

OLD KNOXVILLE HIGHWAY  
WATER DISTRICT

Financial Statements  
With Supplementary Information

Year Ended June 30, 2022

**OLD KNOXVILLE HIGHWAY WATER DISTRICT**  
**TABLE OF CONTENTS**  
**June 30, 2022**

	<b>Page</b>
Roster of Officers and Board Members	1
Independent Auditor's Report	2-4
Management's Discussion & Analysis	5-8
Financial Statements:	
Statement of Net Position	9
Statement of Revenues, Expenses, and Changes in Net Position	10
Statement of Cash Flows	11
Notes to Financial Statements	12-22
Required Supplementary Information:	
Schedule of Changes in the Net Pension Liability (Asset) and Related Ratios Based on Participation in the Public Employee Pension Plan of the TCRS	23-24
Schedule of Contributions Based on Participation in the Public Employee Pension Plan of the TCRS	25
Supplementary Information:	
Schedule of Customer Rate Data	26
Schedule of Changes in Long-term Debt by Individual Issue	27
Schedule of Debt Principal and Interest Requirements	28
Independent Auditor's Report on Internal Control Over Financial Reporting and or Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29-30
Schedule of Disposition of Prior Year Findings	31

OLD KNOXVILLE HIGHWAY WATER DISTRICT  
ROSTER OF OFFICERS AND BOARD MEMBERS  
June 30, 2022

Jonathan Stepp	General Manager
Randy Lawson	President
Shea Long	Secretary
Richard Keller	Treasurer

**DAVID M. ELLIS**

*Certified Public Accountant*

*Member, American Institute of  
Certified Public Accountants*

*Member, Tennessee Society of  
Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Commissioners of  
Old Knoxville Highway Water District  
Mosheim, Tennessee

**Report on the Audit of Financial Statements**

**Opinion**

I have audited the accompanying financial statements of Old Knoxville Highway Water District, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Old Knoxville Highway Water District as of June 30, 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**

I conducted my 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. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Old Knoxville Highway Water District, and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 Old Knoxville Highway Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

My 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 my 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*, I:

- 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 Old Knoxville Highway Water 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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Old Knoxville Highway Water District's ability to continue as a going concern for a reasonable period of time.

I am 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 I 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 through 8 and the schedules on pages 23 through 25 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. I 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

## **Supplementary Information**

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Old Knoxville Highway Water District's basic financial statements. The schedules on pages 26 through 28 are presented for purposes of additional analysis and are 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 my opinion, the schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

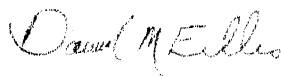
## **Other Information**

Management is responsible for the other information included in the annual report. The other information comprises the roster of officers and board members on page 1 but does not include the basic financial statements and my auditor's report thereon. My opinion on the basic financial statements do not cover the other information, and I do not express an opinion or any form of assurance thereon.

In connection with my audit of the basic financial statements, my 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, I conclude that an uncorrected material misstatement of the other information exists, I am required to describe it in my report.

## **Other Reporting Required by *Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated July 18, 2023, on my consideration of Old Knoxville Highway Water District's internal control over financial reporting and on my 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 my 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 Old Knoxville Highway Water District's internal control over financial reporting and compliance.



David M. Ellis, CPA  
Greeneville, Tennessee  
July 18, 2023

OLD KNOXVILLE HIGHWAY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2022

This section of the Old Knoxville Highway Water District's (the "District") financial report presents an introductory overview and analysis of the District's financial position and activities for the fiscal year ended June 30, 2022. The discussion and analysis included in this section contains information for water services provided by the District. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

**Financial Highlights**

Management reports a decrease in the District's financial condition. Operating revenues increased 5.57% while operating expenses increased 10.92%, resulting in a net operating income of \$129,113. The following are key financial highlights:

Total assets and deferred outflows of resources at year-end were \$9,538,320 and exceeded liabilities and deferred inflows of resources by \$8,167,999 (i.e. net position). Of the total net position, \$2,248,494 was unrestricted and available to support short-term operations. Total net position increased from fiscal year end 2021 by \$129,113.

Operating revenues increased \$95,877 from 2021. This was primarily due to new development in the area leading to an increase in tap fee revenue and the related increase in metered water sales. The District also increased its water rates during the current fiscal year.

