

**EAST SEVIER COUNTY UTILITY DISTRICT OF
SEVIER COUNTY, TENNESSEE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2021**

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OF SEVIER COUNTY, TENNESSEE
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INTRODUCTORY SECTION

**EAST SEVIER COUNTY UTILITY DISTRICT
BOARD OF COMMISSIONERS AND MANAGEMENT
JUNE 30, 2021**

COMMISSIONERS

Roy Ivey

Barbara Darby

Janice Brooks-Headrick

GENERAL MANAGER

James Ford

Alliance Water Resources

FINANCIAL SECTION

The MG Group, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the 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, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise East Sevier County Utility District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's 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 entity's 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.

515 NW Atlantic Street, Tullahoma, Tennessee 37388

16053 Rankin Avenue, Dunlap, Tennessee 37327

Phone (931) 393-3307 Fax (931) 563-5585

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Sevier County Utility District as of June 30, 2021, and the respective changes in financial position and cash flows thereof 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 management's discussion and analysis as listed in the table of contents 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 considers it to be an essential part of the financial reporting for placing the basic financial statements 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 responses 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 introductory section and other information section are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section and other information section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 01, 2021 on our consideration of East Sevier County Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

MG Group, P.C.

Tullahoma, Tennessee
December 01, 2021

EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

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, 2021.

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 statement of net position provides 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 statement 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 statement 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 2021 increased by \$35,362 or 1.8% due to revenues exceeding expenses.

Total assets increased \$433,300 or 15.6% due to an increase in capital assets offset by a decrease in current assets. Current assets decreased by \$50,200 or 8.0% mainly due to decreases in cash and accounts receivable offset by an increase in inventory. Cash decreased \$3,300 or 0.8% due to a decrease in customer payments. Accounts receivable decreased \$52,100 or 33.5%. Inventory increased \$4,400 or 27.2% primarily due to the purchase of pipe, repair fittings and repair couplings for inventory. Capital assets increased \$483,400 or 22.4%. Additional information regarding capital asset additions is discussed in the capital assets section of this discussion and analysis.

Total liabilities increased by \$395,200 or 49.7% due to an increase in current liabilities of \$102,100 or 101%, due to increases in accounts payable and customer deposits. The increase in customer deposits is due to collections of deposits from customers. The increase in accounts payable is due to increases in the repair cap overage, accrued interest, construction project invoices and an increase in service calls and new installs invoices from Big Orange Electric. Long-term debt increased by \$293,100 or 42.3% as a result of draws from the USDA loan #1 for the wastewater treatment plant upgrade project. This increase was partially offset by current year payments of long-term debt \$8,200.

A summary of financial position follows:

EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

	<u>For The Years Ended June 30</u>			<u>2021</u>	
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>Percentage Change</u>
Assets:					
Current assets	\$ 578,201	\$ 628,354	\$ 534,563	(50,153)	-8.0%
Capital assets	2,640,479	2,157,074	1,983,504	483,405	22.4%
Total assets	<u>3,218,680</u>	<u>2,785,428</u>	<u>2,518,066</u>	<u>433,252</u>	15.6
Deferred Inflow of Resources:					
Unearned Revenue	33,070	30,421	26,417	2,649	8.7
Liabilities:					
Current liabilities	203,174	101,064	388,524	102,110	101.0
Long term liabilities, net of current maturities	986,556	693,425	705,340	293,131	42.3
Total liabilities	<u>1,189,730</u>	<u>794,489</u>	<u>1,093,864</u>	<u>395,241</u>	49.7
Net Position					
Net investment in capital assets	1,645,506	1,455,484	1,278,164	190,022	13.1
Unrestricted	350,374	505,034	119,621	(154,660)	(30.6)
Total net position	<u>1,995,880</u>	<u>1,960,518</u>	<u>1,397,785</u>	<u>35,362</u>	1.8
	<u>\$3,218,680</u>	<u>\$2,785,428</u>	<u>\$2,518,066</u>	<u>433,252</u>	15.6%

