HARBOR UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2022

HARBOR UTILITY DISTRICT

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2022

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INTRODUCTORY SECTION

HARBOR UTILITY DISTRICT OF BENTON COUNTY, TENNESSEE
BOARD OF COMMISSIONERS AND MANAGEMENT
JUNE 30, 2022

COMMISSIONERS

Jerome Hancock	President
James Puffer	Vice President
Francis J. Quint	Secretary/Treasurer

MANAGEMENT

Bonita Finch	Manager
Mike Rogers	Operator

FINANCIAL SECTION

The MG Group, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Harbor Utility District
Big Sandy, Tennessee

Report on the Audits of the Financial Statements

Opinion

We have audited the financial statements of Harbor Utility District (the District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the net position of the District as of June 30, 2022 and the changes in its net position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Harbor Utility District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the financial statements,

is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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

Management is responsible for the other information included in the annual report. The other information comprises the introductory and other information sections but does not include the financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2023, on our consideration of the 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 the 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 the District's internal control over financial reporting and compliance.

MG Group, P.C.

Tullahoma, Tennessee
January 31, 2023

515 NW Atlantic Street, Tullahoma, Tennessee 37388
Phone (931) 393-3307 Fax (931) 563-5585

HARBOR UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

As management of Harbor 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, 2022.

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 2022 increased by $12,222 or 2.5% due to revenues exceeding expenses.

Total assets increased $4,097 or 0.5% due to increases in current assets. Current assets increased by $23,370 or 14.5% mainly due to increases in cash offset and accounts receivable. Cash increased $24,427 or 21.3% due to an increase in customer payments and customer deposits. Accounts receivable increased $1,911 or 17.1%. Capital assets remained the same as prior year.

Total liabilities decreased by $8,124 or 2.9% due to a decrease in long-term liabilities of $8,191 or 3.1%. Current liabilities remained unchanged from prior year. Long-term debt decreased as a result of payments of $8,191.

A summary of financial position follows:

	For the Years Ended June 30		2022	
	2022	2021	Change	Percent Change
Assets:				
Current assets	$ 184,249	$ 160,877	$ 23,370	14.53%
Capital assets	586,495	605,768	(19,274)	-3.18%
Total assets	770,744	766,645	4,097	11%
Liabilities:				
Current liabilities	16,338	16,270	67	0.41%
Long term liabilities, net of current maturities	256,658	264,849	(8,191)	-3.09%
Total liabilities	272,996	281,119	(8,124)	-2.68%
Net Position:				
Net Investment in Capital Assets	321,631	333,074	(11,444)	-3.44%
Restricted for Debt Service	19,956	19,956	-	0.00%
Unrestricted	156,161	132,496	23,666	17.86%
Total net position	$ 497,748	$ 485,526	$ 12,222	14%

A summary of changes in net position follows:

	For the Years Ended June 30		2022	
	2022	2021	Change	Percent Change
Operating revenues:				
Water sales and sewer charges	$119,871	$116,310	$ 3,561	3%
Connection fees	10,572	11,225	3,847	34%
Late charges	1,998	1,562	437	28%
Other operating revenues	5,024	314	476	152%
Total operating revenues	137,465	129,411	8,321	155%
Operating Expenses:				
Operating expenses	94,146	96,081	(1,934)	-2%
Depreciation	19,273	19,395	(122)	-1%
Total operating expenses	113,418	115,476	(2,056)	-6%
Operating Income	24,047	13,935	10,377	74%
Non-operating income (expenses)	(11,825)	(12,452)	362	-3%
Change in Net Position	12,222	1,483	10,739	724%
Net Position, July 1	485,526	484,043	1,483	0%
Net Position, June 30	$497,748	$485,526	$ 12,222	724%

STATEMENT 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 2022, the District accomplished this objective.

CAPITAL ASSETS

Capital assets, net of depreciation was $586,495 on June 30, 2022, compared to $605,768 in the prior year. Depreciation expense for 2022 was $19,273. There were no additions for the fiscal year.

RESTRICTED ASSETS

Restricted assets were $19,956 at June 30, 2022. This District's restricted assets consists of cash accounts restricted for debt use. This amount remains unchanged from last year.

LONG-TERM LIABILITIES

The District paid principal payments of $7,830 in 2022. As of June 30, 2022 the District had total long-term debt outstanding of $264,864 of which $8,206 is due in the next year.

