

**SALtillo UTILITY DISTRICT
OF HARDIN COUNTY**

ANNUAL FINANCIAL REPORT

OCTOBER 31, 2022

SALILLO UTILITY DISTRICT OF HARDIN COUNTY

ANNUAL FINANCIAL REPORT

YEAR ENDED OCTOBER 31, 2022

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SALTILO UTILITY DISTRICT OF HARDIN COUNTY

ROSTER OF OFFICIALS

OCTOBER 31, 2022

BOARD OF COMMISSIONERS

Gregory Lynn Harrington	President
Tim Little	Board Member
Jimmy Delaney	Board Member



Independent Auditor's Report

Board of Commissioners
Saltillo Utility District of Hardin County
Saltillo, Tennessee

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Saltillo Utility District of Hardin County (the Utility District), Saltillo, Tennessee, as of and for the year ended October 31, 2022, and the related notes to the financial statements, which collectively comprise the Utility District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Utility District as of October 31, 2022, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements sections of our report. We are required to be independent of the 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 the 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 Utility District's ability to continue as a going concern for twelve months beyond the financial statements 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 generally accepted auditing standards 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 for 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 generally accepted auditing standards 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 Utility 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 Utility 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 on pages 5 - 6 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Utility District's basic financial statements. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do 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 10, 2024, on our consideration of the 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 the 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 Utility District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Horlun Associates, PLLC". The signature is fluid and cursive, with "Horlun" on the first line and "Associates, PLLC" on the second line.

January 10, 2024

MANAGEMENT'S DISCUSSION & ANALYSIS

Our discussion and analysis of Saltillo Utility District's financial performance provides an overview of the District's financial activities for the year ended October 31, 2022.

USING THE FINANCIAL REPORT

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid. These statements provide information about whether the entity is better off or worse off as a result of the year's activities. The Statement of Cash Flows provides relevant information about the cash receipts and cash payments of the District during the year.

Net position is the difference between the District's assets and liabilities. Over time, increases or decreases in net position provide one indicator of financial health.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes to the financial statements can be found on pages 10 – 14.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the District. This other supplementary information can be found on pages 15 – 16 of this report.

Comparative Data

Statement of Net Position

	2022	2021
Current assets	\$ 331,721	\$ 308,151
Restricted cash	167,097	225,501
Capital assets	<u>295,716</u>	<u>257,530</u>
 Total Assets	 <u>794,534</u>	 <u>791,182</u>
 Current liabilities	 40,026	 34,663
Long-term debt	33,009	37,085
Total Liabilities	<u>73,035</u>	<u>71,748</u>
 Net Positions:		
Net investment in capital assets	258,407	216,307
Restricted for debt	167,097	225,501
Unrestricted	<u>295,995</u>	<u>277,626</u>
	<u><u>\$ 721,499</u></u>	<u><u>\$ 719,434</u></u>

The changes in the District's net positions are described below:

	<u>2023</u>	<u>2022</u>
Revenues:		
Operating revenues:		
Charges for services	\$ 179,835	\$ 183,247
Miscellaneous	23,364	23,364
Total Revenues	<u>203,199</u>	<u>206,611</u>
Expenses:		
Personnel expenses	46,105	42,277
Operating expenses and repairs	122,469	108,117
Depreciation	31,714	23,678
Total Expenses	<u>200,288</u>	<u>174,072</u>
Operating income	2,911	32,539
Nonoperating expenses	<u>(846)</u>	<u>(718)</u>
Increase in net position	<u>\$ 2,065</u>	<u>\$ 31,821</u>

During the current year, the District's net position increased by \$2,065 compared to \$31,821 in the prior year. This decrease in net position is mainly due to an increase in operating costs.

CAPITAL ASSETS

Capital assets increased as a result of a \$69,900 equipment purchase. Accumulated depreciation also increased \$31,714 from allocations made to depreciation expense. See additional note disclosures in Note 6.

DEBT

At year-end, the District had \$37,309 in outstanding long-term debt compared to \$41,223 in the prior year. See additional note disclosures in Note 7.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES AND RATES

A budget is prepared before each fiscal year. Next year the budget shows total revenues of \$230,100 and expenses of \$154,600.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide citizens, taxpayers and creditors with a general overview of the District's finances and to show accountability for the money it receives. If you have any questions about this report or need additional information, contact the District at P.O. Box 36, Saltillo, Tennessee 38370.

