</u>
		<u>\$ 2,518,066</u>

See the accompanying notes to the financial statements.

DRAFT - FOR DISCUSSION ONLY

EAST SEVIER COUNTY UTILITY DISTRICT

STATEMENT OF NET POSITION

June 30, 2019

PLANT IN SERVICE

Land	\$	31,658
Construction in progress		648,357
Building		69,236
Distribution and collection system		2,126,403
Vehicles and trailer		61,273
Other Equipment		114,699
		<u>3,051,626</u>
Accumulated depreciation		<u>(1,068,121)</u>
		1,983,504

CURRENT ASSETS

Cash	\$	369,438
Current portion of accounts receivable, net of allowance for uncollectible accounts of \$18,000		95,779
Prepaid expenses		7,119
Inventory		9,787
Deposits		<u>14,370</u>

TOTAL CURRENT ASSETS 496,493

OTHER ASSETS

Accounts receivable, net of current portion		<u>38,070</u>
		<u>\$ 2,518,066</u>

See the accompanying notes to the financial statements.

DRAFT - FOR DISCUSSION ONLY

CURRENT LIABILITIES

Accounts payable	\$	353,974	
Customer deposits		<u>34,550</u>	

TOTAL CURRENT LIABILITIES 388,524

LONG-TERM DEBT

705,340

DEFERRED INFLOWS OF RESOURCES

Unearned revenue			26,417
------------------	--	--	--------

NET POSITION

Net investment in capital assets	\$	1,278,164	
Unrestricted		<u>119,621</u>	<u>1,397,785</u>
	\$		<u><u>2,518,066</u></u>

DRAFT - FOR DISCUSSION ONLY

EAST SEVIER COUNTY UTILITY DISTRICT

STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET POSITION

Year Ended June 30, 2019

OPERATING REVENUE

Water sales	\$ 230,539
Sewer services	497,183
Penalties and interest	9,868
Tap fees and service fees	30,000
Other operating revenue	<u>147,554</u>

TOTAL OPERATING REVENUE

915,144

OPERATING EXPENSES

Salaries	\$ 24,989
Payroll taxes	1,912
Unemployment	550
Contract management	467,279
Insurance	25,726
Plant utilities	47,349
Repairs and maintenance	75,029
Depreciation	117,772
Permits	4,974
Postage	209
Legal fees	15,986
Professional services	7,900
Bond issuance costs	10,715
Dues	450
Miscellaneous	<u>1,580</u>

TOTAL OPERATING EXPENSES

802,420

INCOME FROM OPERATIONS

112,722

NONOPERATING (EXPENSE)

Interest	<u>16,585</u>
----------	---------------

See the accompanying notes to the financial statements.

DRAFT - FOR DISCUSSION ONLY

EAST SEVIER COUNTY UTILITY DISTRICT

STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET POSITION

(continued)

Year Ended June 30, 2019

	CHANGE IN NET POSITION	96,137
NET POSITION AT THE BEGINNING OF THE YEAR, as restated		<u>1,301,648</u>
NET POSITION AT THE END OF THE YEAR		<u>\$1,397,785</u>

DRAFT - FOR DISCUSSION ONLY

EAST SEVIER COUNTY UTILITY DISTRICT

STATEMENT OF CASH FLOWS

Year Ended June 30, 2019

CASH PROVIDED(USED) BY OPERATING ACTIVITIES

Cash received from customers	\$ 972,771
Cash paid to employees	(26,137)
Cash paid to suppliers	<u>(325,805)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES

620,829

CASH PROVIDED(USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from issuance of long-term debt	\$ 283,136
Acquisition of capital assets	(691,571)
Interest paid	<u>(16,585)</u>

NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES

(425,020)

NET INCREASE IN CASH

195,809

CASH AT THE BEGINNING OF THE YEAR

173,629

CASH AT THE END OF THE YEAR

\$ 369,438

See the accompanying notes to the financial statements.

DRAFT - FOR DISCUSSION ONLY

EAST SEVIER COUNTY UTILITY DISTRICT

STATEMENT OF CASH FLOWS

(continued)

Year Ended June 30, 2019

RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH PROVIDED(USED) BY OPERATING ACTIVITIES

Change in net position		\$ 112,722
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Depreciation	\$ 117,772	
(Increase)decrease in:		
Accounts receivable	57,627	
Inventory	(4,140)	
Prepaid expenses	8,546	
Increase(decrease) in:		
Accounts payable	308,322	
Accrued wages	(1,148)	
Deferred revenue	3,708	
Customer deposits	17,420	<u>508,107</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		<u>\$ 620,829</u>

DRAFT - FOR DISCUSSION ONLY

EAST SEVIER COUNTY UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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.