ECONOMIC FACTORS AND FUTURE NEEDS

The District provides water and sewer services to Benton County.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's overall financial position in 2022 increased by $12,222 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 60 Main Street, Big Sandy, TN 38221 or (731) 593-3218.

Basic Financial Statements

Harbor Utility District
Statement of Net Position
June 30, 2022

ASSETS		
Current Assets:		
Cash and cash equivalents	$	138,843
Accounts receivable less doubtful accounts of $2,721		13,117
Inventory		7,773
Prepaid items		4,560
Restricted cash and cash equivalents		19,956
Total current assets		184,249
Capital Assets:		
Land		42,083
Sewer plant in service		736,511
Water plant in service		308,578
General plant and buildings		69,534
Equipment		6,457
Less: accumulated depreciation		(576,668)
Net capital assets		586,495
Total assets		770,744
LIABILITIES		
Current Liabilities:		
Accounts payable		2,734
Accrued interest payable		653
Sales tax payable		1,120
Customer deposits		3,625
Current portion of bonds payable		8,206
Total current liabilities		16,338
Bonds payable, net of current portion		256,658
Total liabilities		272,996
NET POSITION		
Net Investment in capital assets		321,631
Restricted for debt service		19,956
Unrestricted		156,161
Total net position	$	497,748

The accompanying notes are an integral part of this statement

Harbor Utility District
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2022

Operating revenues:	
Water sales	$ 114,334
Sewer charges	5,537
Connection fees	10,572
Late charges	1,998
Other operating fees	5,024
Total operating revenues	137,465
Operating expenses:	
General and administrative	30,580
Water production and distribution	59,043
Repair and maintenance	1,903
Supplies and office	2,620
Depreciation	19,272
Total operating expenses	113,418
Operating Income	24,047
Nonoperating revenues (expenses)	
Interest income	265
Interest expense	(12,090)
Total nonoperating revenues (expenses)	(11,825)
Change in net position	12,222
Net position - beginning	485,526
Net position - ending	$ 497,748

The accompanying notes are an integral part of this statement

Harbor Utility District of Benton County, Tennessee
Statement of Cash Flows
For the Year Ended June 30, 2022

Cash flows from operating activities:	
Cash received from customers	$ 135,682
Cash payments for goods and services	(91,600)
Net cash provided by operating activities	44,082
Cash flows from capital and related financing activities:	
Principal repayments on long-term debt	(7,830)
Interest paid	(12,090)
Net cash used in capital and related financing activities	(19,920)
Cash flows from investing activities:	
Interest income received	265
Net cash provided by investing activites	265
Net increase in cash and cash equivalents	24,427
Cash and cash equivalents, beginning of year	134,372
Cash and cash equivalents, ending of year	$ 158,799
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 24,047
Adjustments to reconcile operating income to net cash provided by operating activites:	
Depreciation	19,272
Cash flows impacted by change in:	
Decrease (increase) in accounts receivable	(2,161)
Decrease (increase) in inventory	2,717
Increase (decrease) in accounts payable	70
Increase (decrease) in accrued interest payable	(125)
Increase (decrease) in sales tax payable	173
Increase (decrease) in other current liabilities	89
Net cash provided by operating activites	$ 44,082

The accompanying notes are an integral part of this statement

Harbor Utility District
Notes to Financial Statements
June 30, 2022

NOTE 1. THE REPORTING ENTITY

The Harbor Utility District was created as a municipal corporation pursuant to the Tennessee Utility District Act of 1937 for the purpose of supplying water and sewer services in Benton County, Tennessee.

All corporate powers of the District are vested in and exercised by a three-member Board of Commissioners appointed by the Benton County Mayor. The District's operations alone constitute the reporting entity since the Board is not financially accountable for any other entities and the District has no relationships with any other entities where the nature and significance of the relationships would require inclusion in the financial statements of the District.

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.

Capital assets are defined by the District as assets with an initial, individual cost of more than $2,000.00 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 estimated useful lives as follows which range from 3 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

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.

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. Non-operating 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.

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 has no deferred inflow of resources.

Statement of Cash Flows

For purposes of the Statement 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.

Budget

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

Sales to no single customer exceeded 10% of total operating revenues.

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, 2022, 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, 2022, no deposits were exposed to custodial risk.