Operating expenses before depreciation amounted to \$2,077,053,143,467, an increase of \$141,488, or 10.92% when compared to fiscal year 2021. This increase is a result of an increase in cost of supplies of \$94,118 and an increase in salaries and related employee benefits during the year.

Net operating income of \$129,113 for the year represented a \$43,802 decrease from the fiscal year 2021 income.

**Overview of Annual Financial Report**

Management's Discussion and Analysis (MD&A) serves as an introduction to the District's financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. The financial statements report information about the District using full accrual accounting methods as utilized by business activities in the private sector. The District's activities are conducted on a fee-for-service basis in a manner similar to commercial enterprises providing services to the public.

The three financial statements are:

*Statement of Net Position* - presents information about the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the four being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

*Statement of Revenues, Expenses, and Changes in Net Position* - presents information showing how the District's net position changed during the year. All current year revenues and expenses are considered regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this

OLD KNOXVILLE HIGHWAY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

statement for some items that will only result in cash flows in future years (e.g. uncollected utility bills and earned but unused sick and vacation time).

*Statement of Cash Flows* - presents changes in cash and cash equivalents, resulting from operational, financing and investment activities. This statement presents cash receipts and cash disbursements information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

Notes to the Financial Statements - The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The additional information contained in these notes is essential to a full understanding of the information provided in the financial statements.

Other Information - In addition to the financial statements discussed above, this report also presents required supplementary information and other supplementary information which include a number of schedules that provide additional detailed information about the operations of the District.

**Financial Analysis**

Condensed Statement of Net Position

Net position may serve over time as a useful indicator of a governmental entity's financial position. The District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$8,167,999 at the end of the fiscal year. A large portion of the District's net position reflects its investment in capital assets (land, buildings, equipment, and distribution lines, etc.). Because capital assets are used to provide services to customers, the assets are not available for future spending. Restricted net position of \$53,664 represents amounts restricted for the bond debt service fund. The remaining balance of \$2,119,381 may be used to meet the District's ongoing obligations.

	<u>2022</u>	<u>2021</u>	<u>Dollars</u>	<u>Percentage</u>
Current and other assets	\$2,476,898	\$2,085,701	\$391,197	18.76%
Capital assets, net of depreciation	6,866,621	7,136,093	(269,472)	-3.78%
Total assets	9,343,519	9,221,794	121,725	1.32%
Deferred outflows of resources	194,801	123,726	71,075	57.45%
Current liabilities	185,097	159,793	25,304	15.84%
Non-current liabilities	1,126,158	1,133,508	(7,350)	-0.65%
Total liabilities	1,311,255	1,293,301	17,954	1.39%
Deferred inflows of resources	59,066	13,333	45,733	343.01%
Net position				
Net investment in capital assets	5,865,841	6,112,054	(246,213)	-4.03%
Restricted	53,664	49,216	4,448	9.04%
Unrestricted	2,248,494	1,877,616	370,878	19.75%
Total net position	<u>\$8,167,999</u>	<u>\$8,038,886</u>	<u>\$129,113</u>	<u>1.61%</u>

OLD KNOXVILLE HIGHWAY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

**Condensed Statement of Revenues, Expenses and Changes in Net Position**

The following is a summary of financial activities of the District during the fiscal year ended June 30, 2022.

	<b>June 30</b>		<b>Variance</b>	
	<b>2022</b>	<b>2021</b>	<b>Dollars</b>	<b>Percentage</b>
<b>Revenues:</b>				
Water service revenues	\$1,873,219	\$1,760,767	\$112,452	6.39%
Other revenues	16,088	28,790	(12,702)	-44.12%
Total operating revenues	<u>1,889,307</u>	<u>1,789,557</u>	<u>99,750</u>	<u>5.57%</u>
<b>Expenses:</b>				
Operating expenses before depreciation:				
Water purchases	618,319	618,163	156	0.03%
General, administrative, customer service	819,148	677,816	141,332	20.85%
Total operating expenses	<u>1,437,467</u>	<u>1,295,979</u>	<u>141,488</u>	<u>10.92%</u>
Operating income before depreciation	451,840	493,578	(41,738)	-8.46%
Depreciation & amortization	<u>301,893</u>	<u>300,484</u>	<u>1,409</u>	<u>0.47%</u>
Net operating income (loss)	149,947	193,094	(43,147)	-22.35%
Non-operating revenue (expense), net	<u>-20,834</u>	<u>-20,179</u>	<u>( 655)</u>	<u>3.25%</u>
Change in net position	<u>\$129,113</u>	<u>\$172,915</u>	<u>(\$43,802)</u>	<u>-25.33%</u>

**Budgetary Highlights**

The board of commissioners approved an annual budget. There were no changes to the original budget.

