

Luttrell–Blaine–Corryton Utility District

Financial Statements with Supplementary and Other Information

Year Ended July 31, 2022

and

Independent Auditors' Report

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

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HG&A Associates, P.C.

Certified Public Accountants

Independent Auditors' Report

Board of Commissioners
Luttrell-Blaine-Corryton Utility District
Luttrell, Tennessee

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Luttrell-Blaine-Corryton Utility District (the "District") as of and for the year ended July 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of July 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 the 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 the 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 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.

Auditors' 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 opinions. 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.

Tim Royster • Jenny C. Raines • Michelle Herrell • Jennifer M. Blackwood

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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 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 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 on pages 4 through 8 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 District's basic financial statements. The supplementary information, listed in the table of contents, 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 State of America. In our opinion, the supplementary 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, as listed in the table of contents, does not include the basic 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 other 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 March 6, 2023, on our consideration of the District's internal control over financial reporting and 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.

HGA Associates, P.C.

Knoxville, Tennessee
March 6, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Luttrell-Blaine-Corryton Utility District offers readers of the Luttrell-Blaine-Corryton Utility District's financial statements this narrative overview and analysis of the financial activities of the Luttrell-Blaine-Corryton Utility District for the fiscal year ended July 31, 2022.

The information presented here should be considered in conjunction with the District's basic financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The total assets exceeded liabilities at the close of the most recent fiscal year by \$9,828,892 an increase of \$175,241 from 2021. Of this amount, \$2,716,506 is available to be used to meet the District's ongoing obligations.
- Operating income was \$237,435 and nonoperating income (expense) was \$(63,944).
- Capital assets decreased by \$242,807.
- Debt decreased by \$62,316.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Luttrell-Blaine-Corryton Utility District's basic financial statements. The basic financial statements include the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Financial Statements

The Luttrell-Blaine-Corryton Utility District maintains its activities in a single major proprietary fund. Proprietary funds are used to account for activities that are similar to those often found in the private sector.

The notes to the financial statements provide additional information essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13 through 21 of this report.

Financial Analysis

Net position may serve over time as a useful indicator of a District's financial position. The Luttrell-Blaine-Corryton Utility District's assets exceeded liabilities by \$9,828,892 and \$9,653,651 at the close of 2022 and 2021, respectively.

The largest portion of the District's net position (71%) reflects its investment in capital assets (e.g., land, buildings, equipment) less any related debt used to acquire those assets that is still outstanding. The District uses the capital to provide water services to citizens so these assets are not available for future spending. Although the Luttrell-Blaine-Corryton Utility District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CONDENSED FINANCIAL INFORMATION
STATEMENTS OF NET POSITION

July 31, 2022 and 2021

	2022	2021
Current and other assets:		
Cash and temporary investments	\$ 2,706,037	2,610,189
Other assets	202,034	191,570
Capital assets	9,190,667	9,433,474
Total assets	\$ 12,098,738	12,235,233
Current liabilities	\$ 112,089	359,133
Noncurrent liabilities	2,157,757	2,222,449
Total liabilities	2,269,846	2,581,582
Net position:		
Net investment in capital assets	6,968,218	7,148,709
Restricted for debt service	144,168	144,168
Unrestricted	2,716,506	2,360,774
Total net position	9,828,892	9,653,651
Total liabilities and net position	\$ 12,098,738	12,235,233

Net position subject to external restrictions on how it may be used totaled \$144,168 at July 31, 2022, and July 31, 2021. The remaining balance of unrestricted net position at July 31, 2022 and 2021, of \$2,716,506 and \$2,360,774, respectively, may be used to meet the District's ongoing obligations.

During the current fiscal year, the District's net position increased by \$175,241.

The following is a summary of financial activities for the District during the fiscal years ending July 31, 2022 and 2021:

**CONDENSED FINANCIAL INFORMATION
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**

Years ended July 31, 2022 and 2021

	2022	2021
Program revenues:		
Charges for services	\$ 1,779,517	1,724,720
General revenues:		
Rental income	3,669	3,600
Gain on sale of assets	12,323	-
Interest income	1,916	4,330
Insurance recoveries	-	3,493
Total revenues	<u>1,797,425</u>	<u>1,736,143</u>
Expenses:		
Operating expenses	1,542,082	1,458,380
Interest expense	81,852	84,139
Total expenses	<u>1,623,934</u>	<u>1,542,519</u>
Income before capital contributions	173,491	193,624
Capital contributions - water line extensions	<u>1,750</u>	<u>7,459</u>
Change in net position	175,241	201,083
Net position, beginning of year	<u>9,653,651</u>	<u>9,452,568</u>
Net position, end of year	<u>\$ 9,828,892</u>	<u>9,653,651</u>

Luttrell-Blaine-Corryton Utility District's total program revenues for 2022 increased \$54,797 from 2021 due largely from changes related to (1) an increase in customer sales of \$8,528 due mostly to an increase in customers and (2) an increase in meter in service charges of \$23,314 due to an increase in monthly charge.

Operating expenses for 2022 increased \$83,702 over 2021 largely due to increases in salaries and wages of \$21,677, electricity expense of \$14,828, supplies expense of \$16,690, chemicals of \$20,300, and gas, oil, and diesel expense of \$15,595.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Luttrell-Blaine-Corryton Utility District's investment in capital assets as of July 31, 2022, was \$9,190,667 (net of accumulated depreciation). The investment in capital assets includes land, buildings, water plant, machinery, and equipment.