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Total operating revenues increased by \$3,900 or 0.4%. The increase primarily consists of water and sewer revenues in the amount of \$97,500 or 12.7%, offset by decreases in connection fees of \$11,500 or 26%, late charges \$6,600 or 100.1%, and other operating revenues of \$75,400 or 47.1%. Water sales increased \$8,400 or 3.7% and sewer charges increased \$89,100 or 16.5%. Connection fees decreased due to a decrease in new sewer connections compared to the prior year. Late charges decreased due to the halt on the charge of late charges during the pandemic. Other operating revenues decreased mainly due to a decrease in service charges for maintenance and an increase in bad debt \$17,000.

Total operating expenses increased by \$96,700 or 11.7%. Operating expenses increased primarily due to inflationary increases in management and operations contract, as well as increases in utilities, insurance, repairs and maintenance, professional services, and miscellaneous expense. Depreciation increased \$20,500 or 16.4%. The non-operating income (expense) changed \$8,400 or 25.1% due to a decrease in loss on disposal of capital assets \$8,400.

A summary of changes in net position follows:

**EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>For The Years Ended June 30</u>			<u>2021</u>	
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>Percentage Change</u>
Operating Revenues:					
Water sales and sewer charges	\$ 864,336	\$ 766,876	\$ 727,722	97,460	12.7%
Connection fees	32,750	44,250	30,000	(11,500)	(26.0)
Late charges	(9)	6,612	9,868	(6,621)	(100.1)
Other operating revenue	84,630	160,060	147,554	(75,430)	(47.1)
Total operating revenues	<u>981,707</u>	<u>977,798</u>	<u>915,144</u>	<u>3,909</u>	0.4
Operating Expenses:					
Operating expenses	776,215	699,993	684,648	76,222	10.9
Depreciation	145,029	124,548	117,772	20,481	16.4
Total operating expenses	<u>921,244</u>	<u>824,541</u>	<u>802,420</u>	<u>96,703</u>	11.7
Operating Income	60,463	153,257	112,722	(92,794)	(60.5)
Non-operating income (expenses)	<u>(25,101)</u>	<u>(33,524)</u>	<u>(16,585)</u>	<u>8,423</u>	(25.1)
Change in net position before capital contributions	35,362	119,733	96,137	(84,371)	70.5
Contributions in aid to construction	<u>-</u>	<u>443,000</u>	<u>-</u>	<u>(443,000)</u>	N/A
Change in Net Position	35,362	562,733	96,137	(527,371)	93.7
Net Position, July 1	1,960,518	1,397,785	1,301,648	562,733	40.3
Net Position, June 30	<u>\$1,995,880</u>	<u>\$1,960,518</u>	<u>\$1,397,785</u>	<u>35,362</u>	1.8%

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. In 2021, the District accomplished this objective.

CAPITAL ASSETS

Capital assets, net of depreciation was \$2,640,479 on June 30, 2021, compared to \$2,157,074 on June 30, 2020, which represents an increase of \$483,405 or 22.4%. Depreciation expense for 2021 was \$145,029. System additions primarily consisted of new services, water system improvements, new pumps, leak detector, and the purchase of two Ford Ranger pickups.

EAST SEVIER COUNTY UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

RESTRICTED ASSETS

Restricted assets were \$69,378 on June 30, 2021, compared to \$43,786 as of June 30, 2020. The District's restricted assets consist of the amount of the District's customer deposits.

LONG-TERM LIABILITIES

The District paid principal payments of \$8,164 in 2021 and added \$301,548 in principal to their balance in 2021. As of June 30, 2021, the District had total long-term debt outstanding of \$994,973 of which \$8,417 is due in the next year.

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, Hibernation Station, The Preserve, Timberlake and Parkside Resort subdivisions.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's overall financial position in 2021 increased by \$35,362 as compared to the prior year. The District continually strives to improve its financial position.

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).