On September 12, 2017 the District entered into a contract with Alliance Water Resources beginning October 9, 2017 to perform management, operation and maintenance services for the District. The contract is in effect until June 30, 2026.

NOTE 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.

DRAFT - FOR DISCUSSION ONLY

EAST SEVIER COUNTY UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2019

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, 2019 has been calculated as follows:

Capital assets	\$ 3,051,626
Accumulated depreciation	(1,068,121)
Principal balance on long-term debt	<u>(705,340)</u>
	<u>\$ 1,278,165</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, 2019.

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 that will benefit periods beyond June 30, 2019 are recorded as prepaid expenses.

DRAFT - FOR DISCUSSION ONLY

EAST SEVIER COUNTY UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2019

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, 2019 was \$18,000.

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, 2019 were entirely insured through the Federal Deposit Insurance Corporation.

DRAFT - FOR DISCUSSION ONLY

EAST SEVIER COUNTY UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2019

NOTE D - PLANT IN SERVICE

Plant in service activity for the year ended June 30, 2019 was as follows:

	<u>Balance</u> <u>7/1/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/19</u>
<u>Capital assets not being depreciated</u>				
Land	\$ 31,658	\$ 0	\$ 0	\$ 31,658
Construction in Progress	102,408	545,949	0	648,357
<u>Capital assets being depreciated</u>				
Building	69,236	0	0	69,236
Distribution and collection system	1,993,184	133,219	0	2,126,403
Machinery and equipment	98,512	0	0	98,512
Vehicles	49,748	11,525	0	61,273
Office equipment	<u>15,308</u>	<u>878</u>	<u>0</u>	<u>16,186</u>
	2,360,054	691,571	0	3,051,626
<u>Accumulated depreciation</u>				
Building	(17,971)	(2,378)	0	(20,349)
Distribution and collection system	(803,553)	(110,107)	0	(913,660)
Machinery and equipment	(84,497)	(1,240)	0	(85,737)
Vehicles	(29,522)	(4,014)	0	(33,536)
Office equipment	<u>(14,805)</u>	<u>(33)</u>	<u>0</u>	<u>(14,838)</u>
	<u>(950,348)</u>	<u>(117,772)</u>	<u>0</u>	<u>(1,068,121)</u>
	<u>\$1,409,705</u>	<u>\$ 573,799</u>	<u>\$ 0</u>	<u>\$1,983,504</u>

The balances at July 1, 2018 have been restated to include six sewer systems owned by the District.

DRAFT - FOR DISCUSSION ONLY

EAST SEVIER COUNTY UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2019

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 reported \$18,883 as 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.

During the year ended June 30, 2019, the District contracted for a variety of engineering services related to capital improvements. The contracts totaled \$210,000 and \$96,118 was expended as of June 30, 2019.

DRAFT - FOR DISCUSSION ONLY

EAST SEVIER COUNTY UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2019

NOTE G - LONG-TERM DEBT

Long-term debt at June 30, 2019 consisted of the following:

Water and Sewer Revenue Anticipation Bond, interest rate of 3.25%, principal and interest due on or before November 14, 2020, secured by the capital assets of the District	\$ 291,000
Water and Sewer Revenue Anticipation Bond, interest rate of 3.25%, principal and interest due on or before November 14, 2020, secured by the capital assets of the District	148,340
Water and Sewer Revenue Anticipation Bond, interest rate of 2.875%, principal and interest due on or before November 14, 2020, secured by the capital assets of the District	<u>266,000</u>
	<u>\$ 705,340</u>

New repayment terms will be implemented once the underlying capital projects have been completed.

NOTE H - RESTATEMENT

Net position at June 30, 2018 has been restated to capitalize sewer systems which were not previously recognized:

Balance at June 30, 2018, as originally reported	\$ 827,620
Sewer systems, net of accumulated depreciation	<u>474,028</u>
Balance at June 30, 2018, as restated	<u>\$ 1,301,648</u>

DRAFT - FOR DISCUSSION ONLY

SUPPLEMENTARY INFORMATION

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EAST SEVIER COUNTY UTILITY DISTRICT

CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE

June 30, 2019

<u>Description of Indebtedness</u>	<u>Original Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Issue</u>
<u>BONDS PAYABLE</u>			
Water and Sewer Anticipation Bond	\$ 291,000	3.25 %	
Water and Sewer Anticipation Bond	266,000	2.875	
Water and Sewer Anticipation Bond	<u>555,000</u>	3.25	
	<u>\$ 1,112,000</u>		

See the accompanying independent accountant's audit report.