The major capital asset events during the current fiscal year were the additions to water plant in service totaling \$145,800, the purchase of new equipment totaling \$5,159, and the retirement of several pieces of equipment no longer in service.

Capital Assets (net of depreciation)		
	2022	2021
Land	\$ 414,270	414,270
Buildings	85,189	90,098
Water plant	8,528,074	8,733,700
Equipment and computers	112,787	132,105
Vehicles	49,504	61,991
Furniture and fixtures	843	1,310
	<u>\$ 9,190,667</u>	<u>9,433,474</u>

Additional information on the Luttrell-Blaine-Corryton Utility District's capital assets can be found on page 16 of the notes to the financial statements.

DEBT

At the end of the current fiscal year, the Luttrell-Blaine-Corryton Utility District had total long-term debt outstanding of \$2,222,449.

Outstanding Debt		
	2022	2021
Series 2005 Revenue Bonds	\$ 506,499	530,269
Series 2010 Revenue Bonds	616,181	628,488
Series 2010A Revenue Bonds	1,099,769	1,126,008
	<u>\$ 2,222,449</u>	<u>2,284,765</u>

During the current fiscal year, the District reduced debt by principal payments of \$62,316. No new debt was issued in the fiscal year 2022.

Additional information on the Luttrell-Blaine-Corryton Utility District's long-term debt can be found on pages 17 and 18 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

Luttrell-Blaine-Corryton Utility District anticipates nominal growth in the number of its customers during fiscal year 2023. The District anticipates a slight increase in interest earnings over the prior year due to a minimal rise in interest rates on the District's investments. The District will continue to review rates annually and revise as required to meet future debt and operating expenses.

A meter in service charge increase of \$0.50 per month was implemented in August, 2022. New water tap fees increased \$175 to \$1,100 for a tap on the water line side and \$1,325 for a new meter set on the opposite side of the main water line. Minimum bill water rates remained at \$20.25 for 2000 gallons of water but increased \$0.15 to \$6.25 per 1,000 gallons for water used over the 2000 gallons.

The District maintains a water loss program and is committed to continual improvement. The District has implemented water leak and water line protection available to water customers at a monthly fee of \$1.85 and \$4.95, respectfully.

The District is involved with each of the counties it serves in potential improvements to its water system. Each county has potential funds available to it with the assistance of the State of Tennessee and federal funding from the American Recovery Act ("ARC"). In December 2022 the District's Board approved a construction contract for approximately \$2,000,000 with a contractor to improve the waterline system the District serves in Knox County. The funding of this project will primarily come from the ARC funding available to Knox County thru the State of Tennessee. It is anticipated similar projects will be approved for Grainger and Union county areas served by the District either in fiscal year 2023 or 2024.

All of the above factors were considered in preparing the Luttrell-Blaine-Corryton Utility District budget for fiscal year 2023.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Luttrell-Blaine-Corryton Utility District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Luttrell-Blaine-Corryton Utility District, 100 Main Street, Luttrell, Tennessee 37779.

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Statement of Net Position

July 31, 2022

Assets

Current assets:	
Cash and temporary investments	\$ 2,561,869
Accounts receivable:	
Customers (less allowance for uncollectible accounts of \$44,135)	195,302
Prepaid insurance	6,732
Total current assets	<u>2,763,903</u>
Restricted assets (cash and investments):	
Bond reserve fund	<u>144,168</u>
Total restricted assets	<u>144,168</u>
Capital assets:	
Land	414,270
Buildings	213,594
Water plant	13,811,953
Equipment and computers	578,870
Vehicles	211,589
Furniture and fixtures	13,338
	<u>15,243,614</u>
Less: accumulated depreciation	<u>6,052,947</u>
	<u>9,190,667</u>
Total assets	<u>\$ 12,098,738</u>

Liabilities and Net Position

Current liabilities (payable from current assets):	
Current installments of long-term debt	\$ 64,692
Accounts payable	6,230
Accrued expenses	292
Customer deposits	40,875
Total current liabilities (payable from current assets)	<u>112,089</u>
Long-term debt, less current installments	<u>2,157,757</u>
Total liabilities	<u>2,269,846</u>
Net position:	
Net investment in capital assets	6,968,218
Restricted for debt service	144,168
Unrestricted	2,716,506
Total net position	<u>9,828,892</u>
Total liabilities and net position	<u>\$ 12,098,738</u>

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

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Statement of Revenues, Expenses and Changes in Net Position

Year Ended July 31, 2022

Operating revenues:

Customer sales	\$ 1,500,966
Tap fees	83,825
Forfeited discounts and penalties	28,060
Service charges	50,902
Meter in service charges	66,271
Service to other utilities	22,038
Miscellaneous	27,455
Total operating revenues	<u>1,779,517</u>

Operating expenses:

Salaries and wages	452,775
Contract labor	7,069
Electricity	186,269
Water, sewer and garbage	944
Propane gas	5,449
Telephone and pagers	16,730
GPS fleet service	3,551
Lab analysis services	2,111
Repair and maintenance	6,999
Ground maintenance	1,672
Supplies	41,362
Chemicals	56,677
Water purchased for resale	1,892
Spring royalty	2,205
Uniforms	6,281
Gas, oil, and diesel	39,156
Vehicle parts and repair	10,940
Meter installation supplies	58,200
Accounting and auditing services	12,800
Insurance and bonds	125,808
Professional fees	16,628
Payroll taxes	34,126
Employees' retirement	19,807
Publications, subscriptions and dues	1,819
TAUD dues and seminars	3,466
TN One Call fees	1,639
Postage and billings	27,127
Depreciation	393,184
Education and travel	1,680
Miscellaneous	3,716
Total operating expenses	<u>1,542,082</u>
Operating income	<u>237,435</u>

(continued)

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Statement of Revenues, Expenses and Changes in Net Position (continued)

Year Ended July 31, 2022

Nonoperating income (expense):	
Rental income	\$ 3,669
Gain on sale of assets	12,323
Interest income	1,916
Interest expense	<u>(81,852)</u>
Total nonoperating income (expense)	<u>(63,944)</u>
Income before capital contributions	173,491
Capital contributions - water line extensions	<u>1,750</u>
Change in net position	175,241
Total net position, beginning of the year	<u>9,653,651</u>
Total net position, end of the year	<u><u>\$ 9,828,892</u></u>

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

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Statement of Cash Flows

Year Ended July 31, 2022

Cash flows from operating activities:	
Cash received from customers	\$ 1,766,114
Cash payments for goods and services	(919,128)
Cash payments for employees	<u>(472,582)</u>
Net cash provided by operating activities	<u>374,404</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(152,054)
Proceeds from sale of capital assets	14,000
Interest payments	(81,852)
Principal payments on revenue bonds	(62,316)
Capital contributions - water line extensions	<u>1,750</u>
Net cash used by capital and related financing activities	<u>(280,472)</u>
Cash flows from investing activities:	
Interest received	1,916
Maturity of certificate of deposit in financial institution	159,971
Purchase of certificate of deposit in financial institution	<u>(160,306)</u>
Net cash provided by investing activities	<u>1,581</u>
Net change in cash and cash equivalents	95,513
Cash and cash equivalents, beginning of year	<u>2,450,218</u>
Cash and cash equivalents, end of year	\$ <u><u>2,545,731</u></u>
Cash	\$ 2,561,869
Restricted assets	<u>144,168</u>
	<u>2,706,037</u>
Less investment in certificates of deposit	<u>(160,306)</u>
	\$ <u><u>2,545,731</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>237,435</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	393,184
Rental income	3,669
(Increase) decrease in:	
Accounts receivable	(13,403)
Prepaid insurance	2,939
Decrease in:	
Accounts payable	(237,869)
Accrued expenses	(11,451)
Customer deposits	<u>(100)</u>
Total adjustments	<u>136,969</u>
Net cash provided by operating activities	\$ <u><u>374,404</u></u>

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

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Notes to Financial Statements

July 31, 2022

(1) Summary of Significant Accounting Policies

- (a) Reporting Entity - The Luttrell-Blaine-Corryton Utility District was created by decree on July 30, 1964 to furnish water to certain areas of Union, Knox and Grainger Counties in Tennessee. The District is not included in any other governmental reporting entity and the District has no potential component units.

The District has three commissioners, one commissioner from each of the three counties serviced by the District. Upon expiration of their respective terms, or their death or resignation, their successor is selected by recommendation of the remaining commissioners and approval of the respective County Executive as provided for by state law.

- (b) Basis of Accounting and Net Position – The District’s financial statements are presented using the flow of economic resources measurement focus applied on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Except for customer billings, revenue is recorded when earned. Billings to customers are based on a monthly meter reading cycle. Any water service rendered from the latest billing cycle date to the month end is unbilled and is not reflected in the financial statements.

Net position comprises the various net earnings from operating and nonoperating revenues, expenses and contributions of capital. Net position is classified in the following three components – net investment in capital assets; restricted for debt service; and unrestricted. These classifications are as follows:

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 are not included in the calculation of investment in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position components as the unspent proceeds.

Restricted for debt service – This component of net position consists of constraints placed on net position 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.

Unrestricted – This component of net position consists of the net amount of assets and liabilities that do not meet the definition “net investment in capital assets” or “restricted for debt service”.

(continued)

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Notes to Financial Statements

July 31, 2022

(1) Summary of Significant Accounting Policies (continued)

- (c) 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 does not have any items that qualify for reporting in this category.

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 acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. The District does not have any items that qualify for reporting in this category.

- (d) Accounts Receivable, Uncollectible Accounts and Concentrations of Credit Risk – The District sells water services on credit terms to local business and residential customers in the three county areas it serves, by requiring payment generally within 15 days of billing. The District has \$44,135 in allowance for uncollectible accounts receivable at July 31, 2022. The Board last approved the write off of uncollectible accounts receivables in 2018. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.
- (e) Capital Assets – Capital assets are recorded at cost and includes expenditures in excess of \$500 for new facilities and equipment, renewals, extensions or betterments to the system, and costs of significant service connections. Donated property, if any, is recorded at its fair value at the date of donation. Depreciation is computed using depreciation rates which range from 2% to 20%. Depreciation expense for the year ended July 31, 2022, was \$393,184.
- (f) Tax Status - The District is a political subdivision of the State of Tennessee and is not subject to federal income taxes or state franchise and excise taxes.
- (g) 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. When an expense is incurred for the 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.