East Sevier County Utility District
Statement of Net Position
June 30, 2021

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 348,290
Restricted assets - customer deposits	69,378
Accounts receivable, net	103,522
Inventory	20,669
Prepaid items	21,397
Deposits	14,945
Total current assets	578,201
Capital Assets:	
Land	76,658
Construction in progress	510,335
Distribution and collection system	3,086,428
Buildings	69,236
Equipment	209,547
Less: accumulated depreciation	(1,311,725)
Total capital assets, net	2,640,479
Total assets	3,218,680

LIABILITIES

Current Liabilities:	
Accounts payable	94,257
Accrued interest payable	13,966
Retainage Payable	15,200
Sales tax payable	1,956
Customer deposits	69,378
Current portion of bonds payable	8,417
Total current liabilities	203,174
Bonds payable, net of current portion	986,556
Total liabilities	1,189,730

DEFERRED INFLOWS OF RESOURCES

Unearned revenue	33,070
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NET POSITION

Net investment in capital assets	1,645,506
Unrestricted	350,374
Total net position	\$ 1,995,880

The accompanying notes are an integral part of this statement.

East Sevier County Utility District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2021

Operating revenues:

Water sales	\$ 237,115
Sewer charges	627,221
Water and sewer tap fees	32,750
Other operating fees	<u>84,621</u>
Total operating revenues	<u>981,707</u>

Operating expenses:

Salaries	24,288
Payroll taxes	1,858
Contract management	542,025
Utilities	52,787
Insurance	29,988
Repairs and maintenance	90,405
Professional services	21,255
Permits	7,264
Supplies and office	231
Miscellaneous	6,114
Depreciation	<u>145,029</u>
Total operating expenses	<u>921,244</u>

Operating Income	<u>60,463</u>
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Nonoperating revenues (expenses):

Loss on disposal of capital assets	(3,283)
Interest expense	<u>(21,818)</u>
Total nonoperating revenues (expenses)	<u>(25,101)</u>

Change in net position	35,362
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Net position - beginning	<u>1,960,518</u>
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Net position - ending	<u>\$ 1,995,880</u>
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The accompanying notes are an integral part of this statement.

**East Sevier County Utility District
Statement of Cash Flows
For the Year Ended June 30, 2021**

Cash flows from operating activities:

Cash received from customers	\$ 1,028,552
Cash payments for goods and services	(671,709)
Net cash provided by operating activities	356,843

Cash flows from capital and related financing activities:

Principal paid on long-term debt	(8,164)
Acquisition and construction of capital assets	(631,719)
Proceeds from issuance of long-term debt	301,547
Interest paid on long-term debt	(21,818)
Net cash used in capital and related financing activities	(360,154)

Net (decrease) in cash and cash equivalents (3,311)

Cash and cash equivalents, beginning of year 420,979

Cash and cash equivalents, end of year \$ 417,668

**Reconciliation of operating income to net cash provided
by operating activities:**

Operating income	\$ 60,463
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	145,029
Cash flows impacted by change in:	
Decrease (increase) in accounts receivable	52,127
Decrease (increase) in inventory	(4,422)
Decrease (increase) in prepaid items	(287)
Decrease (increase) in deposits	(575)
Increase (decrease) in accounts payable	57,515
Increase (decrease) in accrued interest payable	5,069
Increase (decrease) in sales tax payable	(1,519)
Increase (decrease) in other current liabilities	43,443
Net cash provided by operating activities	\$ 356,843

The accompanying notes are an integral part of this statement.

East Sevier County Utility District
Notes to Financial Statements
June 30, 2021

NOTE 1. THE REPORTING ENTITY

The East Sevier County Utility District was created under the authority of Title 7, Chapter 82 pursuant to the Tennessee Utility District Act of 1937 for the purpose of supplying water and sewer services in Sevier County, Tennessee. Sevier County does not have any fiscal or budgetary control over the District.

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 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Basis of Presentation

The District's financial statements are reported using the *economic resources* measurement focus and the accrual basis of accounting. The accrual basis of accounting recognizes income as it is earned and expenses as they are incurred, regardless of the timing of the related cash flow.