NOTE 4. CAPITAL ASSETS

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2022 follows:

2022	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	$ 42,083	$ -	$ -	$ 42,083
Total capital assets not being depreciated	42,083	-	-	42,083
Capital assets being depreciated:				
Utility plant in service	308,578	-	-	308,578
Sewer plant in service	736,511	-	-	736,511
General plant and buildings	69,534	-	-	69,534
Machinery and equipment	6,457	-	-	6,457
Total capital assets being depreciated	1,121,080	-	-	1,121,080
Less: accumulated depreciation	(557,396)	(19,272)	-	(576,668)
Total capital assets being depreciated, net	563,684	(19,272)	-	544,412
Capital assets, net	$ 605,767	$ (19,272)	$ -	$ 586,495

Depreciation expense incurred during the year was $19,272.

NOTE 5. LONG-TERM DEBT

Long-term debt at June 30, 2022 consisted of the following:

On December 10, 2004, the District issued a $300,000 Waterworks Revenue Bond, Series 91-01, to the Farmers Home Administration. The bonds bear interest at the rate of 4.5% per year, payable in 240 consecutive monthly installments of principal and interest in the amount of $1,377 each. At June 30, 2022, the bonds payable balance was $219,694.

On December 10, 2004, the District issued a $62,100 Waterworks Revenue Bond, Series 91-03, to the Farmers Home Administration. The bonds bear interest at the rate of 4.5% per year,

payable in 204 consecutive monthly installments of principal and interest in the amount of $286 each. At June 30, 2022, the bonds payable balance was $45,170.

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

2022	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Waterworks Revenue Bonds, Series 91-01	$ 226,159	$ -	$ 6,465	$ 219,694	$ 6,777
Waterworks Revenue Bonds, Series 91-03	46,535	-	1,365	45,170	1,429
	$ 272,694	$ -	$ 7,830	$ 264,864	$ 8,206

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

Years Ending June 30	Principal	Interest
2023	8,206	11,750
2024	8,582	11,374
2025	8,977	10,979
2026	9,390	10,566
2027	9,821	10,135
2028-2032	56,299	43,481
2033-2037	70,476	29,304
2038-2042	88,125	11,558
2043	4,988	41
	$ 264,864	$ 139,188

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 risks, 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

As of the date of this report, no contingent liabilities exist for the District.

NOTE 8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 31, 2023 which is the date the financial statements were available to be issued. The full impact of the COVID-19 outbreak continues to evolve and as such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition and future results of operations. Management is actively monitoring the situation on its financial condition, liquidity, operations, suppliers, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, there is no estimate as to the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for the fiscal year 2023.

OTHER INFORMATION SECTION

Harbor Utility District
Schedule of Changes in Long-term Debt by Individual Issue
June 30, 2022

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding July 01, 2021	Issued During Period	Paid and/or Matured During Period	Outstanding June 30, 2022
Bonds Payable								
Waterworks Revenue Bonds, Series 91-01	$ 300,000	4.5%	2004	2043	$ 226,159	-	$ 6,465	$ 219,694
Waterworks Revenue Bonds, Series 91-03	$ 62,100	4.5%	2004	2042	46,535	-	1,365	45,170
Total Bonds Payable					$ 272,694	$ -	$ 7,830	$ 264,864

Harbor Utility District
Schedule of Long-Term Debt, Principal, and Interest Requirements by Fiscal Year
June 30, 2022

Year Ending	Revenue Bond 91-01 Principal	Revenue Bond 91-01 Interest	Revenue Bond 91-03 Principal	Revenue Bond 91-03 Interest	Total Requirements Principal	Total Requirements Interest	Total Requirements
2023	6,777	9,747	1,429	2,003	8,206	11,750	19,956
2024	7,088	9,436	1,494	1,938	8,582	11,374	19,956
2025	7,414	9,110	1,563	1,869	8,977	10,979	19,956
2026	7,755	8,769	1,635	1,797	9,390	10,566	19,956
2027	8,111	8,413	1,710	1,722	9,821	10,135	19,956
2028	8,483	8,041	1,788	1,644	10,271	9,685	19,956
2029	8,873	7,651	1,871	1,561	10,744	9,212	19,956
2030	9,281	7,243	1,957	1,475	11,238	8,718	19,956
2031	9,707	6,817	2,046	1,386	11,753	8,203	19,956
2032	10,153	6,371	2,140	1,292	12,293	7,663	19,956
2033	10,619	5,905	2,239	1,193	12,858	7,098	19,956
2034	11,107	5,417	2,342	1,090	13,449	6,507	19,956
2035	11,618	4,906	2,449	983	14,067	5,889	19,956
2036	12,151	4,373	2,562	870	14,713	5,243	19,956
2037	12,710	3,814	2,679	753	15,389	4,567	19,956
2038	13,293	3,231	2,802	630	16,095	3,861	19,956
2039	13,904	2,620	2,931	501	16,835	3,121	19,956
2040	14,543	1,981	3,066	366	17,609	2,347	19,956
2041	15,211	1,313	3,207	225	18,418	1,538	19,956
2042	15,909	614	3,259	77	19,168	691	19,859
2043	4,987	41	-	-	4,988	41	5,014
Total	$ 219,694	$ 115,813	$ 45,169	$ 23,375	$ 264,864	$ 139,188	$ 404,037