Gail Harrington

SALTIMBO UTILITY DISTRICT OF HARDIN COUNTY

STATEMENT OF NET POSITION

OCTOBER 31, 2022

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 228,896
Certificate of deposit	100,000
Accounts receivable, net of allowance	2,825
TOTAL CURRENT ASSETS	<u>331,721</u>

RESTRICTED ASSETS

Cash and cash equivalents	<u>167,097</u>
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CAPITAL ASSETS

Cost of plant in service	1,078,938
Less: accumulated depreciation	(783,222)
NET CAPITAL ASSETS	<u>295,716</u>

TOTAL ASSETS

794,534

LIABILITIES

CURRENT LIABILITIES

Accounts payable	7,248
Accrued expenses	3,661
Unearned revenue	24,817
Current portion of long-term debt	4,300
TOTAL CURRENT LIABILITIES	<u>40,026</u>

LONG-TERM DEBT

Bonds payable	<u>33,009</u>
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TOTAL LIABILITIES

73,035

NET POSITION

Net investment in capital assets	258,407
Restricted for debt	167,097
Unrestricted	295,995
TOTAL NET POSITION	<u>\$ 721,499</u>

The accompanying notes are an integral part of these financial statements.

SALTILO UTILITY DISTRICT OF HARDIN COUNTY

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION**

FOR THE YEAR ENDED OCTOBER 31, 2022

OPERATING REVENUES

Water sales	\$ 157,335
Connection fees	22,500
Rent	23,364
TOTAL OPERATING REVENUES	203,199

OPERATING EXPENSES

Operating salaries	32,000
Utilities	19,244
Repairs and maintenance	38,458
Chemicals	5,647
Supplies	29,455
Office salaries	10,800
Office expense	1,000
Taxes	3,305
Postage and printing	4,320
Commissioner fees	550
Dues and subscriptions	1,542
Fees	913
Contracted services	7,800
Legal and accounting	6,000
Insurance	5,349
Miscellaneous	2,191
Depreciation	31,714
TOTAL OPERATING EXPENSES	200,288

OPERATING INCOME	2,911
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NONOPERATING REVENUES(EXPENSES)

Interest income	1,432
Interest expense	(2,278)
TOTAL NONOPERATING REVENUES(EXPENSES)	(846)

INCREASE(DECREASE) IN NET POSITION	2,065
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NET POSITION - BEGINNING OF YEAR	719,434
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NET POSITION - END OF YEAR	\$ 721,499
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The accompanying notes are an integral part of these financial statements.

SALTIMBO UTILITY DISTRICT OF HARDIN COUNTY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED OCTOBER 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash receipts from customers	\$ 178,505
Cash receipts from others	23,364
Cash payments to suppliers for goods and services	(113,037)
Cash payments to employees for services	(47,676)
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	41,156
	<hr/>

CASH FLOWS FROM CAPITAL AND RELATED

FINANCING ACTIVITIES:

Purchases of fixed assets	(69,900)
Principal payments on long-term debt	(3,914)
Interest paid on long-term debt	(2,278)
	<hr/>
NET CASH USED FOR CAPITAL AND	
RELATED FINANCING ACTIVITIES	(76,092)
	<hr/>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on investments	1,432
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,432

NET DECREASE IN CASH AND CASH EQUIVALENTS (33,504)

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 429,497

CASH AND CASH EQUIVALENTS - END OF YEAR **\$ 395,993**

RECONCILIATION OF INCOME FROM OPERATIONS TO
NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 2,911
Adjustment to reconcile operating income to	
net cash provided by operating activities:	
Depreciation	31,714
Changes in assets and liabilities:	
Accounts receivable	1,330
Accounts payable	(1,079)
Accrued taxes	1,571
Accrued interest	(157)
Unearned revenue	4,866
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NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 41,156
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SALTILO UTILITY DISTRICT OF HARDIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2022

1. GENERAL INFORMATION

A. GASB Conformity

The District complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

B. Fund Accounting

The accounts of the District are organized on the basis of funds. The operations of funds are accounted for with a separate set of self-balancing accounts that comprise their assets, liabilities, fund equity, revenues, and expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The accounts in the financial statements in this report fall under one broad fund category as follows:

PRORIETARY FUNDS

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises-where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The records of the District are maintained on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

B. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. The capitalization policy states any purchases of equipment in excess of \$10,000 will be capitalized. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expended as incurred. Depreciation on all assets is provided using the straight-line method over the following estimated useful lives:

SALTOILLO UTILITY DISTRICT OF HARDIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2022

	<u>Years</u>
Distribution System	40
Building	40
Equipment	5 - 7

Also, any related interest costs incurred in acquiring or preparing a capital asset for use is included in the basis of the asset.