The District distinguishes operating revenues and expenses from nonoperating items. The principal operating revenues of the District are charges to customers for water and sewer services. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Cash Equivalents

Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, certificates of deposit, and debt security investments with a maturity at purchase of three months or less.

Receivables

Accounts receivable are the result of ordinary transactions in the normal course of business. The District has established an allowance for doubtful accounts based on amounts determined uncollectible by analysis of all past due customers. Water revenues are recognized on the accrual basis as earned. The District board adopts and adjusts a formal rate structure for services that is designed to meet operational costs, capital improvement and replacements, debt service, and rational reserves.

Inventories

Inventories of materials and supplies used for new taps and repairs to the distribution system are counted annually by the district. The inventory is valued at the lower of cost or market based on a first-in, first out basis.

Capital Assets

Fixed assets are capitalized at the time of purchase at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are completed.

East Sevier County Utility District Notes to Financial Statements (Cont.)

Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Expenditures for maintenance and repairs, which do not improve or extend the life of the asset, are charged to expenses as incurred.

The capital assets of the District are depreciated using the straight-line method over their estimated lives which range from 5 to 50 years.

Management Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

Capital Contributions

Capital contributions are recognized in the Statement of Revenues, Expenses, and Changes in Net Position when earned. Contributions include capital grants, tap fees in excess of tap connection expense, and customer contributions from system expansion projects. Water lines are recorded as capital contributions when they pass inspection by the District. The estimated costs, which approximate fair value, are capitalized as cost of plant in service.

Equity Classification

The District classifies net position into three components; (1) net investment in capital assets (2) restricted, and (3) unrestricted. These classifications are defined as follows:

- 1) Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation for invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- 2) Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. 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, 2021.
- 3) Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

Revenues and Expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

East Sevier County Utility District Notes to Financial Statements (Cont.)

When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The District currently has no deferred outflows.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District currently classifies certain unearned revenues from customers as a deferred inflow of resources.

Statements of Cash Flows

For purposes of the Statements of Cash Flows, the District considers all currency, demand deposits, money market accounts and certificates of deposit with banks or other financial institutions to be cash equivalents.

Budgets

The District's Board of Commissioners reviews and adopts an annual operating budget prepared by management. The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America and that basis is consistent with the basis used in preparing the District's financial statements.

Major Customers

The District has a single customer that generates approximately 11% of their total revenue. English Mountain Condominiums average monthly billing rate is \$8,149.

NOTE 3. CASH AND CASH EQUIVALENTS

The District is authorized to invest funds in financial institutions and direct obligations of the Federal Government. During the year ended June 30, 2021, the District invested in short-term savings accounts. Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. The district's policy requires that deposits be either: (i) secured and collateralized by the institutions at 105% of the value of the deposits placed in the institutions less the amount protected by federal depositor insurance, or (ii) that deposits be placed in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee.

Institutions participating in the collateral pool determine the aggregated balance of their public funds amounts. The amounts of collateral required to secure these public deposits must be at least 105% of the average daily balance of public deposits held. On June 30, 2021, no deposits were exposed to custodial risk.

**East Sevier County Utility District
Notes to Financial Statements (Cont.)**

NOTE 4. CAPITAL ASSETS

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2021 follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets, not being depreciated:</u>				
Land	\$ 31,658	\$ 45,000	\$ -	\$ 76,658
Construction in progress	147,079	363,256	-	510,335
Total not being depreciated	<u>178,737</u>	<u>408,256</u>	<u>-</u>	<u>586,993</u>
<u>Capital assets being depreciated:</u>				
Distribution and collection system	2,925,357	171,464	(10,393)	3,086,428
Buildings	69,236	-	-	69,236
Equipment	159,300	51,998	(1,751)	209,547
Total capital assets being depreciated	<u>3,153,893</u>	<u>223,462</u>	<u>(12,144)</u>	<u>3,365,211</u>
<u>Less: accumulated depreciation</u>	<u>(1,175,556)</u>	<u>(145,029)</u>	<u>8,860</u>	<u>(1,311,725)</u>
Net capital assets being depreciated	<u>1,978,337</u>	<u>78,433</u>	<u>(3,284)</u>	<u>2,053,486</u>
Net capital assets	<u>\$ 2,157,074</u>	<u>\$ 486,689</u>	<u>\$ (3,284)</u>	<u>\$ 2,640,479</u>

Depreciation expense incurred during the year was \$145,029.