**Capital Assets**

At the end of the fiscal year, the District had 6,866,621 (net of accumulated depreciation) invested in capital assets, including lands, buildings, utility system improvements, and machinery and equipment. This amount represents a net decrease (including additions and deductions) of \$269,472 or 3.78 % percent from last year. The decrease is a result of a few additions and continued depreciation during the year.

OLD KNOXVILLE HIGHWAY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

**Capital Assets (Continued)**

	<b>June 30</b>		<b>Variance</b>	
	<b>2022</b>	<b>2021</b>	<b>Dollars</b>	<b>Percentage</b>
Land	\$114,804	\$114,804	\$ 0	0.00%
Construction in progress	51,012	75,477	(24,465)	-32.41%
Water system	11,583,851	11,527,571	56,280	0.49%
Buildings	704,502	704,502	0	0.00%
Machinery and equipment	874,774	874,168	606	0.07%
Total capital assets	13,328,943	13,296,522	32,421	0.24%
Less accumulated depreciation	(6,462,322)	(6,160,429)	(301,893)	4.90%
Capital assets, net	<u>\$6,866,621</u>	<u>\$7,136,093</u>	<u>(\$269,472)</u>	<u>-3.78%</u>

**Capital Assets and Long-Term Debt**

As of June 30, 2022, the capital assets that debt is due on exceeded debt of those assets by \$5,865,841. Principal payments on long-term debt were \$23,260 and interest payments on debt were \$30,442. During the year, no additional debt was acquired. The balance of debt owed at June 30, 2022 was \$1,000,817.

**Results and Outlook**

The District began the Fiscal Year with expectations of increased revenue due to a 5% increase in water rates. This rate increase was imposed in order to match the increase in water purchase costs from Greeneville Water. The District has seen an increase in its customer base due to the construction of new homes in the area. This led the District to a positive change in net position.

The District expects the results of fiscal year 2022-2023 to be similar to the current year.

**Contact Information**

This financial report is designed to provide our customers and interested parties with a general overview of Old Knoxville Highway Water District's financial position, and to demonstrate accountability for the revenues it receives. Questions regarding this report or requests for additional information should be addressed to Old Knoxville Highway Water District, 1005 Main Street, Mosheim, Tennessee 37818.

**OLD KNOXVILLE HIGHWAY WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
**June 30, 2022**

**ASSETS**

Current Assets

Cash and cash equivalents	\$ 902,926
Certificates of deposit	1,007,419
Accounts receivable, net	47,513
Unbilled revenue	40,219
Prepaid insurance	10,697
Inventory	383,560
Total current assets	2,392,334

Capital assets

Not being depreciated	165,816
Being depreciated, net	6,700,805
Total capital assets	6,866,621

Restricted Assets

Customer meter deposits	5,900
US Nitrogen	25,000
Debt service fund	53,664
Total restricted assets	84,564

Total assets 9,343,519

**DEFERRED OUTFLOWS OF RESOURCES**

Pension 194,801

**LIABILITIES**

Current Liabilities

Accounts payable	121,492
Other payables and accrued liabilities	39,637
Bonds payable, due within one year	23,968
Total current liabilities	185,097

Non-Current Liabilities

Customer meter deposits	5,900
Net pension liability	143,409
Bonds payable, net - due after one year	976,849
Total non-current liabilities	1,126,158

Total liabilities 1,311,255

**DEFERRED INFLOWS OF RESOURCES**

Pension 59,066

**NET POSITION**

Net investment in capital assets	5,865,841
Restricted for debt service	53,664
Unrestricted	2,248,494
Total net position	\$ 8,167,999