C. Cash Equivalents

Cash and cash equivalents include demand deposit accounts and all highly liquid investments with a maturity of three months or less when purchased.

D. Compensated Absences

No policy has been established concerning vacation or sick leave. The District has only one full-time employee.

E. Inventory

Supplies the District purchases are charged to an expense account. An inventory account is not maintained since the total value of items on hand is not considered material to the financial statements.

F. Operating Revenues and Expenses

Operating revenues and expenses for the District are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities. All revenues that are not generated from the daily operations are defined as non-operating.

3. CASH AND INVESTMENTS

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Tennessee or political subdivision debt obligations, or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the District must have a written collateral agreement approved by the board of directors or loan committee.

The District's investment policies are governed by State statute. Permissible investments include direct obligations of the U.S. Government and agency securities, certificates of deposit and savings accounts. Collateral is required for demand deposits, certificates of deposits and repurchase agreements at 105% of all amounts not covered by federal deposit insurance.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. The District's deposits at year-end were not exposed to custodial credit

SALTILO UTILITY DISTRICT OF HARDIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2022

risk due to being entirely covered by depository insurance (a combination of federal depository insurance with the excess covered by the State's Bank Collateral Pool).

4. ACCOUNTS RECEIVABLE

Accounts receivable, which consists of utility receivables, is shown net of allowance for uncollectible accounts. The allowance for uncollectible accounts at year-end is \$4,163.

5. ACCOUNTS PAYABLE

Accounts payable is composed of 100% payables to vendors.

6. CAPITAL ASSETS

Capital asset activity for the year ended October 31, 2022, was as follows:

	Balance 11/1/2021	Additions/ Completions	Retirements/ Adjustments	Balance 10/31/2022
Capital assets not being depreciated				
Land and easements	\$ 9,755	\$ -	\$ -	\$ 9,755
Total capital assets not being depreciated	<u>9,755</u>	<u>-</u>	<u>-</u>	<u>9,755</u>
Capital assets being depreciated				
Distribution system	843,173	-	-	843,173
Office building	77,945	-	-	77,945
Intangible construction cost	36,406	-	-	36,406
Vehicles	41,759	69,900	-	111,659
Total capital assets being depreciated	<u>999,283</u>	<u>69,900</u>	<u>-</u>	<u>1,069,183</u>
Less accumulated depreciation for:				
Distribution system	(691,616)	(14,757)	-	(706,373)
Office building	(9,095)	(1,948)	-	(11,043)
Intangible construction cost	(36,406)	-	-	(36,406)
Vehicles	(14,391)	(15,009)	-	(29,400)
Total accumulated depreciation	<u>(751,508)</u>	<u>\$ (31,714)</u>	<u>\$ -</u>	<u>(783,222)</u>
Total business-type activities capital assets, net	<u>\$ 257,530</u>			<u>\$ 295,716</u>

Depreciation expense of \$31,714 was recorded by the District.

7. LONG-TERM DEBT

Pursuant to Sections 7-82-101, et seq., of *Tennessee Code Annotated*, as amended, the District issued in 1992 a \$100,000, 5.75% Waterworks Revenue Bond for the purpose of financing construction of waterworks system improvements and extensions with a maturity date of April 2030. The aforementioned bonds are payable solely from, and secured by, a pledge of income and revenues to be derived from the operations of the waterworks system. The bondholders are further protected by a statutory mortgage lien on the system.

At October 31, 2022, the District had \$167,097 on deposit in special accounts to protect bond holders. Aggregate expected annual maturities of all long-term debt and interest payments are projected as follows:

SALILLO UTILITY DISTRICT OF HARDIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2022

Year Ending October 31,	Principal	Interest
2023	\$ 4,300	\$ 2,192
2024	4,594	1,898
2025	4,858	1,634
2026	5,137	1,355
2027	5,433	1,059
2028	5,745	747
2029	6,076	416
2030	1,166	67
Total	<u>\$ 37,309</u>	<u>\$ 9,368</u>

Changes in the District's outstanding debt in the past fiscal year are as follows:

Business-Type Activities	Balance			Balance
	11/1/2021	Additions	Payments	10/31/2022
Revenue Bonds	<u>\$ 41,223</u>	<u>\$ -</u>	<u>\$ 3,914</u>	<u>\$ 37,309</u>

8. RESTRICTED ASSETS

Restricted assets include cash that is legally restricted as to its use. The restricted assets are bank accounts required by FHA bond covenants.

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. Settled claims have not exceeded this commercial coverage in any of the past three years.