Harbor Utility District
Schedule of Utility Rate Structure and Number of Customers
For Five Fiscal Years Ended June 30th

	2022	2021	2020	2019	2018
Water Rates					
First one thousand five hundred gallons	$ 22.50	$ 22.50	$ 22.50	$ 22.50	$ 22.50
Every thousand gallons thereafter	8.00	8.00	8.00	8.00	8.00
Number of metered taps at year-end	314	291	293	283	289
Sewer Rates					
First one thousand five hundred gallons	$ 11.25	$ 11.25	$ 11.25	$ 11.25	$ 11.25
Every thousand gallons thereafter	8.00	8.00	8.00	8.00	8.00
Number of metered taps at year-end	34	33	32	36	36

The District currently serves only residential customers.

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
Harbor Utility District
Big Sandy, 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 Harbor Utility District of Benton County, Tennessee ("the District") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 31, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 and therefore, material weaknesses or significant deficiencies

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may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of audit findings and responses as items 2022-01, 2022-02, and 2022-04 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 two instances 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 and responses as items 2022-03 and 2022-05.

Harbor Utility District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of audit findings and responses. The 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
January 31, 2023

Harbor Utility District
Schedule of Findings and Responses
Year Ended June 30, 2022

SECTION I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

1. 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.*
2. The audit of the financial statements of Harbor Utility District disclosed three significant deficiencies in internal control and two instances of noncompliance.
3. The audit of the financial statements of Harbor Utility District did not disclose any material weaknesses.

SECTION II. FINANCIAL STATEMENT FINDINGS

2022-01: Lack of Segregation of Duties (Significant Deficiency)

Condition: Harbor Utility District does not have adequate segregation of duties between the accounting, treasury, and custody functions. One individual should not have custody of particular assets and also be responsible for recording transactions related to those assets.

Criteria: *Tennessee Code Annotated,* Section 9-18-102(a) requires each local government in Tennessee to establish and maintain internal controls.

Cause: The District is a small entity with limited resources including an office manager with no other office staff.

Effect: The risk of errors and irregularities occurring and not being detected in a timely manner increase when functions are not adequately segregated.

Recommendation: The District should mitigate its exposure by having increased oversight by the Board of Commissioners in the day-to-day operations of the District.

Management Response: We concur. See management's corrective action plan.

2022-02: Internal Controls over Disbursements (Significant Deficiency)

Condition: Three checks did not have the required two signatures during the period. Two of these checks were written to Bonita Finch for her monthly contract labor check. These two checks only had Bonita Finch's authorized signature.

Criteria: *Tennessee Code Annotated,* Section 9-18-102(a) requires each local government in Tennessee to establish and maintain internal controls. As a part of the established internal controls, the District requires two signatures on each check.

Cause: It appears that some disbursements were made prior to compliance with the District's policy regarding check signatures.

Effect: The risk of errors in cash disbursements occurring and not being detected in a timely manner increase when policies are circumvented.

Recommendation: All checks should be signed by two authorized individuals, as required by District policy.

Management's Response: We concur. See management's corrective action plan.

2022-03: Failure to Issue Form 1099-NEC Correctly (Noncompliance)

Condition: Form 1099-NEC issued did not report all taxable income for independent contractor.

Criteria: Internal Revenue Service Code

Cause: There are two vendors in the accounting system for the same person. One of those vendors was not correctly created in the accounting system. As a result, $1,400 was not included on the 1099-NEC issued.