NOTE 5. LONG-TERM DEBT

Long-term debt at June 30, 2021 consisted of the following:

USDA Loan, Series 91-02, interest rate of 3.25%, principal and interest of \$348 payable monthly, secured by water and sewer revenues of the District. The principal balance of the loan is \$282,906 at June 30, 2021.

USDA Loan, Series 91-03, interest rate of 2.88%, principal and interest of \$342 payable monthly, secured by water and sewer revenues of the District. The principal balance of the loan is \$258,013 at June 30, 2021.

USDA Loan, Series 92-01, interest rate of 3.25%, the loan is still utilizing interim construction draws and is not yet in repayment. The principal balance of the loan is \$454,053 at June 30, 2021. The loan was permanently financed through a Water and Sewer Revenue Bond issued on August 25, 2021.

A summary of long-term debt activity for the year ended June 30, 2021 is as follows:

	<u>Balance July 1 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2021</u>	<u>Amounts Due Within One Year</u>
USDA Loan, Series 91-02	\$ 287,019	\$ -	\$ 4,113	\$ 282,906	\$ 4,248
USDA Loan, Series 91-03	262,064	-	4,051	258,013	4,169
USDA Loan, Series 92-01	152,506	301,548	-	454,054	-
	<u>\$ 701,589</u>	<u>\$ 301,548</u>	<u>\$ 8,164</u>	<u>\$ 994,973</u>	<u>\$ 8,417</u>

**East Sevier County Utility District
Notes to Financial Statements (Cont.)**

Principal and interest payments for long-term debt are as follows:

Years Ending June 30	Principal	Interest
2022	8,417	16,495
2023	8,679	16,233
2024	8,949	15,964
2025	9,227	15,685
2026	9,513	15,399
2027-2031	52,194	72,366
2032-2036	60,833	63,727
2037-2041	70,911	53,649
2042-2046	82,662	41,898
2047-2051	96,374	28,186
2052-2056	112,367	12,192
2057	20,793	296
	540,919	352,090

NOTE 6. RISK MANAGEMENT

The District is exposed to various risks of loss relating to theft, and damage to, and destruction of assets. Furthermore, there is exposure to risks of loss relating to natural disasters, errors and omissions, and torts. To insure against casualty risk, the District purchases insurance coverage through an independent insurance agency. Settled claims have not exceeded the commercial coverage in the past three fiscal years.

NOTE 7. COMMITMENTS AND CONTINGENCIES

The District has begun the construction of a wastewater treatment plant and anticipates completion before the end of the next fiscal year.

NOTE 8. SUBSEQUENT EVENTS

On August 25, 2021, the District issued a \$555,000 Water and Sewer Revenue Bond, Series 2018 to finalize a loan financed by the USDA for the construction of a wastewater treatment plant. The revenue bond bears an interest rate of 1.75% and will be payable at \$1,667/month for 456 months.

OTHER INFORMATION SECTION

AWWA Free Water Audit Software:
 Reporting Worksheet

WAS v5.0
 American Water Works Association.
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? Click to access definition
 + Click to add a comment

Water Audit Report for: **East Sevier County Utility District (TN0000618)**
 Reporting Year: **2021** 7/2020 - 6/2021

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

----- Enter grading in column 'E' and 'J' -----

Volume from own sources:	+ ?	9	39.000	MG/Yr
Water imported:	+ ?	n/a	0.000	MG/Yr
Water exported:	+ ?	n/a	0.000	MG/Yr

Master Meter and Supply Error Adjustments

Pcnt:	Value:	MG/Yr
+ ? 3	1.00%	0.000
+ ?		0.000
+ ?		0.000

WATER SUPPLIED: **38.614** MG/Yr

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

AUTHORIZED CONSUMPTION

Billed metered:	+ ?	9	14.025	MG/Yr
Billed unmetered:	+ ?	9	0.000	MG/Yr
Unbilled metered:	+ ?	9		MG/Yr
Unbilled unmetered:	+ ?		0.483	MG/Yr