10. NET POSITION FLOW ASSUMPTION

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which resources are considered applied. It is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Net position is displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of

SALTILO UTILITY DISTRICT OF HARDIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2022

any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

- b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net positions that do not meet the definition of "restricted" or "net investment in capital assets."

11. RELATED PARTIES

During the year, the District had employees who were related to one of the District's commissioners. Mr. Gregory Lynn Harrington, a commissioner, is the husband of Gail Harrington, the District's accountant, and the father of Brandon Harrington who performs operational and maintenance functions for the District. Brandon Harrington was paid \$32,000 as plant manager plus additional amounts for contract services and Gail Harrington is paid \$10,800 for accounting services and additional amounts for contract services.

SALtillo UTILITY DISTRICT OF HARDIN COUNTY

SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE

OCTOBER 31, 2022

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 11/1/2021	Issued During Period	Paid and/or Matured During Period	Refunded During Period	Outstanding 10/31/2022
Waterworks Revenue Bonds	\$ 100,000	5.75%	1992	April 2030	\$ 41,223	\$ -	\$ 3,914	\$ -	\$ 37,309

SALTILO UTILITY DISTRICT OF HARDIN COUNTY

SCHEDULE OF UTILITY RATES IN FORCE

OCTOBER 31, 2022

First 2,00 Gallons	\$	7.50	Minimum Charge
Over 2,000 Gallons	\$	3.75	Per 1,000 Gallons
Service charge to Hooker Bend and Doe Creek users	\$	4.00	
Number of customers at year-end:		<u>830</u>	



**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**

Board of Commissioners
Saltillo Utility District of Hardin County, Tennessee
Saltillo, 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 Saltillo Utility District of Hardin County, Tennessee, as of and for the year ended October 31, 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, and have issued our report thereon dated January 10, 2024.

Report on 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 may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

FINDING 2022-001 INADEQUATE SEGREGATION OF DUTIES

Condition: There is a lack of segregation of duties among employees at the Utility District. This was also a finding in the prior year's audit.

Criteria: Generally accepted accounting principles require that accounting functions be adequately segregated to ensure that the internal controls are effective.

Cause: Small number of office personnel.

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

Recommendation: The Board and management should increase and or continue closely monitoring internal controls and procedures put in place to mitigate, as much as possible, the inadequate segregation of duties.

Management's Response: We agree and will continue to monitor the system.

FINDING 2022-002 MATERIALLY MISSTATED FINANCIAL STATEMENTS

Condition: The District had misclassified various liabilities and expenditures which caused the financial statements to be materially misstated. Some of these misclassified items included sales tax payable and debt payments.

Criteria: Generally accepted accounting principles require the District to have adequate internal controls over the maintenance and oversight of accounting records.

Cause: Apparent oversight.

Effect: Material adjustments were required because the District's financial reporting system did not prevent, detect, or correct potential misstatements in the accounting records.

Recommendation: Additional training on certain accounting processes should be provided to the accounting staff.

Management's Response: We agree and will correct this finding.

Report on 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 no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described above. 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 the response.

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.

A handwritten signature in black ink that reads "M. Jordan Associates, PLLC". The signature is fluid and cursive, with "M. Jordan" on the first line and "Associates, PLLC" on the second line.

January 10, 2024

SALTILO UTILITY DISTRICT OF HARDIN COUNTY
SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2022

Financial Statement Findings

Prior Year Finding Number	Finding Title	Status/Current Year Finding Number
1998-002	Inadequate Segregation of Duties	Repeated/2022-001
2008-001	Financial Statements Materially Misstated before Audit	Repeated/2022-002
2021-01	Inadequate Support for Expenses	Corrected
2021-02	Deposits in Excess of FDIC Coverage	Corrected

**SALILLO UTILITY DISTRICT OF HARDIN COUNTY, TENNESSEE
MANAGEMENT'S CORRECTIVE ACTION PLAN
OCTOBER 31, 2022**

FINDING 2022 – 001 INADEQUATE SEGREGATION OF DUTIES

Corrective action planned

We will continue to monitor the system.

Anticipated completion date

This will not be corrected in the near future due to the small size of the District.

Responsible party

Office Manager

FINDING 2022 – 002 MATERIALLY MISSTATED FINANCIAL STATEMENTS

Corrective action planned

We will correct this finding.

Anticipated completion date

By February 2024

Responsible party

Office Manager

If you have any questions you may contact me by email at mariegharrington@yahoo.com or call at 731-687-7244.

Sincerely,

Gail Harrington

Gail Harrington
Office Manager

Lynn Harrington
President