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

**OLD KNOXVILLE HIGHWAY WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION**  
**Year Ended June 30, 2022**

Operating Revenues	
Water sales, net	\$ 1,742,096
Tap fees	78,558
Penalties charged	24,111
Service charges	28,444
Connection fees	3,597
Miscellaneous	12,501
Total operating revenues	1,889,307
Operating Expenses	
Water purchases	618,319
Depreciation	301,893
Salaries	312,296
Employee benefits	117,128
Professional services	41,842
Pension expense	40,894
Insurance	31,841
Meter reading	34,693
Utilities	30,248
Payroll taxes	23,062
Postage and office supplies	16,877
Vehicle expense	30,774
Dues and memberships	21,446
Repairs and maintenance	8,880
Supplies	106,019
Water analysis	1,863
Miscellaneous expenses	1,285
Total operating expenses	1,739,360
Operating income (loss)	149,947
Other Income (Expense)	
Interest income	9,608
Interest expense	(30,442)
Total other income (expense)	(20,834)
Change in net position	129,113
Net position at the beginning of the year	8,038,886
Net position at the end of the year	8,167,999

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

**OLD KNOXVILLE HIGHWAY WATER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2022**

Cash Flows From Operating Activities

Receipts from customers	\$ 1,878,658
Payments to suppliers for goods and services	(996,312)
Payments to employees for services	<u>(490,469)</u>
Net cash flows from operating activities	391,877

Cash Flows From Capital and Related Financing Activities

Acquisition and construction of capital assets	(32,421)
Retirement on long term debt principal	(23,222)
Interest paid on debt	<u>(30,442)</u>
Net cash flows from capital and related financing activities	(86,085)

Cash Flows From Investing Activities

Purchase of certificate of deposit	(1,000,000)
Redemption of certificate of deposit	739,917
Interest received	<u>9,608</u>
Net cash flows from investing activities	<u>(250,475)</u>

Net change in cash and cash equivalents 55,317

Cash and cash equivalents at the beginning of the year 847,609

Cash and cash equivalents at the end of the year 902,926

Operating income \$ 149,947

Adjustments to reconcile operating income to net cash flows from operating activities:

Depreciation and amortization	301,893
Changes in operating assets and liabilities	
(Increase) decrease in assets:	
Accounts receivable	(10,649)
Inventory	(76,423)
Prepaid	6,115
Increase (decrease) in liabilities:	
Accounts payable	41,145
Other payables and accrued liabilities	(20,151)
Customer meter deposits	<u>-</u>

Total adjustments to reconcile operating income to net cash 241,930

Net cash flows from operating activities \$ 391,877

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

OLD KNOXVILLE HIGHWAY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2022

NOTE 1 - REPORTING ENTITY

**Reporting Entity** - Old Knoxville Utility District (the “District”) is engaged in the distribution and sale of water to customers in a portion of Greene County, Tennessee and is fiscally independent, operating under the authority of a Board of Commissioners, and is a reporting entity having sole responsibility for fiscal matters including debt management, revenues, rates, budgets and control of surpluses and deficits without requiring approval by a primary government. The District purchases its water from Greeneville Water Commission. The District operates under the utility district laws of the State of Tennessee.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** - The District is an enterprise fund which is a proprietary type fund used to account for operations 1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the 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 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or change in net position is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has implemented GASB Statement No. 62, *“Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements.”*

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation** - Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The accompanying financial statements are reported using the “economic resources measurement focus,” and the “accrual basis of accounting.” Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**Net Position Flow Assumption** - Sometimes the District 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 the resources are considered to be applied. It is the District’s policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

**Cash Equivalents** - The District considers all highly liquid investments and investments with an original maturity of three months or less to be cash equivalents. Certificates of deposit with a maturity of 91 days or more at acquisition are treated as investments and not considered part of cash or equivalents.

OLD KNOXVILLE HIGHWAY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Accounts Receivable** - All receivables are reported net of estimated uncollectible accounts. The allowance for doubtful accounts at June 30, 2022 was \$148,358.

**Inventories and Prepaid Items**- Materials and supplies used for new taps and repairs to the distribution system are valued at cost, which approximates market, using the first-in/first-out method. The cost of inventory is recorded as expenses when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items and expensed only when consumed.