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

AUTHORIZED CONSUMPTION: **14.508** MG/Yr

Click here: ?
 for help using option buttons below

Pcnt:	Value:	MG/Yr
1.25%		0.000

Use buttons to select percentage of water supplied OR value

WATER LOSSES (Water Supplied - Authorized Consumption)

24.106 MG/Yr

Apparent Losses

Unauthorized consumption: + ? 0.097 MG/Yr

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

Customer metering inaccuracies:	+ ?	9	0.471	MG/Yr
Systematic data handling errors:	+ ?		0.035	MG/Yr

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

Apparent Losses: **0.603** MG/Yr

Pcnt:	Value:	MG/Yr
0.25%		0.000

3.25%		0.000
0.25%		0.000

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: ? **23.503** MG/Yr

WATER LOSSES: **24.106** MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: ? **24.589** 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	249	
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	\$279,067	\$/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



AWWA Free Water Audit Software: System Attributes and Performance Indicators

WAS v5.0

American Water Works Association.
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Water Audit Report for: **East Sevier County Utility District (TN0000618)**
 Reporting Year: **2021** **7/2020 - 6/2021**

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

System Attributes:

	Apparent Losses:	0.603	MG/Yr
+	Real Losses:	23.503	MG/Yr
=	Water Losses:	24.106	MG/Yr

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

Annual cost of Apparent Losses: **\$3,815**

Annual cost of Real Losses: **\$29,782** 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:	63.7%	
		Non-revenue water as percent by cost of operating system:	12.3%	Real Losses valued at Variable Production Cost

Operational Efficiency:	{	Apparent Losses per service connection per day:	6.63	gallons/connection/day
		Real Losses per service connection per day:	N/A	gallons/connection/day
		Real Losses per length of main per day*:	5,366.09	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): **23.50** 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

EAST SEVIER COUNTY UTILITY DISTRICT
Schedule of Changes in Long-term Debt by Individual Issue
June 30, 2021

Description of Indebtedness	Original Amount Of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding July 01, 2020	Issued During Period	Paid and/or Matured During Period	Outstanding June 30, 2021
<u>Loans Payable</u>								
USDA 2019, Loan #2	\$ 291,000	3.25%	2017	2057	\$ 287,019	\$ -	\$ 4,113	\$ 282,906
USDA 2019, Loan #3	266,000	2.875%	2017	2057	262,064	-	4,051	258,013
USDA 2020, Loan #1	152,506	3.250%	2018	TBD	152,506	301,548	-	454,054
Total Loans Payable					<u>\$ 701,589</u>	<u>\$ 301,548</u>	<u>\$ 8,164</u>	<u>\$ 994,973</u>

East Sevier County Utility District
Schedule of Long-Term Debt, Principal and Interest Requirements by Fiscal Year
June 30, 2021