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Last Maturity Date	Outstanding 7/1/2018	Issued During Period	Paid and/or Matured During Period	Refunded During Period	Outstanding 6/30/2019
	\$ 238,190	\$ 52,810	\$ 0	\$ 0	\$ 291,000
	184,014	81,986	0	0	\$ 266,000
	<u>0</u>	<u>148,340</u>	<u>0</u>	<u>0</u>	<u>\$ 148,340</u>
	<u>\$ 422,204</u>	<u>\$ 283,136</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 705,340</u>

DRAFT - FOR DISCUSSION ONLY

EAST SEVIER COUNTY UTILITY DISTRICT

CUSTOMERS AND UTILITY RATES

June 30, 2019

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	758
----------------------------	------------

See the accompanying independent accountants' audit report.



Reporting Worksheet

Click to access definition
Click to add a comment

Water Audit Report for: **East Sevier County Utility District (TN0000618)**
Reporting Year: **2019** **7/2018 - 6/2019**

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.

Master Meter and Supply Error Adjustments

WATER SUPPLIED

	Grading	Value	Unit	Pcnt	Value	Unit
Volume from own sources:	9	28.659	MG/Yr	3	1.00%	MG/Yr
Water imported:	n/a	0.000	MG/Yr			MG/Yr
Water exported:	n/a	0.000	MG/Yr			MG/Yr

WATER SUPPLIED: **28.375** MG/Yr

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

AUTHORIZED CONSUMPTION

Billed metered:	9	8.978	MG/Yr			
Billed unmetered:	9	0.000	MG/Yr			
Unbilled metered:	9		MG/Yr			
Unbilled unmetered:	9	0.519	MG/Yr			

Unbilled Unmetered volume entered is greater than the recommended default value

AUTHORIZED CONSUMPTION: **9.497** MG/Yr

Click here: ? for help using option buttons below

Pcnt: Value: 0.519 MG/Yr

Use buttons to select percentage of water supplied OR value

Pcnt: Value: 0.25% MG/Yr

3.25% 0.25% MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption)

18.878 MG/Yr

Apparent Losses

Unauthorized consumption: **0.071** MG/Yr

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

Customer metering inaccuracies: **0.302** MG/Yr

Systematic data handling errors: **0.022** MG/Yr

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

Apparent Losses: **0.395** MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: **18.483** MG/Yr

WATER LOSSES: **18.878** MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: **19.397** MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	5	12.0	miles
Number of active AND inactive service connections:	7	250	
Service connection density:		21	conn./mile main

Are customer meters typically located at the curbside or property line? Yes

Average length of customer service line: (length of service line, beyond the property boundary, that is the responsibility of the utility)

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

Average operating pressure: 7 100.0 psi

COST DATA

Total annual cost of operating water system:	9	\$300,000	\$/Year
Customer retail unit cost (applied to Apparent Losses):	9	\$6.33	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	9	\$1,267.14	\$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 84 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: Unauthorized consumption

3: Systematic data handling errors

See the accompanying independent accountants' audit report.



Water Audit Report for: East Sevier County Utility District (TN0000618)
 Reporting Year: 2019 7/2018 - 6/2019

***** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 84 out of 100 *****

System Attributes:

Apparent Losses:	0.395	MG/Yr
+	Real Losses:	18.483 MG/Yr
=	Water Losses:	18.878 MG/Yr

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

Annual cost of Apparent Losses: \$2,500

Annual cost of Real Losses: \$23,421

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: 68.4%
 Non-revenue water as percent by cost of operating system: 8.9% Real Losses valued at Variable Production Cost

Operational Efficiency: { Apparent Losses per service connection per day: 4.33 gallons/connection/day
 Real Losses per service connection per day: N/A gallons/connection/day
 Real Losses per length of main per day*: 4,219.93 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): 18.48 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.

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EAST SEVIER COUNTY UTILITY DISTRICT

BOARD OF COMMISSIONERS

June 30, 2019

Roy Ivey

Barbara Darby

Janice Brooks-Headrick

See the accompanying independent accountants' audit report.