**Utility Plant, and Property** - Utility plant, and property are defined as assets with an initial cost of more than \$1,000 and an estimated useful life of more than one year and are carried at cost. Depreciation is computed using the straight-line method. Estimated useful lives are 25 years for buildings, 25 to 50 years for water distribution, 5 to 10 years for equipment and furniture/fixtures, and 5 years for vehicles. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.

**Net Position** - Net position contains the various net earnings from operating and non-operating revenues, expenses, capital contributions and special items. Net positions are classified in the following three components:

*Net position - restricted* - This component of net position consists of assets which have 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 provision or enabling legislation.

*Net investment in capital assets* - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Net position - unrestricted* - This component of net position consists of net position that does not meet the definition of “net position - restricted” or “net investment in capital assets”.

**Operating and Non-Operating Revenue and Expenses** - The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Revenues are recognized on monthly cycle billings to customers.

**Tap Fees** - Fees charged to join an existing line or extension of an existing line are recorded as operating income. The related costs are expensed.

OLD KNOXVILLE HIGHWAY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**Compensated Absences** - The District's vacation policy does not permit employees to accumulate earned but unused vacation benefits. There is no liability for unpaid leave since the District does not have a policy to pay any amounts when employees separate from service with the District.

**Pensions** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System ("TCRS"), and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

**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.

**Date of Management's Review** - Management has evaluated events and transactions occurring subsequent to the statement of net position for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of the report, which is the date these financial statements were available to be issued.

NOTE 3 - CASH

State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105 percent of the value of the deposits, less amounts insured by federal deposit insurance. The collateral must be held by the District or its agent in the District's name, or by the Federal Reserve in the District's name.

Statutes also authorize the District to invest in bonds, notes, or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state-chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, state pooled investment fund, and money market mutual funds. Statutes also require that securities underlying repurchase agreements have a market value at least equal to the amount of funds invested in the repurchase transaction.

At June 30, 2022, the bank balances were \$1,987,490 which was covered by federal depository insurance and/or through the banks' participation in the Tennessee Bank Collateral Pool.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable of \$195,871 is stated at recorded amount less allowance for uncollectible accounts of \$148,358. Net realizable value of \$47,513 is reported on the statement of net position. The allowance for doubtful accounts is reflected on the reserve method based on an analysis of the accounts receivable at year-end and prior experience.

OLD KNOXVILLE HIGHWAY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

The District's plant activity for the year ended June 30, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Construction in progress	\$ 75,477	\$ -	\$(24,465)	\$ 51,012
Land	114,804	-	-	114,804
Total capital assets not depreciated	190,281	-	(24,465)	165,816
Capital assets being depreciated				
Water system	11,527,571	56,280	-	11,583,851
Machinery and equipment	641,054	606	-	641,660
Vehicles	233,114	-	-	233,114
Buildings	704,502	-	-	704,502
Total capital assets being depreciated	13,106,241	56,886	-	13,163,127
Less accumulated depreciation	(6,160,429)	(301,893)	-	(6,462,322)
Total capital assets being depreciated, net	6,945,812	(245,007)	-	6,700,805
Total capital assets, net	<u>\$7,136,093</u>	<u>\$(245,007)</u>	<u>\$(24,465)</u>	<u>\$6,866,621</u>

NOTE 6 - LONG-TERM DEBT

Direct long-term debt activity consisted of the 2011 revenue bond. The indebtedness and interest thereon are payable solely from the revenues of the District. Statutory mortgage liens exist for the entire indebtedness covering all the waterworks properties of every nature including system extensions and improvements. Outstanding bonds at year ended June 30, 2022, was as follows:

	Issue date	Interest rate	Term	Original amount
Revenue bond	11/2/2011	3.00%	38 years	<u>\$ 1,215,000</u>

OLD KNOXVILLE HIGHWAY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LONG-TERM DEBT (continued)

The following is a summary of the District's future annual debt service requirements:

Year	Principal	Interest
2023	\$ 23,968	\$ 29,696
2024	24,698	28,966
2025	25,449	28,215
2026	26,223	27,441
2027	27,020	26,644
2028-2032	147,941	120,379
2033-2037	171,851	96,469
2038-2042	199,625	68,695
2043-2047	231,887	36,433
2048-2050	122,155	4,527
Total	\$1,000,817	\$467,465

NOTE 7 - 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. The District's risks of loss are covered by its commercial package insurance policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 8 - CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the District to concentrations of credit risk consist primarily of customer accounts receivable. Account monitoring procedures are utilized to minimize the risk of loss. Management does not believe significant credit risk exists at June 30, 2022.