(continued)

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Notes to Financial Statements

July 31, 2022

(1) Summary of Significant Accounting Policies (continued)

- (h) Cash and Cash Equivalents – For purposes of the statement of cash flows, the District considers temporary investments with original maturities of three months or less as cash equivalents.
- (i) Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- (j) Compensated Absences - The District recognizes the cost of vacation pay in the year it is earned. Sick pay benefits do not vest and are recognized when paid.
- (k) Implementation of Recently Issued Accounting Pronouncements – Effective August 1, 2021 the District adopted GASB Statement No. 87, *Leases*, which will enhance the recording and reporting by governments involved as either a lessor or lessee in leasing arrangements. The District evaluated the impact of the implementation of this statement on its financial statements and determined that without having any lease activities of over twelve months this statement will not have any financial or reporting impact on its operations.

(2) Cash and Interest-Bearing Deposits in Financial Institutions

The carrying value of cash and interest-bearing deposits in financial institutions at July 31, 2022, totaled \$2,705,565 (including a certificate of deposit for \$160,306 that matures in May 2023) and the bank balances were \$2,838,819.

Custodial credit risk for the District's deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As required by state statutes, the District's policy is to require that financial institutions holding its deposits to be members of the Tennessee Collateral Pool or pledge collateral for deposits in excess of federal depository insurance. The collateral is required to be held by the District or its agent in the District's name. At July 31, 2022, none of the District's bank balances were exposed to credit risk.

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Notes to Financial Statements

July 31, 2022

(3) Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 414,270	-	-	414,270
	414,270	-	-	414,270
Capital assets, being depreciated:				
Buildings	213,594	-	-	213,594
Water plant	13,666,153	145,800	-	13,811,953
Equipment and computers	589,437	5,159	15,726	578,870
Vehicles	210,494	1,095	-	211,589
Furniture and fixtures	13,338	-	-	13,338
	14,693,016	152,054	15,726	14,829,344
Total capital assets	\$ 15,107,286	152,054	15,726	15,243,614
Accumulated depreciation:				
Buildings	\$ 123,496	4,909	-	128,405
Water plant	4,932,453	351,426	-	5,283,879
Equipment and computers	457,332	22,800	14,049	466,083
Vehicles	148,503	13,582	-	162,085
Furniture and fixtures	12,028	467	-	12,495
	\$ 5,673,812	393,184	14,049	6,052,947

(4) 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. In order to minimize its costs, the District insures itself against potential losses associated with these risks through the purchase of commercial insurance. There were no significant reductions in insurance coverage during 2022 from coverage in effect in 2021 and 2020. In addition, there have been no losses in excess of insurance coverage during the past three fiscal years.

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Notes to Financial Statements

July 31, 2022

(5) Bonds Payable

Bonds payable consists of the following at July 31, 2022:

Waterworks Revenue Bonds, Series 2005	\$	506,499
Waterworks Revenue Bonds, Series 2010		616,181
Waterworks Revenue Bonds, Series 2010A		1,099,769
		<u>2,222,449</u>
Less: Current installments		64,692
	\$	<u><u>2,157,757</u></u>

Waterworks Revenue Bonds, Series 2005, for \$859,000 were issued February 28, 2008, for the purpose of paying part of the cost of constructing waterworks system improvements and extensions for the District. The bonds are payable in monthly principal and interest payments in the amount of \$3,875, at an interest rate of 4.375%. The bonds are collateralized by a pledge of revenues derived from the operations of the waterworks system of the District and by a statutory mortgage lien on the waterworks system.

Waterworks Revenue Bonds, Series 2010 and 2010A, were issued June 3, 2011, in the amounts of \$728,000 and \$1,351,000, respectively. The bonds are payable in monthly principal and interest payments of \$3,167 at an interest rate of 4.125% and \$4,972 at an interest rate of 3%, respectively. These bonds were issued to provide permanent financing for constructing waterworks system improvements and extensions for the District.

A bond reserve fund was established as required in the amount of \$144,168, with investment earnings being deposited to the District's revenue fund.

Interest for the year ended July 31, 2022, totaled \$81,852.

Changes in debt during the year ended July 31, 2022, is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due in One Year
Revenue bonds	\$ <u>2,284,765</u>	<u>-</u>	<u>62,316</u>	<u>2,222,449</u>	<u>64,692</u>

(continued)

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Notes to Financial Statements

July 31, 2022

(5) Bonds Payable (continued)

The bonds are subject to customary covenants restricting the District from selling, transferring, leasing, or otherwise encumbering the facility or any portion thereof, except in certain circumstances. The District is required to: (1) provide for the receipt of adequate revenues to meet the requirements of debt service, operation and maintenance, and the establishment of adequate reserves, (2) provide a copy of the annual audited financial statements, (3) comply with all applicable State and Federal laws and regulations and to continually operate and maintain the facility in good condition, (4) maintain their tax-exempt status, and (5) maintain sufficient insurance and fidelity bond coverages.

Events of default under the bond agreements include but are not limited to: (1) failure to make principal payments when due and payable, and (2) failure to make installment of interest payments. In the event of default, if the District is unable to remedy, outstanding amounts may become due and payable by declaration of the fiscal agent or the bond holders. Management believes that the District is in compliance with all restrictions and requirements of the bond resolutions at July 31, 2022.