Effect: The risk of incorrect reporting to vendors and appropriate authorities increases when vendors are properly created in the accounting system.

Recommendation: A policy should be implemented that allows for review of new vendors to prevent establishing duplicate vendors.

Management's Response: We concur. See management's corrective action plan.

2022-04: Failure to Deposit Receipts With-in Three Business Days (Significant Deficiency)

Condition: Three of the four deposits tested had receipts that were not deposited within the three working day requirement.

Criteria: Section 6-56-111(a). Tennessee Code Annotated, states: Every municipal official handling public funds shall be required to, as soon as practical, but no later than (3) working days after the receipt by such municipal official of any public funds, deposit the funds to the credit of such municipality's office bank account, or bank accounts.

Cause: The District is a small entity with limited resources including an office manager with no other office staff.

Effect: This creates the possibility of misuse or loss of collections.

Recommendation: All receipts must be deposited within three business days of collections.

Management's Response: We concur. See management's corrective action plan.

2022-05: Failure to subject board member to board policies. (Noncompliance)

Condition: During our related party testing, it was noted that one board member was charged late fees three out of the six months tested that were adjusted off of the account.

Criteria: All utility customers are required to pay a late fee if their bill is paid after the 15th of each month. TCA 39-16-402(a) states in part that a public servant commits an offense who intentionally or knowingly receives any benefit not otherwise authorized by law.

Effect: Board policies are circumvented resulting in internal control violations as well as understated revenues.

Recommendation: Board members who are customers of the District should abide by the same rules and fees as unrelated customers.

Management's Response: We concur. See management's corrective action plan.

Harbor Utility District
Summary Schedule of Prior Year Findings
Year Ended June 30, 2022

Government Audit Standards require auditors to report the status of uncorrected findings for prior audits. In addition, OMB's Uniform Guidance requires auditees to report the status of all prior-year findings whether corrected or uncorrected. Presented below are financial statement findings along with their status from the Financial Statements and Supplementary Information of Harbor Utility District, for year ended June 30, 2021.

Prior-year Financial Statement Findings

Prior Year Finding Number	Finding Title	Status/ Current Year Finding Number
2021-001	Duties Were Not Adequately Segregated (original finding # 2008-001)	Repeated Finding 2022-01
2021-002	Internal Controls Over Disbursements (original finding # 2020-002)	Repeated Finding 2022-02

Harbor Utility District

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MANAGEMENT RESPONSE
YEAR ENDED JUNE 30, 2022

2022-001: LACK OF SEGREGATION OF DUTIES

MANAGEMENT RESPONSE: We concur. We have adopted a policy that requires certain financial disclosures be presented at each Board meeting and signed off on by every Commissioner. This action should prevent and/or detect possible errors due to a lack of personnel available in day-to-day operations.

2022-02: INTERNAL CONTROLS OVER DISBURSEMENTS

MANAGEMENT RESPONSE: We concur. It is our policy that all checks are reviewed by the Secretary/Treasurer of the Board and then signed (If he is unavailable the checks can be reviewed and signed by another authorized board member). The board member also verifies that the check has been signed by Bonita Finch, Office Manager.

2022-03: FAILURE TO ISSUE FORM 1099 NEC CORRECTLY

MANAGEMENT RESPONSE: We concur. We review all W-9s and invoices to ensure the vendor's name agrees and verify all W-9s are appropriately marked as 1099 eligible in the accounting system.

2022-04: FAILURE TO DEPOSIT RECEIPTS WITHIN THREE BUSINESS DAYS

MANAGEMENT RESPONSE: We concur. It is our policy to make deposits within three days of receipt of checks. We only have one employee that is authorized to make deposits and if she is out of the office due to inclement weather or illness it is impossible to deposit within that time frame.

2022-05: FAILURE TO SUBJECT BOARD MEMBER TO BOARD POLICIES.

MANAGEMENT RESPONSE: We concur. It is our policy to charge a late fee to all customers that pay their bill late. If the customer pays the bill on the due date and the receipt is not entered into the system until the following day, then late charges have already been applied to the customer's balance. Therefore, we must remove the late fee from their account. This is what happened with our Board member.

Jerome Hancock
JEROME HANCOCK, PRESIDENT

Bonita Finch
BONITA FINCH, OFFICE MANAGER

Date: 2-23-2023