Fiscal Year	<u>USDA Loan 91-02</u>		<u>USDA Loan 91-03</u>		<u>Total</u>		<u>Total Requirements</u>
	Principal	Interest	Principal	Interest	Principal	Interest	
2022	\$ 4,248	\$ 9,132	\$ 4,169	\$ 7,363	\$ 8,417	\$ 16,495	\$ 24,912
2023	4,388	8,991	4,290	7,242	8,678	16,233	24,911
2024	4,533	8,847	4,415	7,117	8,948	15,964	24,912
2025	4,683	8,697	4,544	6,988	9,227	15,685	24,912
2026	4,837	8,543	4,676	6,856	9,513	15,399	24,912
2027	4,997	8,383	4,812	6,720	9,809	15,103	24,912
2028	5,162	8,218	4,953	6,579	10,115	14,797	24,912
2029	5,332	8,048	5,097	6,435	10,429	14,483	24,912
2030	5,508	7,872	5,245	6,287	10,753	14,159	24,912
2031	5,690	7,690	5,398	6,134	11,088	13,824	24,912
2032	5,877	7,503	5,555	5,977	11,432	13,480	24,912
2033	6,071	7,309	5,717	5,815	11,788	13,124	24,912
2034	6,272	7,108	5,884	5,648	12,156	12,756	24,912
2035	6,478	6,902	6,055	5,477	12,533	12,379	24,912
2036	6,692	6,688	6,232	5,300	12,924	11,988	24,912
2037	6,913	6,467	6,413	5,119	13,326	11,586	24,912
2038	7,141	6,239	6,600	4,932	13,741	11,171	24,912
2039	7,377	6,003	6,792	4,740	14,169	10,743	24,912
2040	7,620	5,760	6,990	4,542	14,610	10,302	24,912
2041	7,871	5,509	7,194	4,338	15,065	9,847	24,912
2042	8,131	5,249	7,403	4,129	15,534	9,378	24,912
2043	8,399	4,981	7,619	3,913	16,018	8,894	24,912
2044	8,676	4,704	7,841	3,691	16,517	8,395	24,912
2045	8,962	4,418	8,069	3,463	17,031	7,881	24,912
2046	9,258	4,122	8,304	3,228	17,562	7,350	24,912
2047	9,564	3,816	8,546	2,986	18,110	6,802	24,912
2048	9,879	3,501	8,795	2,737	18,674	6,238	24,912
2049	10,205	3,175	9,052	2,480	19,257	5,655	24,912
2050	10,542	2,838	9,315	2,217	19,857	5,055	24,912
2051	10,889	2,491	9,587	1,945	20,476	4,436	24,912
2052	11,249	2,131	9,866	1,666	21,115	3,797	24,912
2053	11,620	1,760	10,153	1,379	21,773	3,139	24,912
2054	12,003	1,377	10,449	1,083	22,452	2,460	24,912
2055	12,399	981	10,754	778	23,153	1,759	24,912
2056	12,807	572	11,067	465	23,874	1,037	24,911
2057	10,633	155	10,162	141	20,795	296	21,091
	<u>\$ 282,906</u>	<u>\$ 196,180</u>	<u>\$ 258,013</u>	<u>\$ 155,910</u>	<u>\$ 540,919</u>	<u>\$ 352,090</u>	<u>\$ 893,009</u>

East Sevier County Utility District
Schedule of Utility Rate Structure and Number of Customers
For the Year Ended June 30, 2021

Number of Active Customers

Water	248
Sewer	838

Water Rates

Residential Customers

First 3,000 gallons		\$ 53.00
Each 1,000 gallons or portion thereof		\$ 3.00
After 7,200 gallons	\$12.60 fee	\$ 8.00

Commercial Customers

First 3,000 gallons		\$ 53.00
Each 1,000 gallons or portion thereof		\$ 3.00
After 7,200 gallons	\$12.60 fee	\$ 8.00

Sewer Rates

English Mountain Subdivision

Residential Customers

First 3,000 gallons		\$ 49.50
Each 1,000 gallons or portion thereof		\$ 3.10
After 7,200 gallons	\$13.86 fee	\$ 8.80

Commercial Customers

First 3,000 gallons		\$ 49.50
Each 1,000 gallons or portion thereof		\$ 3.10
After 7,200 gallons	\$13.86 fee	\$ 8.80

Other Subdivisions

Charges based on number of bedrooms per unit (range)		\$ 45.00
	min	
	max	\$ 195.00

Tap Fees

English Mountain Subdivision

Water	\$ 1,250.00
Sewer	\$ 1,250.00

Other Subdivisions, as applicable

Sewer	\$ 750.00
-------	-----------

Commercial-Greater of:

Per acre	\$ 2,650.00
Per Unit	\$ 1,250.00

**GOVERNMENT AUDITING
STANDARDS SECTION**

The MG Group, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S 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*

To the 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, the financial statements of East Sevier County Utility District as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise East Sevier County Utility District's basic financial statements, and have issued our report thereon dated December 01, 2021.