Aggregate maturities of bonds payable are as follows:

<u>Year ended July 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 64,692	79,476	144,168
2024	66,949	77,219	144,168
2025	69,720	74,448	144,168
2026	72,388	71,780	144,168
2027	75,161	69,007	144,168
2028 - 2032	421,031	299,809	720,840
2033 - 2037	500,982	211,890	712,872
2038 - 2042	354,321	134,019	488,340
2043 - 2047	420,274	68,066	488,340
2048 - 2049	176,931	6,017	182,948
	<u>\$ 2,222,449</u>	<u>1,091,731</u>	<u>3,314,180</u>

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Notes to Financial Statements

July 31, 2022

(6) Changes in Net Investment in Capital Assets

The change in net investment in capital assets can be summarized as follows:

Balance at the beginning of the year	\$ 7,148,709
Change in capital assets	(242,807)
Changes in related debt	<u>(62,316)</u>
Balance at end of the year	<u>\$ 6,968,218</u>

(7) Defined Contribution Plan

On December 23, 2019, the District adopted the State of Tennessee's Deferred Compensation Plan II (401(k) Plan) effective March 1, 2020, to replace and serve as an amendment and restatement of its prior defined contribution plan which became effective on September 5, 2001 and was a Premiere Select Simple IRA Plan (a defined contribution plan), with an effective plan date of October 1, 2001, under Section 408(p) of the Internal Revenue Code.

All employees are eligible to become members of the 401(k) plan. The District will match 100% of participant elective deferrals up to 5% of compensation. The District's contributions for each participating employee are fully vested after 3 years of service. Contributions for the 401(k) plan by the employees totaled \$19,807 and the employer contributions amounted to \$19,807 for the year ended July 31, 2022. Total payroll was \$452,775 and total covered payroll was \$452,775. There were no retirement funds payable at July 31, 2022.

(8) Deferred Compensation Plan

The District adopted the State of Tennessee's 457(b) Deferred Compensation Plan effective March 1, 2020. All employees attaining the age of 18 are eligible to become members of the 457(b) Plan. The 457(b) Plan allows employees to defer a portion of their current salary (up to \$19,500) until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

The District's Board has full power and authority to adopt rules and regulations for the administration of the 457(b) Plan. The Board contracts with providers to manage the investment of the plan assets and for selecting the plan investment options. Additionally, the Board reviews and approves withdrawals, terminations, and benefit payments. As of July 31, 2022, the District did not have any employees participating in this Plan.

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Notes to Financial Statements

July 31, 2022

(9) Contract with the City of Luttrell

On March 4, 2008, the District entered into a 24-month agreement with the City of Luttrell to bill and collect all sewer charges for the City's sewer customers (except for judicial enforcement). The District delivers to the City all funds collected less a billing and collection fee of \$1.05 for each billed customer and \$20 for each new City sewer customer which must be retained by the District for providing billing and collection services. This agreement automatically renews for twenty-four months at a time and may be terminated by either party giving a six-month written notice. On March 1, 2018, the collection fee increased to \$1.25 for each billed customer.

(10) Contract with the City of Blaine

On December 9, 2010, the District entered into a two-year contract with the City of Blaine to manage, operate, monitor, repair and maintain the City's new sewer system. In March 2016, the District sent a letter to the City of Blaine stating that the contract would not be renewed for the operation of the sewer system. However, the District continues to provide billing and collection services at the same rate of \$1.05 for each billed customer and \$20 for each new City sewer customer. On March 1, 2018, the collection fee increased to \$1.25 for each billed customer.

(11) Water Leak and Line Protection Program

On March 1, 2015, the District began offering water leak and line protection to customers at a monthly rate of \$1.85 and \$4.95, respectfully. Customers are automatically enrolled in the water leak protection but may choose to discontinue the service and be responsible for the entire leak cost. This program replaces the previous water leak adjustment policy. The water line protection may be added at the request of the customer.

(12) Subsequent Events

The District has evaluated subsequent events through March 6, 2023, the date which the financial statements were available to be issued. As a result of that evaluation the following items are of note:

- The Board of Commissioners approved a meter in service charge increase of \$0.50 from \$1.50 to \$2.00 per month to begin August 2022. The Commissioners also approved a \$175 meter charge increase bringing meters with taps on the waterline side from \$925 to \$1,100 and those with taps on the opposite side of the road from \$1,150 to \$1,325.
- At the District board meeting on December 6, 2022, the Commissioners approved awarding a bid contract to a company for approximately \$2,015,000 for the construction of a water line replacement project in Knox County. The funding for this project will primarily come thru federal funds in the American Recovery Act that will flow to the State of Tennessee then to Knox County and then to the District.
- Jimmy Langley resigned as General Manager on January 9, 2023. The Commissioners named Michael Petty as General Manager at the board meeting on February 7, 2023.

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Notes to Financial Statements

July 31, 2022

(13) Joint Venture

The Utilities Management Federation, Inc. (UMF) provides coordinated management, administrative and operational services to the Knox County water utility districts. The UMF Board of Directors is comprised of the General Managers for five of the water utility districts in Knox County: First Utility District, West Knox Utility District, Knox Chapman Utility District, Luttrell-Blaine Corryton Utility District, and Northeast Knox Utility District. The UMF requires that each participating utility district pay its pro rata share of the cost of operations based on its number of customers.