DRAFT - FOR DISCUSSION ONLY

INTERNAL CONTROL

AND

COMPLIANCE

DRAFT - FOR DISCUSSION ONLY

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, 2019, and the related notes to the financial statements, and have issued our report thereon dated December 3, 2019.

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.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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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 2019-001.

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.



December 3, 2019

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EAST SEVIER COUNTY UTILITY DISTRICT

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Year Ended June 30, 2019

Finding Number 2019-001 – 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. Its largest customer is 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. During the year ended June 30, 2019, a new meter was installed for this customer so the number of gallons used can be measured.

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

Management Response:

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MANAGEMENT'S CORRECTIVE ACTION PLAN

East Sevier County Utility District respectfully submits the following corrective action plan for the year ended June 30, 2019. The findings from the June 30, 2019 schedule of finding, recommendation and management response are discussed below.

No. 2019-001: Compliance - Volume of Water Sold

Recommendation: Management should revise its billing system to provide billing based on the actual number of gallons used so that accurate reporting can be made to the state.

Action Taken: We concur.

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EAST SEVIER COUNTY UTILITY DISTRICT

PRIOR YEAR FINDING AND QUESTIONED COST

Year Ended June 30, 2019

Financial Statement Finding

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2018-001	Plant in Service Records (original finding 2012-001)	Corrected
2018-002	Volume of Water Sold (original finding 2015-002)	Repeated

ESCUD

	For The Years Ended June 30		2019	
	2019	2018	Change	Percentage Change
Assets:				
Current assets	\$ 534,563	\$ 400,788	133,775	33.4%
Capital assets	1,983,504	935,677	1,047,827	112.0
Total assets	<u>2,518,066</u>	<u>1,336,464</u>	<u>1,181,602</u>	88.4
Deferred Inflow of Resources:				
Unearned Revenue	<u>26,417</u>	<u>22,709</u>	<u>3,708</u>	16.3
Liabilities:				
Current liabilities	388,524	63,930	324,594	507.7
Long term liabilities, net of current maturities	<u>705,340</u>	<u>422,204</u>	<u>283,136</u>	N/A
Total liabilities	<u>1,093,864</u>	<u>486,134</u>	<u>607,730</u>	125.0
Net Position				
Net investment in capital assets	1,278,164	513,473	764,691	148.9
Unrestricted	<u>119,621</u>	<u>314,147</u>	<u>(194,526)</u>	(61.9)
Total net position	<u>1,397,785</u>	<u>827,620</u>	<u>570,165</u>	68.9
	<u>\$ 2,518,066</u>	<u>\$ 1,336,464</u>	<u>1,181,602</u>	88.4%

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EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

As management of East Sevier County Utility District (the District), we offer readers of the District's audited financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2019.

OVERVIEW OF THE AUDITED FINANCIAL STATEMENTS

The financial statements presented in this report consist of the *statement of net position*, the *statement of revenues, expenses and changes in net position*, and the *statement of cash flows*. The statements of net position provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for assessing the liquidity and financial flexibility of the District. The current year's revenues and expenses are accounted for in the statements of revenues, expenses and changes in net position. This statement reports the revenues and expenses during the time period indicated and can be used to determine whether the District has successfully recovered all its costs through user fees and other charges. The primary purpose of the statements of cash flows is to provide information about the District's cash receipts and cash payments. This statement reports cash receipts, cash payments, and net changes in cash resulting from activities related to operations, capital and related financing, investing, and noncash capital and related financing activities.

STATEMENT OF NET POSITION

The District's total net position in 2019 increased by \$570,200 or 68.9%. \$764,700 of the increase in net position is increase in Net Investment in capital assets.

Total assets increased \$1,181,600 (88.4%) due to increases in current assets and capital assets. Current assets increased by \$133,800 (33.4%) primarily due to increases in cash. Cash increased \$195,800 (112.8%). Accounts receivable decreased \$153,400 (80.1%). Capital assets increased \$1,047,800 (112.0%). Additional information regarding capital asset additions is discussed in the capital assets section of this discussion and analysis.

Total liabilities increased by \$607,700 (125.0%) mainly due to an increase in Current liabilities by \$308,300 (675.4%), due to an increase in accounts payable. Long-term debt increased by \$283,100.