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) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of East Sevier County Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of East Sevier County Utility District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

515 NW Atlantic Street, Tullahoma, Tennessee 37388

16053 Rankin Avenue, Dunlap, Tennessee 37327

Phone (931) 393-3307 Fax (931) 563-5585

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Sevier County Utility District's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002.

East Sevier County Utility District's Response to Findings

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

Purpose of this Report

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

MG Group, P.C.

Tullahoma, Tennessee
December 01, 2021

East Sevier County Utility District Schedule of Findings and Responses Year Ended June 30, 2021

SECTION I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Unmodified opinion issued on the financial statements 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*.

SECTION II. FINANCIAL STATEMENT FINDINGS

2021-001: Retainage in Construction Project (Noncompliance)

Condition: The District did not maintain a separate escrow account for each contractor or project, as required by State statute. The District also failed to properly accrue the retainage in the general ledger.

Criteria: *Tennessee Code Annotated*, Section 66-34-104 states in part:

(a) Whenever, in any contract for the improvement of real property, a certain amount or percentage of the contract price is retained, that retained amount shall be deposited in a separate, interest-bearing, escrow account with a third-party which must be established upon the withholding of any retainage.

(b) As of the time of the withholding of the retained funds, the funds shall become the sole and separate property of the prime contractor or remote contractor to whom they are owed, subject to the rights of the person withholding the retainage in the event the prime contractor defaults on or does not complete its contract.

(h) This section applies to all prime contracts and all subcontracts thereunder for the improvement of real property when the contract amount of such prime contract is five hundred thousand dollars (\$500,000) or greater, notwithstanding the amount of such subcontracts.

Cause: The District failed to identify all the requirements for contracts regarding the improvement of real property.

Effect: The District is noncompliant with State statutes.

Recommendation: The District should establish an escrow account in accordance with TCA Section 66-34-104 whenever retainage is to be held on a construction project.

Management Response: We concur. See Corrective Action Plan.

2021-002: Disposal of Surplus Property (Noncompliance)

Condition: The District sold surplus supplies to a board member.

Criteria: *Tennessee Code Annotated*, Section 7-82-310 states in part:

All personnel employed by the board of commissioners of any utility district incorporated under this chapter, including, but not limited to, the commissioners themselves, are hereby prohibited from receiving any money or other goods or services of value of any sort as a result of any agreement...and further, such persons are also prohibited from receiving any moneys or other goods or services of value of any sort as a result of any agreement, contractual or otherwise, for the sale of any materials....

Cause: The District failed to adopt a policy regarding the sale of surplus property.

Effect: The District may have favored the related party by allowing them to purchase supplies at a lower rate and by not selling excess supplies publicly or returning them to the vendor.

Recommendation: All disposals should be open to the public for bid and the District should have a policy regarding the sale of any equipment or supplies.

Management Response: We concur. See Corrective Action Plan.

**East Sevier County Utility District
Summary Schedule of Prior Year Findings
Year Ended June 30, 2021**

There were no prior audit findings

East Sevier County Utility District
1529 Alpine Drive
Sevierville, TN 37876
(865) 453-6704

Management's Corrective Action Plan

FINDINGS RELATING TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

2021-001: Retainage in Construction Project (Noncompliance)

Recommendation: The District should establish an escrow account in accordance with TCA Section 66-34-104 whenever retainage is to be held on a construction project.

Action Taken: Construction projects in excess of \$500,000 are not a usual occurrence in the District. However, we anticipate the adoption of a policy that will require retainage accounts to be established should such a project be undertaken in the future.

Anticipated Completion Date: June 30, 2022

2021-002: Disposal of Surplus Property (Noncompliance)

Recommendation: All disposals should be open to the public for bid and the District should have a policy regarding the sale of any equipment or supplies.

Action Taken: We anticipate the adoption of a policy that will clarify how the District disposes of surplus materials and supplies.

Anticipated Completion Date: June 30, 2022

Name of Contact Person: James Ford, General Manager

James Ford

James Ford, General Manager