UMF does not issue separate financial statements. UMF maintains a record of expenses incurred and billed to the districts. UMF also maintains a record of its cash balance. UMF operations began in January of 1999.

Summarized information for UMF's fiscal year ended December 31, 2021, is included in the following table:

Total assets		\$	<u>19,815</u>
Capital interests:			
First Utility District	24.00%	\$	4,755
West Knox Utility District	24.00%		4,755
Knox Chapman Utility District	24.00%		4,755
Northeast Knox Utility District	24.00%		4,755
Luttrell-Blaine-Corryton Utility District	4.00%		<u>795</u>
		\$	<u>19,815</u>

SUPPLEMENTARY INFORMATION

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICTSchedule of Operating Expenses by Department
Year Ended July 31, 2022

	<u>Plant</u>	<u>Distribution</u>	<u>Administration</u>	<u>Total</u>
Salaries and wages	\$ 161,460	135,852	155,463	452,775
Contract labor	5,331	-	1,738	7,069
Electricity	147,338	37,055	1,876	186,269
Water, sewer and garbage	-	-	944	944
Propane gas	2,895	-	2,554	5,449
Telephone and pagers	4,079	2,588	10,063	16,730
GPS fleet service	-	3,551	-	3,551
Lab analysis services	2,111	-	-	2,111
Repair and maintenance	5,299	1,700	-	6,999
Ground maintenance	-	1,672	-	1,672
Supplies	6,963	29,186	5,213	41,362
Chemicals	56,677	-	-	56,677
Water purchased for resale	1,892	-	-	1,892
Spring royalty	2,205	-	-	2,205
Uniforms	-	6,281	-	6,281
Gas, oil, and diesel	-	39,156	-	39,156
Vehicle parts and repair	-	10,940	-	10,940
Meter installation supplies	-	58,200	-	58,200
Accounting and auditing services	-	-	12,800	12,800
Insurance and bonds	-	11,663	114,145	125,808
Professional fees	700	4,576	11,352	16,628
Payroll taxes	-	-	34,126	34,126
Employees' retirement	-	-	19,807	19,807
Publications, subscriptions and dues	-	-	1,819	1,819
TAUD dues and seminars	-	-	3,466	3,466
TN One Call fees	-	-	1,639	1,639
Postage and billings	-	-	27,127	27,127
Depreciation	-	-	393,184	393,184
Education and travel	-	-	1,680	1,680
Miscellaneous	-	1,092	2,624	3,716
	<u>\$ 396,950</u>	<u>343,512</u>	<u>801,620</u>	<u>1,542,082</u>

See independent auditors' report.

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Schedule of Debt Service Requirements to Maturity
July 31, 2022

Year ended July 31	Rural Development Water Revenue Bonds Series 2005 \$859,000		Rural Development Water Revenue Bonds Series 2010 \$728,000		Rural Development Water Revenue Bonds Series 2010A \$1,351,000		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2023	24,831	21,669	12,824	25,180	27,037	32,627	64,692	79,476
2024	25,882	20,618	13,295	24,709	27,772	31,892	66,949	77,219
2025	27,094	19,406	13,922	24,082	28,704	30,960	69,720	74,448
2026	28,304	18,196	14,507	23,497	29,577	30,087	72,388	71,780
2027	29,567	16,933	15,117	22,887	30,477	29,187	75,161	69,007
2028	30,844	15,656	15,691	22,313	31,326	28,338	77,861	66,307
2029	32,264	14,236	16,413	21,591	32,357	27,307	81,034	63,134
2030	33,704	12,796	17,102	20,902	33,341	26,323	84,147	60,021
2031	35,209	11,291	17,821	20,183	34,355	25,309	87,385	56,783
2032	36,754	9,746	18,517	19,487	35,333	24,331	90,604	53,564
2033	38,421	8,079	19,349	18,655	36,475	23,189	94,245	49,923
2034	40,136	6,364	20,162	17,842	37,584	22,080	97,882	46,286
2035	41,927	4,573	21,010	16,994	38,727	20,937	101,664	42,504
2036	43,792	2,708	21,849	16,155	39,851	19,813	105,492	38,676
2037	37,770	762	22,812	15,192	41,117	18,547	101,699	34,501
2038	-	-	23,771	14,233	42,368	17,296	66,139	31,529
2039	-	-	24,770	13,234	43,657	16,007	68,427	29,241
2040	-	-	25,778	12,226	44,944	14,720	70,722	26,946
2041	-	-	26,895	11,109	46,351	13,313	73,246	24,422
2042	-	-	28,026	9,978	47,761	11,903	75,787	21,881
2043	-	-	29,204	8,800	49,214	10,450	78,418	19,250
2044	-	-	30,411	7,593	50,687	8,977	81,098	16,570
2045	-	-	31,710	6,294	52,252	7,412	83,962	13,706
2046	-	-	33,043	4,961	53,842	5,822	86,885	10,783
2047	-	-	34,432	3,572	55,479	4,185	89,911	7,757
2048	-	-	35,874	2,130	57,161	2,503	93,035	4,633
2049	-	-	31,876	622	52,020	762	83,896	1,384
	<u>\$ 506,499</u>	<u>183,033</u>	<u>616,181</u>	<u>404,421</u>	<u>1,099,769</u>	<u>504,277</u>	<u>2,222,449</u>	<u>1,091,731</u>

Note: Actual maturity dates may vary from original bond maturity dates due to prepayments of principal.