NOTE 9 - PENSION PLAN FUNDS

**Plan Description**

Employees of the District are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

OLD KNOXVILLE HIGHWAY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLAN FUNDS (Continued)

**Benefits Provided:**

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with five years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service-related disability benefits are provided regardless of the length of service. Five years of service is required for non-service-related disability eligibility. The service related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2<sup>nd</sup> of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

**Employees Covered by Benefit Terms**

At the measurement date of June 30, 2021, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	4
Active employees	7
Total employees	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100%;">11</div>

**Contributions**

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees are non-contributory. The District makes employer contributions at the rate set by the Board of Trustees as determined by actuarial valuation. For the year ended June 30, 2022, the employer contributions for the District were \$48,970 based on a rate of 14.56% of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the District's state shared taxes if required employer contributions are not

OLD KNOXVILLE HIGHWAY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLAN FUNDS (Continued)

remitted. The employer's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

**Net Pension Liability (Asset)**

*Pension liabilities (assets)* - The District's net pension liability (asset) was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date.

*Actuarial Assumptions* - The total pension liability as of the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	6.75 percent, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.125 percent

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2021 actuarial valuation were based on the results of an actuarial experience study performed for the period of July 1, 2016 through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

*Changes of assumptions* – In 2021, the following assumptions were changed: decreased inflation rate from 2.50 percent to 2.25 percent; decreased the investment rate of return from 7.25 percent to 6.75 percent; decreased the cost-of-living adjustment from 2.25 percent to 2.125 percent; and modified mortality assumptions.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2020 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.25 percent.

OLD KNOXVILLE HIGHWAY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLAN FUNDS (Continued)

The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset class	Long-term expected real rate of return	Target allocation
U.S. equity	4.88%	31%
Developed market international equity	5.37%	14%
Emerging market international equity	6.09%	4%
Private equity and strategic lending	6.57%	20%
U.S. fixed income	1.20%	20%
Real estate	4.38%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 6.75 percent based on a blending of the factors described above.

*Discount Rate* - The discount rate used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the District will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OLD KNOXVILLE HIGHWAY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLAN FUNDS (Continued)

**Changes in the Net Pension Liability (Asset)**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Balance at 6/30/20	\$ 446,357	\$ 320,214	\$ 126,143
Changes for the year:			
Service cost	25,744	-	25,744
Interest	34,227	-	34,227
Differences between expected and actual experience	36,412	-	36,412
Changes of assumptions	50,402	-	50,402
Contributions - employer	-	42,180	(42,180)
Contributions - employee	-	-	-
Net investment income	-	87,965	(87,965)
Administrative expense	-	(626)	626
Net changes	146,785	129,519	17,266
Balance at 6/30/21	<u>\$ 593,142</u>	<u>\$ 449,733</u>	<u>\$ 143,409</u>

*Sensitivity of the net pension liability (asset) to changes in the discount rate* - The following presents the net position liability (asset) of the District calculated using the discount rate of 6.75 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75 percent) or 1-percentage-point higher (7.75 percent) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net pension liability (asset)	\$ 278,531	\$ 143,409	\$ 37,400

OLD KNOXVILLE HIGHWAY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLAN FUNDS (Continued)

**Pension Expense (Negative Pension Expense) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

*Pension expense* - For the year ended June 30, 2022, the District recognized pension expense (negative pension expense) of \$40,894.

*Deferred outflows of resources and deferred inflows of resources* - For the year ended June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 101,729	\$ 11,852
Net difference between projected and actual earnings of pension plan investments	-	47,214
Change of assumptions	44,102	-
Contributions subsequent to measurement date of June 30, 2021	48,970	-
Total	\$ 194,801	\$ 59,066

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2021" will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2023	\$ 5,614
2024	5,991
2025	6,081
2026	4,769
2027	17,418
Thereafter	46,902

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

OLD KNOXVILLE HIGHWAY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLAN FUNDS (Continued)

**Payable to the Pension Plan**

At June 30, 2022, the District reported a payable of \$5,937.09 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2022.