A summary of financial position follows:

EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>For The Years Ended June 30</u>		<u>2019</u>	
	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>Percentage Change</u>
Assets:				
Current assets	\$ 534,563	\$ 400,788	133,775	33.4%
Capital assets	1,983,504	935,677	1,047,827	112.0
Total assets	<u>2,518,066</u>	<u>1,336,464</u>	<u>1,181,602</u>	88.4
Deferred Inflow of Resources:				
Unearned Revenue	<u>26,417</u>	<u>22,709</u>	<u>3,708</u>	16.3
Liabilities:				
Current liabilities	388,524	63,930	324,594	507.7
Long term liabilities, net of current maturities	<u>705,340</u>	<u>422,204</u>	<u>283,136</u>	N/A
Total liabilities	<u>1,093,864</u>	<u>486,134</u>	<u>607,730</u>	125.0
Net Position				
Net investment in capital assets	1,278,164	513,473	764,691	148.9
Unrestricted	<u>119,621</u>	<u>314,147</u>	<u>(194,526)</u>	(61.9)
Total net position	<u>1,397,785</u>	<u>827,620</u>	<u>570,165</u>	68.9
	<u>\$2,518,066</u>	<u>\$1,336,464</u>	<u>1,181,602</u>	88.4%

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Total operating revenues increased by \$151,000 or 19.8%. The increase consists of water and sewer revenues in the amount of \$79,000 or 12.2%. Water sales decreased \$1,300 or 0.6% and sewer charges increased \$80,300 or 19.3%.

Total operating expenses increased by \$74,000 or 10.2%. Operating expenses increased primarily due to cost of management and operations in the amount of \$138,900 which was offset in a reduction of salaries and payroll taxes of \$73,200. Prior to the partnership with Alliance Water Resources, Inc., the District incurred penalties, related to the operation of the sewer system, of \$18,900 which were assessed from the State of Tennessee Department of Environment and Conservation. The non-operating income (expense) changed \$16,600 primarily due to increase in interest expense.

A summary of changes in net position follows:

EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>For The Years Ended June 30</u>		<u>2019</u>	
	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>Percentage Change</u>
Operating Revenues:				
Water sales and sewer charges	\$ 727,722	\$ 648,721	79,001	12.2%
Connection fees	30,000	31,700	(1,700)	(5.4)
Late charges	157,422	83,706	73,716	88.1
Total operating revenues	<u>915,144</u>	<u>764,127</u>	<u>151,017</u>	19.8
Operating Expenses:				
Operating expenses	684,648	660,938	23,710	3.6
Depreciation	117,772	67,499	50,273	74.5
Total operating expenses	<u>802,420</u>	<u>728,437</u>	<u>73,983</u>	10.2
Operating Income	112,722	35,690	77,032	215.8
Non-operating income (expenses)	<u>(16,585)</u>	<u>-</u>	<u>(16,585)</u>	N/A
Change in net position before capital contributions	96,137	35,690	60,447	(169.4)
Contributions in aid to construction	<u>-</u>	<u>-</u>	<u>-</u>	0.0
Change in Net Position	96,137	35,690	60,447	(169.4)
Net Position, July 1	1,301,648	791,932	509,716	64.4
Reinstatement	<u>-</u>	<u>-</u>	<u>-</u>	N/A
Net Position, June 30	<u>\$1,397,785</u>	<u>\$ 827,620</u>	<u>570,165</u>	68.9%

STATEMENTS OF CASH FLOWS

The District's rate structure is designed to collect sufficient revenues to pay debt service and recover operating and maintenance expenses. The net cash provided by operating activities was used to fund some capital assets additions. In 2019, there was no debt service requirements for the year.

EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

CAPITAL ASSETS

Capital assets, net of depreciation was \$1,983,500 at June 30, 2019 compared to \$935,700 at June 30, 2018 which represents an increase of \$1,047,800 or 112.0%. Depreciation expense for 2019 was \$117,800. System additions primarily consisted of new services and various equipment purchases.

RESTRICTED ASSETS

The District did not have any restricted assets as of June 30, 2019.

LONG-TERM LIABILITIES

As of June 30, 2019, the District had total long-term debt outstanding of \$705,340. Principal and interest are deferred until 2020. New repayment terms will be implemented once the underlying capital projects have been completed.

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.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's overall financial position in 2019 increased as compared to prior year. The District continually strives to improve its financial position as reflected in the restatement of the June 30, 2018 net position to include the receivable amount that was not previously recorded.

REQUEST FOR INFORMATION

This report is designed to provide our customers, debt holders, and other interested parties with a general overview of the financial position of the District and to indicate accountability for the revenues received. Questions about this report or requests for additional information should be directed to the office located at 1529 Alpine Drive, Sevierville, TN 37876 or (865-453-6704).