See independent auditors' report.

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Schedule of Changes in Long-Term Debt by Individual Issue

July 31, 2022

	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding July 31, 2021	Issued During Period	Paid and/or Matured During Period	Refunded During Period	Outstanding July 31, 2022
Bonds Payable:									
Series 2005	\$ 859,000	4.375%	2/28/2008	2/28/2046	\$ 530,269	-	23,770	-	506,499
Series 2010	728,000	4.125%	6/3/2011	6/3/2050	628,488	-	12,307	-	616,181
Series 2010A	1,351,000	3.000%	6/3/2011	6/3/2049	1,126,008	-	26,239	-	1,099,769
					<u>\$ 2,284,765</u>	<u>-</u>	<u>62,316</u>	<u>-</u>	<u>2,222,449</u>

See independent auditors' report.

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Schedule of Utility Plant in Service

Year Ended July 31, 2022

	Balance July 31, 2021	Additions/ Transfers to	Retirements/ Transfers from	Balance July 31, 2022
<i>Utility Plant in Service:</i>				
Land	\$ 414,270	-	-	414,270
Buildings	213,594	-	-	213,594
Water plant	13,666,153	145,800	-	13,811,953
Equipment and computers	589,437	5,159	15,726	578,870
Vehicles	210,494	1,095	-	211,589
Furniture and fixtures	13,338	-	-	13,338
	<u>\$ 15,107,286</u>	<u>152,054</u>	<u>15,726</u>	<u>15,243,614</u>
 <i>Accumulated Depreciation:</i>				
Buildings	\$ 123,496	4,909	-	128,405
Water plant	4,932,453	351,426	-	5,283,879
Equipment and computers	457,332	22,800	14,049	466,083
Vehicles	148,503	13,582	-	162,085
Furniture and fixtures	12,028	467	-	12,495
	<u>\$ 5,673,812</u>	<u>393,184</u>	<u>14,049</u>	<u>6,052,947</u>

See independent auditors' report.

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICTSchedule of Cash and Investments
July 31, 2022

<u>Unrestricted</u>	<u>Interest Rate</u>	<u>Balance</u>
Cash on hand	N/A	\$ <u>472</u>
Commercial Bank:		
Operating and maintenance account	0.05%	17,708
Revenue account	0.05%	63,487
Certificate of deposit	0.20%	16,138
Demand deposit accounts	0.15%	<u>2,464,064</u>
Total Commercial Bank		<u>2,561,397</u>
Total unrestricted cash		\$ <u><u>2,561,869</u></u>
 <u>Restricted</u>		
Commercial Bank:		
Certificate of deposit	0.20%	\$ <u>144,168</u>
Total restricted cash		\$ <u><u>144,168</u></u>

See independent auditors' report.

OTHER INFORMATION

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Schedule of Expenditures of Federal Awards
Year Ended July 31, 2022

CFDA No.	Description	Balance August 1, 2021	Cash Receipts	Expenditures	Repaid	Balance July 31, 2022
Federal Assistance:						
<u>Loans</u>						
	<i>U. S. Department of Agriculture</i>					
10.760	Water and Waste Disposal Systems for Rural Communities	\$ 530,269	-	-	23,770	506,499
10.760	Water and Waste Disposal Systems for Rural Communities	1,126,008	-	-	26,239	1,099,769
10.760	Water and Waste Disposal Systems for Rural Communities	628,488	-	-	12,307	616,181
		<u>\$ 2,284,765</u>	<u>-</u>	<u>-</u>	<u>62,316</u>	<u>2,222,449</u>

Note A - Basis of Presentation

The schedule of expenditures of federal awards includes the federal awards activity of the District and is presented on the accrual basis of accounting.

See independent auditors' report.

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Schedule of Insurance Coverage July 31, 2022

	<u>Amount of Coverage</u>
Comprehensive general liability: Period covered - 8/1/21 to 8/1/22	
Limits of liability:	
General aggregate	\$ 2,000,000
Products/completed operations aggregate	2,000,000
Personal/advertising injury	1,000,000
Each occurrence	1,000,000
Fire damage	500,000
Medical - any one person	10,000
Failure to supply coverage - per occurrence	1,000,000
Failure to supply coverage - aggregate	2,000,000
Cyber coverage aggregate	100,000
Privacy breach expense	50,000
Regulatory proceeding claims expense	50,000
Third party cyber liability	100,000
Workers' compensation: Period covered - 8/1/21 to 8/1/22	
Bodily injury:	
Each accident	500,000
Disease:	
Each employee	500,000
Policy limit	500,000
Blanket property and equipment policy: Period covered - 8/1/21 to 8/1/22	
Building and business personal policy	6,355,944
Equipment - scheduled	158,900
Equipment - leased/rented/unscheduled	10,000
Commercial auto liability: Period covered - 8/1/21 to 8/1/22	
CSL	1,000,000
Medical payment each person	1,000
Uninsured motorists - each accident	1,000,000
Computer coverage:	
Hardware	9,816
Software (Data/Media)	15,000
Extra	5,000
Fidelity Bonds:	
Surety bonds:	
Commissioner	10,000
Commissioner	10,000
Commissioner	10,000
General Manager	10,000
Office Manager	10,000
Blanket bond for employees	100,000
Notary bonds:	
General Manager	10,000

See independent auditors' report.