NOTE 10 – SUBSEQUENT EVENTS

The District has evaluated events and transactions for potential recognition or disclosure through the date of the auditor's report, the date the financial statements were available to be issued.

**OLD KNOXVILLE HIGHWAY WATER DISTRICT**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY (ASSET) AND RELATED RATIOS**  
**BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF THE TCRS**  
**Year Ended June 30, 2022**

Measurement Period Ended	<u>6/30/2017</u>	<u>6/30/2018</u>	<u>6/30/2019</u>	<u>6/30/2020</u>	<u>6/30/2021</u>
<b>Total pension liability</b>					
Service cost	\$ -	\$ 33,107	\$ 32,374	\$ 28,930	\$ 25,744
Interest	-	17,765	20,112	28,452	34,227
Changes of benefit terms	211,930	-	-	-	-
Differences between expected and actual experience	-	(17,776)	65,994	25,469	36,412
Changes of assumptions	-	-	-	-	50,402
Benefit payments, including refunds of employee contributions	-	-	-	-	-
Net change in total pension liability (asset)	211,930	33,096	118,480	82,851	146,785
Total pension liability (asset) - beginning	-	211,930	245,026	363,506	446,357
Total pension liability (asset) - ending (a)	<u>\$ 211,930</u>	<u>\$ 245,026</u>	<u>\$ 363,506</u>	<u>\$ 446,357</u>	<u>\$ 593,142</u>
<b>Plan fiduciary net position</b>					
Contributions - employer	\$ 33,297	\$ 31,200	\$ 40,001	\$ 39,603	42,180
Contributions - employee	122,737	653	653	-	-
Net investment income	8,788	14,899	17,121	14,212	87,965
Benefit payments, including refunds of employee contributions	-	-	-	-	-
Administrative expense	(903)	(694)	(712)	(641)	(626)
Net change in plan fiduciary net position	163,919	46,058	57,063	53,174	129,519
Plan fiduciary net position - beginning	-	163,919	209,977	267,040	320,214
Plan fiduciary net position - ending (b)	<u>\$ 163,919</u>	<u>\$ 209,977</u>	<u>\$ 267,040</u>	<u>\$ 320,214</u>	<u>\$ 449,733</u>
Net pension liability (asset) - ending (a) - (b)	\$ 48,011	\$ 35,049	\$ 96,466	\$ 126,143	\$ 143,409

See independent auditor's report.

**OLD KNOXVILLE HIGHWAY WATER DISTRICT**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY (ASSET) AND RELATED RATIOS**  
**BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF THE TCRS**  
**Year Ended June 30, 2022**

Measurement Period Ended	<u>6/30/2017</u>	<u>6/30/2018</u>	<u>6/30/2019</u>	<u>6/30/2020</u>	<u>6/30/2021</u>
Plan fiduciary net position as a percentage of the total pension liability	77.35%	85.70%	73.46%	71.74%	75.82%
Covered - employee payroll	\$ 276,090	\$ 258,708	\$ 277,206	\$ 280,472	\$ 291,500
Net pension liability (asset) as a percentage of covered employee payroll	17.39%	13.55%	34.80%	44.98%	49.20%

Notes to Schedule:

*Changes of assumptions* - In 2021, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, and mortality improvements. In 2017, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, salary growth and mortality improvements.

GASB 68 requires a 10-year schedule for this data to be presented starting *with the implementation of GASB 68*. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from the TCRS GASB website for prior years' data, if needed.

See independent auditor's report.

**OLD KNOXVILLE HIGHWAY WATER DISTRICT  
SCHEDULE OF CONTRIBUTIONS  
BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF THE TCRS  
Year ended June 30, 2022**

<b>Measurement period ended June 30,</b>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Actuarially determined contribution	\$ 18,808	\$ 31,201	\$ 40,001	\$ 40,851	\$ 42,180	\$ 48,970
Contributions in relation to the actuarially determined contribution	<u>18,808</u>	<u>31,201</u>	<u>40,001</u>	<u>40,851</u>	<u>42,180</u>	<u>48,970</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 137,286	\$ 258,708	\$ 277,207	\$ 289,313	\$ 291,500	\$ 336,329
Contributions as a percentage of covered employee payroll	13.70%	12.06%	14.43%	14.12%	14.47%	14.56%

GASB requires a 10-year schedule for this data to be presented starting *with the implementation of GASB 68*. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from the TCRS GASB website for prior years' date, if needed.