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Schedule of Customers and Utility Rates in Force
July 31, 2022

WATER RATES

Standard utility rates

First 2,000 gallons	\$	20.25	minimum bill
Over 2,000 gallons		6.10	per 1,000 gallons

Note: Multiple connections are assessed at the minimum charge plus any additional charge over the 2,000 gallon minimum.
Commercial rate same as standard rate.

Service tap fees

Standard 5/8" meter on waterline side	\$	925.00	plus \$75.00 service fee
Standard 5/8" meter requiring road crossing	\$	1,150.00	plus \$75.00 service fee
Meters over 5/8"		Additional monthly charge based on size of meter	

Other charges

Service charge	\$	75.00	
Reconnection fee		25.00	
After hours reconnection fee		50.00	
Meter in service		1.50	per month
Meter damages by customer		25.00	
Meter cut-off replacement		100.00	during normal hours
		200.00	after hours
Removal of locking device		50.00	plus possible criminal charges
Meter accuracy checks		20.00	
Pressure checks (if no malfunction detected)		20.00	
Returned check charge		30.00	
State maintenance fee		1.30	per year
Leak insurance fee		1.85	per month
Line protection fee		4.95	per month

Number of customers	3,728
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See independent auditors' report.

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Roster of Utility Officials

July 31, 2022

Commissioners

Denny Bates
Jack Huddleston
Woody Roach

President
Treasurer
Secretary

Management

Jimmy Langley
Debra Munsey

General Manager
Office Manager

See independent auditors' report.



**Independent Auditors' 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
Luttrell-Blaine-Corryton Utility District
Luttrell, 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 the Luttrell-Blaine-Corryton Utility District ("the District") as of and for the year ended July 31, 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 March 6, 2023.

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 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of audit findings and disposition of prior year audit findings as item 2022-001, that we considered to be a significant deficiency.

Tim Royster • Jenny C. Raines • Michelle Herrell • Jennifer M. Blackwood

P.O. Box 50846, Knoxville, TN 37950-0846 • Telephone (865) 691-8000 • FAX (865) 691-3064 • 6504 Deane Hill Drive, Knoxville, TN 37919



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 Finding

Government Auditing Standards require the auditor to perform limited procedures on the District's response to the finding identified in our audit and described in the accompanying schedule of audit findings and disposition of prior year audit findings. The District's response was not subjected to the other 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.

HG & A Associates, P.C.

Knoxville, Tennessee
March 6, 2023

LUTTRELL-BLAINE-CORRYTON UTILITY DISTRICT

Audit Findings and Disposition of Prior Year Audit Findings
Year Ended June 30, 2022

FINDING 2022-001 – District Equipment Used Personally by Employee (Initial Finding)Condition and Context

On Sunday, February 13, 2022, an employee of the District used a Bobcat owned by the District to move rock at his personal residence that was not related to authorized District business.

Criteria

The District has an unwritten policy, known by all employees, that equipment owned by the District is for District business only and not for personal use by employees. The use of District equipment for personal benefit is a violation of that known policy.

Effect

An employee of the District was not in compliance with the unwritten policy regarding use of District equipment. Failure to follow this policy could lead to possible lawsuits for the District if an employee or other person were to be injured when operating equipment without authorization.

Recommendation

The District's management should take the proper steps to ensure that a written policy is in place that disallows employees to use equipment owned by the District for personal use during or after work hours. Equipment should be stored after hours in a manner that employees would not have access to equipment other than for emergency after-hours work-related matters.

Management's Response

The General Manager stated that this employee was not authorized to use the Bobcat for personal use. The employee was notified of the complaint and returned a written statement in which he confirmed that he did use the District's Bobcat to move rock at his residence. The employee stated that while on his property he replaced the fuel used and serviced the Bobcat at his own expense. The employee also stated that he understands that using District equipment for personal use is not allowed and has assured the General Manager that it will not happen again.

Disposition of Prior Year Audit Findings

- There were no prior year findings reported.

LUTTRELL-BLAINE-CORRYTON-UTILITY DISTRICT
100 Main Street
Luttrell, Tennessee 37779

FINDING 2022-001 – District Equipment Used Personally by Employee
(Initial Finding)

Response and Corrective Action Plan Prepared by: Jimmy Langley, General Manager

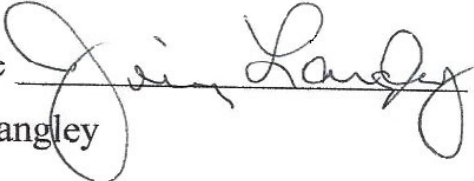
Person Responsible for Implementing the
Corrective Action Plan Jimmy Langley, General Manager

Anticipated Completion Date of Corrective
Action Plan Immediate

Repeat Finding No

Planned Corrective Action:

I have discussed this situation with the Commissioners and recommend that the District draft a written policy regarding restricting the use of District equipment to business operations only and prohibit any personal use of that equipment by District employees. I will also make employees aware of this written policy.

Signature 
Jimmy Langley