**Notes to Schedule**

*Valuation date:* Actuarially determined contribution rates for fiscal year 2022 were calculated based on the June 30, 2020 actuarial valuation.

*Methods and assumptions used to determine contribution rates:*

Actuarial cost method:	Entry Age Normal
Amortization method:	Level dollar, closed (not to exceed 20 years)
Remaining amortization period:	Varies by Year
Asset valuation method:	10-year smoothed within a 20 percent corridor to market value
Inflation	2.5 percent
Salary increases:	Graded salary ranges from 8.72 to 3.44 percent based on age including inflation, averaging 4%
Investment rate of return:	7.25 percent, net of investment expense, including inflation
Retirement age:	Pattern of retirement determined by experience study
Mortality:	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of Living Adjustments	2.25 percent

*Changes of assumptions* - In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4%; and modified mortality assumptions.

**OLD KNOXVILLE HIGHWAY WATER DISTRICT  
SCHEDULE OF CUSTOMER RATE DATA  
Year ended June 30, 2022**

**Water Rates**

Residential Rates

First 2,000 gallons or less per month	\$	20.29
Next 3,000 gallons, per 1,000 gallons		5.26
All over 5,000 gallons, per 1,000 gallons		3.75

Commercial Rates

First 4,000 gallons or less per month	\$	40.60
All over 4,000 gallons, per 1,000 gallons		5.26

**Number of Customers**

Total number of Customers	3,262
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**OLD KNOXVILLE HIGHWAY WATER DISTRICT**  
**SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE**  
**June 30, 2022**

Description of indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7/1/2021	Issued During Period	Paid and/or Matured During Period	Refunded During Period	Outstanding 6/30/2022
Revenue Bond 2011	\$ 1,215,000	3.00%	11/2/2011	11/2/2050	\$ 1,024,039	\$ -	\$ 23,222	\$ -	\$ 1,000,817

**OLD KNOXVILLE HIGHWAY WATER DISTRICT**  
**SCHEDULE OF DEBT PRINCIPAL AND INTEREST REQUIREMENTS**  
**Year ended June 30, 2022**

Year	2011 Revenue Bond	
	Principal	Interest
2023	23,968	29,696
2024	24,698	28,966
2025	25,449	28,215
2026	26,223	27,441
2027	27,020	26,644
2028	27,842	25,822
2029	28,689	24,975
2030	29,562	24,102
2031	30,461	23,203
2032	31,387	22,277
2033	32,342	21,322
2034	33,326	20,338
2035	34,339	19,325
2036	35,384	18,280
2037	36,460	17,204
2038	37,569	16,095
2039	38,712	14,952
2040	39,889	13,775
2041	41,102	12,562
2042	42,353	11,311
2043	43,641	10,023
2044	44,968	8,696
2045	46,336	7,328
2046	47,745	5,919
2047	49,197	4,467
2048	50,694	2,970
2049	52,236	1,428
2050	19,225	129
Total	\$ 1,000,817	\$ 467,465

**DAVID M. ELLIS**

*Certified Public Accountant*

*Member, American Institute of  
Certified Public Accountants*

*Member, Tennessee Society of  
Certified Public Accountants*

**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***

The Board of Commissioners  
Old Knoxville Highway Water District  
Mosheim, Tennessee

I 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 Old Knoxville Highway Water District, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Old Knoxville Highway Water District's basic financial statements, and have issued my report thereon dated July 18, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Old Knoxville Highway Water 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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Old Knoxville Highway Water District's internal control. Accordingly, I do not express an opinion on the effectiveness of Old Knoxville Highway Water 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.

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

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Old Knoxville Highway Water District's financial statements are free from material misstatement, I 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of my 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.



David M. Ellis, CPA  
Greeneville, Tennessee  
July 18, 2023

**OLD KNOXVILLE HIGHWAY WATER DISTRICT**  
**SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS**  
**June 30, 2022**

Internal Control over Financial Reporting

There were no prior year findings.

Compliance and Other Matters

There were no prior year findings.